

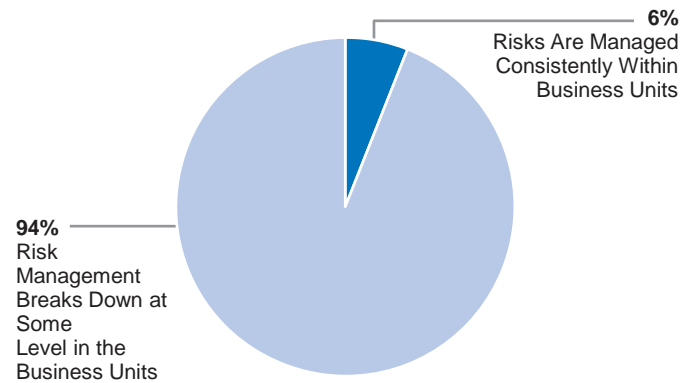
# From Awareness to Action: Scaling ERM's Impact Across the Business

## Research Preview

According to two-thirds of ERM leaders, risk management typically breaks down at the line management levels.

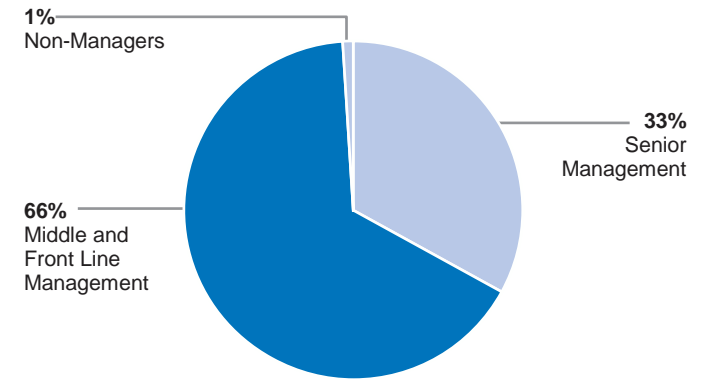
## RISK MANAGEMENT FAILS IN THE MIDDLE AND FRONT LINES

ERM Perceptions of Business Unit Risk Management Effectiveness  
Percentage of Respondents



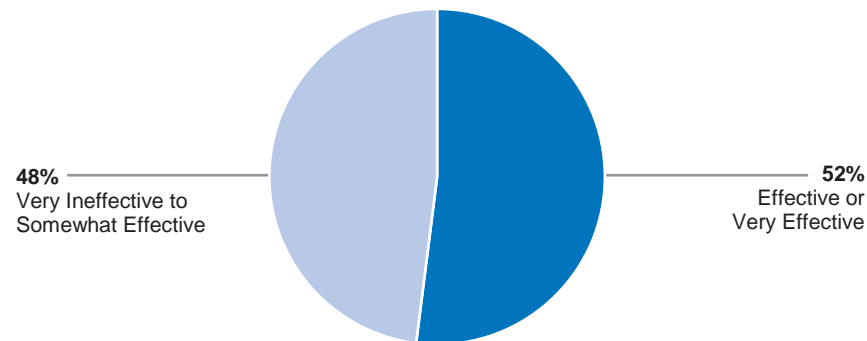
n = 81 heads of ERM.  
Source: CEB 2014 Survey of ERM Perceptions of Risk Management Effectiveness.

ERM Perceptions of Which Business Unit Management Level Poses the Greatest Challenge to Risk Management  
Percentage of Respondents



n = 76 heads of ERM.  
Source: CEB 2014 Survey of ERM Perceptions of Risk Management Effectiveness.

Line Management Perceptions of Their Own Risk Management Effectiveness  
Percentage of Respondents



n = 1,118 line managers.  
Source: CEB 2014 Survey of Employee Perceptions of Risk Management Effectiveness.



Line managers typically fall into archetypes that each undermine risk management effectiveness.

- These archetypes can either get reinforced or challenged based on several factors in the business environment that drive line managers to take more or less risk.
- Forty-one percent of ERM leaders agree that ineffective risk management in the line has a significant financial cost for the organization.

