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# PITFALLS AND PRATFALLS OF IMPLEMENTING ERM

## A CASE STUDY FROM THE STATE OF WASHINGTON

**What is enterprise risk management?**

*A holistic approach to identifying, defining, quantifying and treading all of the risks facing an organization, whether insurable or not.*
– Glossary of Insurance and Risk Management Terms

By Sydney Martin Doré

**I admit it. I'm a fan of enterprise risk management (ERM).**

The very first time I heard about it, I