## CAUSES OF POOR RISK MANAGEMENT IN THE BUSINESS LINE

Factors in the Work Environment Exacerbating Poor Risk Management

### Increased Complexity

Seventy-five percent of managers are being asked to achieve broader objectives, while 54% have had frequent shift in responsibilities, likely reducing their attention to risk and control issues.

### Lack of Accountability

Managers are not being held accountable for effectively managing risks as part of their job. Currently, only 52% of line managers think about risks to the company when making important decisions.

### Heightened Regulatory Scrutiny

Driven by heightened regulatory scrutiny, companies have significantly expanded their control requirements, creating misplaced management fear about making any missteps.

### Slower Decision Making

Due to the involvement of multiple stakeholders at all levels, decision making slows down. Seventy-four percent of managers report they need to work with more stakeholders than three years ago.

### Growing Revenue Pressures

Increased stakeholder expectations and revenue pressures force managers to cut corners and promote risky behaviors. Sixty-five percent of managers suggest they're being asked to deliver business results faster than before.

### Short-Termism

Myopic view focused on quarterly profits and targets takes precedence over long-term strategic priorities for the organization.

Select Line Manager Archetypes and Their Typical Behavior



**The Indifferent Manager**

“Complacency”



**The Risk Averse Manager**

“Decision Paralysis”



**The Daredevil Manager**

“Recklessness”

Source: CEB 2014 Survey of ERM Perceptions of Risk Management Effectiveness; CEB analysis.

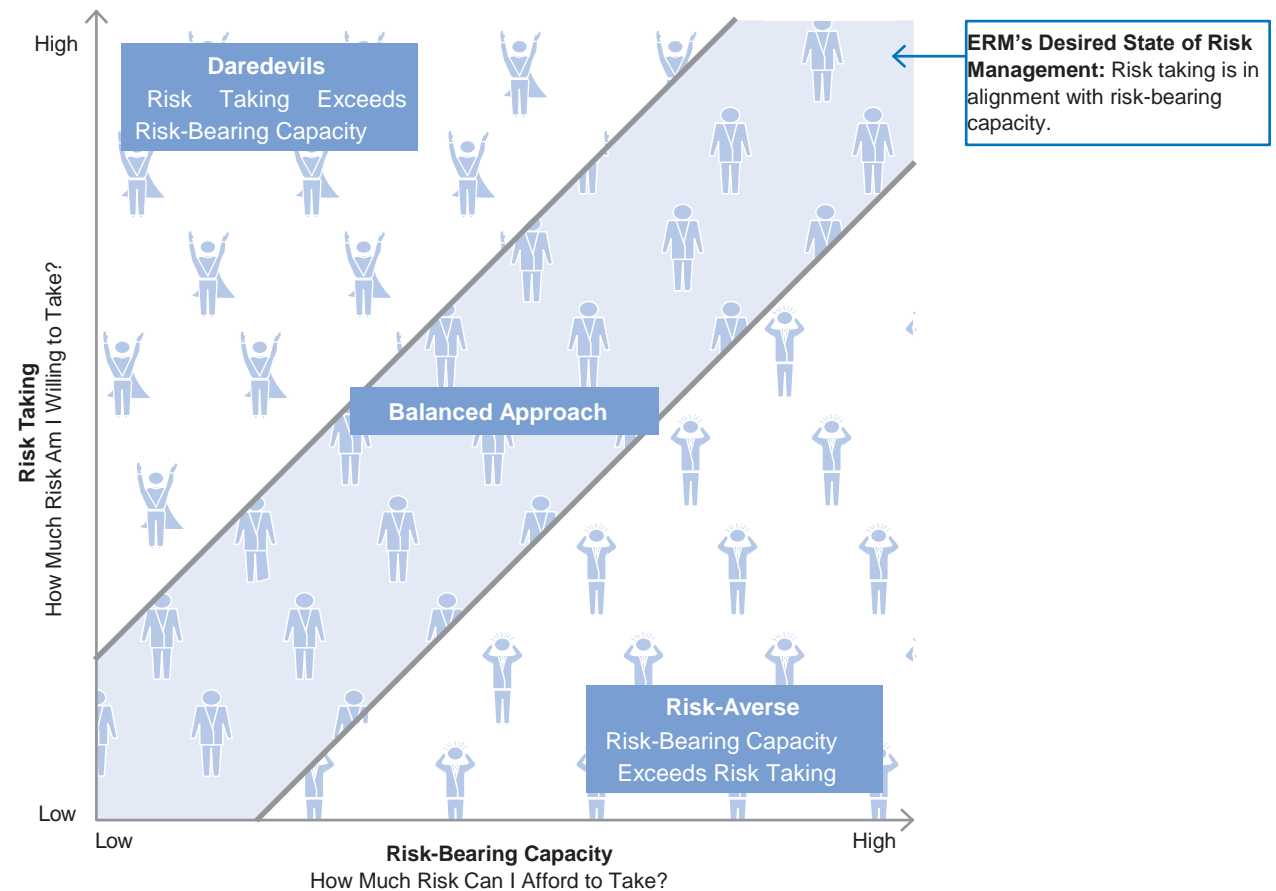


ERM aims to enable a balanced approach towards risk management in the business line.

## IN PURSUIT OF A BALANCED RISK APPROACH

Balancing Risk Taking and Risk-Bearing Capacity

*Illustrative*



“The fear is that line managers will inappropriately respond to risks that are important to them—they’ll either under or overreact.”

VP, Internal Audit  
Technology Company

### Why ERM Teams Find it Difficult to Drive a Balanced Approach

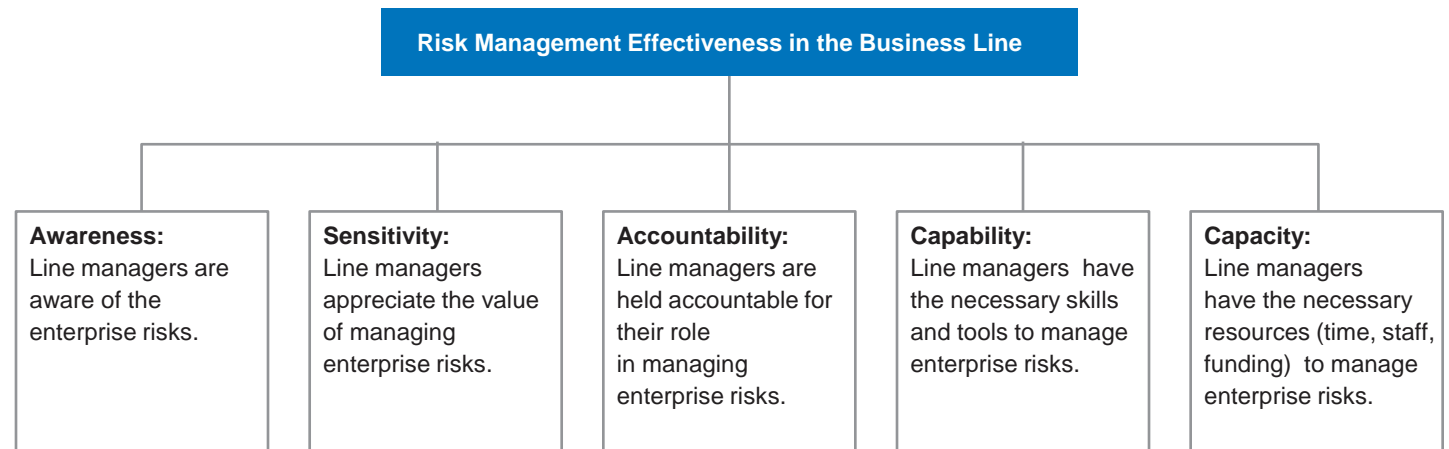
- **Small Teams:** Median ERM team has two FTEs, which makes it difficult to scale its impact.
- **Lack of Authority:** ERM teams lack independent enforcement authority to get managers to act.
- **Lack of Expertise:** ERM teams have a generalist view of risk management compared to some of the other subject matter experts, such as Legal, Compliance, etc.



CEB Risk Management Leadership Council analyzed the drivers of risk management effectiveness in the business line to find out which matter the most.

## OUR RESEARCH INVESTIGATION

**The Key Question:** Which Drivers Disproportionately Influence Effective Risk Management in the Business Line?



Source: CEB analysis.

### Our Investigative Approach

- 1. CEB Survey of ERM Perceptions of Risk Management Effectiveness:** Conducted among 80+ heads of ERM at CEB Risk Management Leadership Council member companies.
- 2. CEB Survey of Employee Perceptions of Risk Management Effectiveness:** Conducted among a random selection of 3,364 full-time staff from companies with more than 500 employees.
- 3. Direct Practitioner Research:** We interviewed 75+ members of the CEB Risk Management Leadership Council and studied existing trends and emerging practice in multiple terrains, including human resources, compliance, audit, and technology.



Leading ERM teams clarify accountability for line management and reinforce those expectations by monitoring performance.

## HOW ERM CAN IMPROVE ACCOUNTABILITY

### Opportunities for ERM to Improve Accountability

**1 Flawed Assumption:** Accountability flows seamlessly from senior leadership to line management.

**? What's Wrong With That Assumption?**

Leaks in the accountability flow prevent it from reaching line managers in entirety.

**✗ DON'T:** Rely on senior leadership to communicate risk management accountability to the line.

**✓ DO:** Clarify who is responsible for managing risks at the line level.

Source: CEB analysis.

**2 Flawed Assumption:** The only way for ERM to improve accountability in the line is to delegate responsibilities, which is outside ERM's control.

**? What's Wrong with That Assumption?**

ERM doesn't need to set expectations. Instead, it needs to clarify what is expected of line managers.

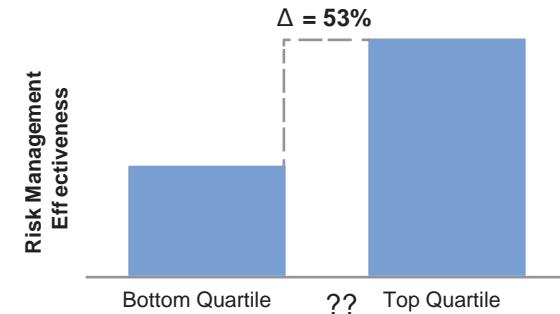
**✗ DON'T:** Expect line managers to understand what their specific risk management responsibilities are.

**✓ DO:** Clarify what line managers are expected to do in order to manage risks, and reinforce these expectations by monitoring their behaviors.

Source: CEB analysis.

### Bottom Versus Top Quartile ERM Performance at Clarifying Risk Ownership and Responsibilities

*Impact on Risk Management Effectiveness in the Business Line*

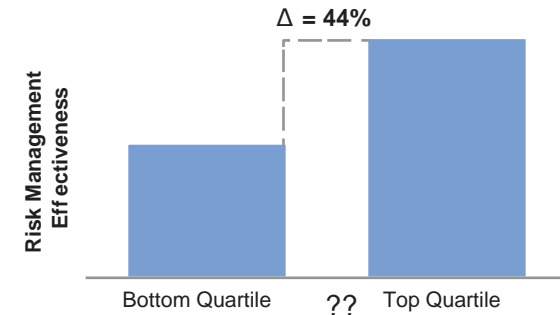


n = 82 heads of ERM.

Source: CEB 2014 Survey of ERM Perceptions of Risk Management Effectiveness.

### Bottom Versus Top Quartile ERM Performance at Tracking Performance Against Risk Management Objectives

*Impact on Risk Management Effectiveness in the Business Line*



n = 82 heads of ERM.

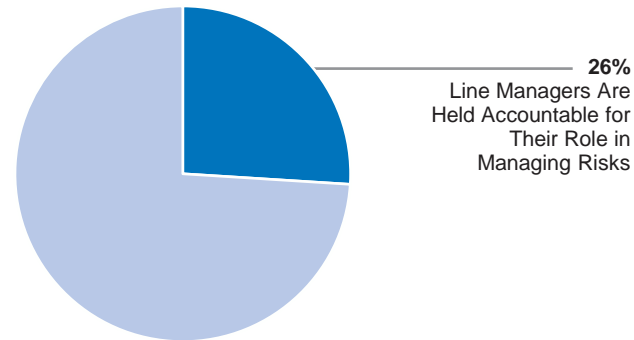
Source: CEB 2014 Survey of ERM Perceptions of Risk Management Effectiveness.



Most ERM teams believe line management lacks the necessary accountability and capability, but believe they can't meaningfully address these problems.

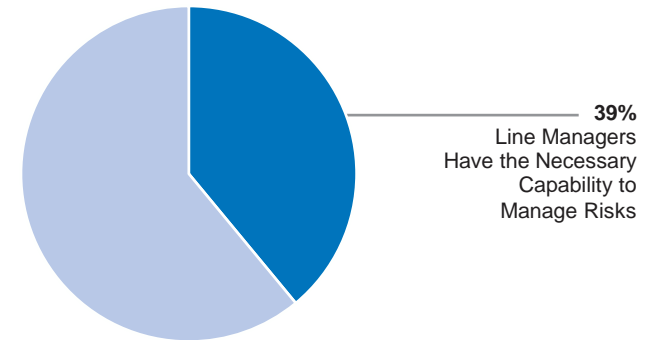
## WE CAN'T AFFORD TO IGNORE THIS PROBLEM

ERM Perceptions of Line Management Accountability  
Percentage of Respondents Who Agree or Strongly Agree



n = 81 heads of ERM.  
Source: CEB 2014 Survey of ERM Perceptions of Risk Management Effectiveness.

ERM Perceptions of Line Management Capability  
Percentage of Respondents Who Agree or Strongly Agree



n = 82 heads of ERM.  
Source: CEB 2014 Survey of ERM Perceptions of Risk Management Effectiveness.

### Questions to discuss with your team:

- Why do we believe accountability and capability to be outside our span of control?
- What are the costs to the organization if we maintain the status quo?
- What would it take to influence accountability and/or capability at the line level?

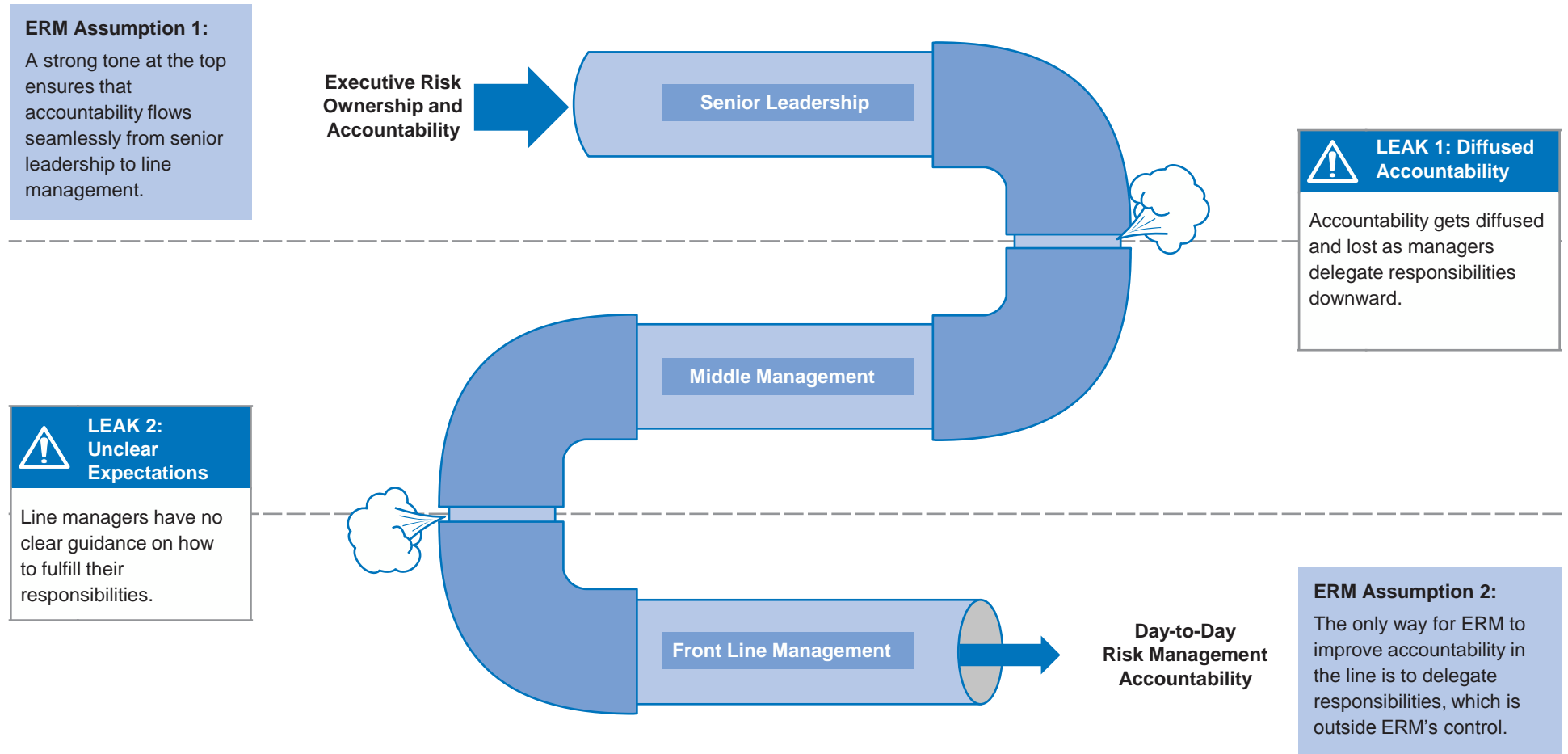


"If we remain comfortable with the current status quo, and hide behind our mandate, we are not adding enough value to the organization."

Head of ERM  
Energy Company

# WHY ACCOUNTABILITY DOESN'T FLOW DOWN

## ERM Needs to Plug the Leaks That Prevent Accountability from Flowing Down to Line Management



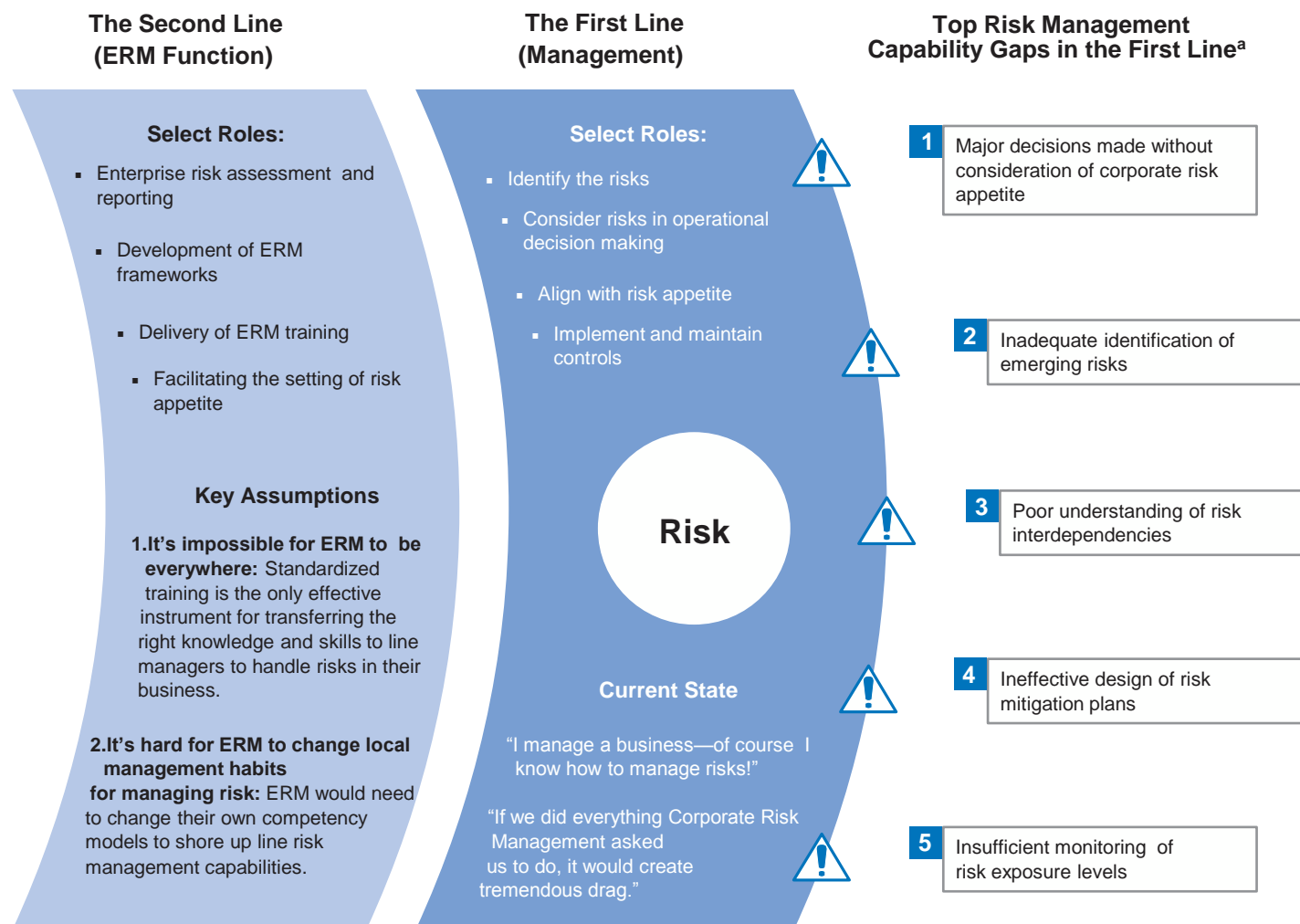
Source: CEB analysis.



ERM teams perceive it as very difficult to advance line risk management capabilities.

# CAN WE CLOSE THE FIRST LINE'S CAPABILITIES GAP?

## ERM's Role and Influence in Strengthening the First Line's Risk Management Capabilities



Source: CEB 2014 Survey of ERM Perceptions of Risk Management Effectiveness.

<sup>a</sup> The attribute priority index (higher priority being assigned to attributes that are high-importance and low-effectiveness) of business unit risk management capabilities, based on perceptions of surveyed ERM leaders.



Leading ERM teams design easy-to-use implementation tools and seamlessly integrate risk management into core business workflows.

- **Lost in the Crowd:** ERM's good intentions in training and communications are likely to get lost in the crowd of many other functional influencers, including many assurance groups, who compete to get the mindshare of already overtaxed business managers.

# HOW ERM CAN IMPROVE RISK MANAGEMENT CAPABILITY

Opportunities for ERM to Improve Capabilities

- 1 Flawed Assumption:** ERM training alone should prepare line management to manage risks better.

## ? What's Wrong with That Assumption?

ERM puts too much faith in training alone but, in general, only 10% of knowledge is retained once employees return to their jobs.

- ✗ **DON'T:** Over-rely on traditional training methods that at best increase short-term awareness but underperform in building risk management skills.

✓ **DO:** Follow up training with applicable tools that allow managers to practice skills on the job and treat risks with minimal support.

Source: CEB analysis.

- 2 Flawed Assumption:** Only top-down management imperatives and new competency models will drive line managers to adopt new capabilities.

## ? What's Wrong with That Assumption?

Top down imperatives and guidance insufficiently account for the specific workflows and execution problems of line managers.

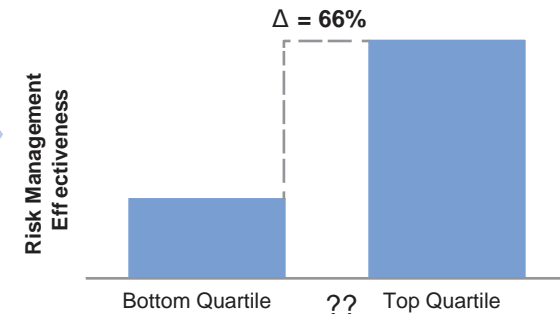
- ✗ **DON'T:** Design guidance, including new frameworks and tools, in isolation, assuming that the business will simply adopt them.

✓ **DO:** Collaborate closely with business managers to ensure that ERM support is aligned with existing processes and objectives, and builds on, not fully rejects, local habits.

Source: Rachel Emma Silverman, "So Much Training, So Little to Show For," Wall Street Journal, October 2012; CEB analysis.

## Bottom Versus Top Quartile ERM Performance at Building Risk Management Support Tools

Impact on Risk Management Effectiveness in the Business Line

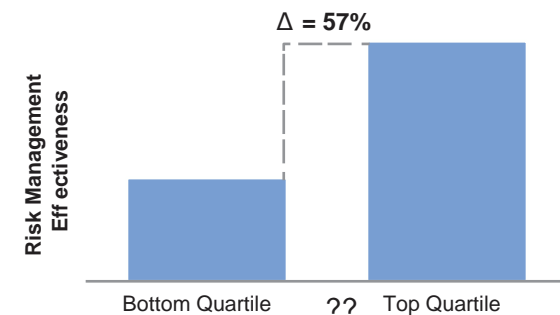


n = 82 heads of ERM.

Source: CEB 2014 Survey of ERM Perceptions of Risk Management Effectiveness.

## Bottom Versus Top Quartile ERM Performance at Embedding Risk Management into Ongoing Business Activities

Impact on Risk Management Effectiveness in the Business Line



n = 82 heads of ERM.

Source: CEB 2014 Survey of ERM Perceptions of Risk Management Effectiveness.

# KEY RECOMMENDATIONS

## 1. Clarify Risk Management Accountability:

Leading ERM teams recognize that they can't directly engineer risk management incentives and establish performance objectives. Rather, they concentrate on addressing diffused risk ownership, where responsibilities for the management of an enterprise risk are widely distributed the line and expectations are much less formalized. By clarifying accountabilities and creating metrics for what effective risk management should accomplish, they significantly increase their impact on line management.

## 2. Collaborate to Build Risk Management Capability:

Leading ERM teams acknowledge that traditional training methods primarily serve to raise awareness for their participants and underperform in building risk management capabilities. They follow up training with applicable tools that allow managers to practice skills on the job and treat risks with minimal support. They collaborate with line managers to ensure that the tools serve the most critical business needs and embed in business-as-usual.

## 3. Activate Business Networks to Sustain Risk Management Discipline and Learning:

Leading ERM teams recognize that deeply rooted, siloed approaches to risk management have become inadequate in this business environment. They now focus on helping line managers better understand the connections between seemingly disparate risks. By using the ubiquitous enterprise risk assessment survey, ERM teams can gather valuable information about risk root causes and consequences, and build a network view of risks. This network view will enable risk managers to reduce redundancies in their action plans and optimize resource allocation towards risk management.

Source: CEB analysis.

**[Contact us](#) to dive deeper into the full report and learn how CEB can help successfully scale your ERM efforts across the business.**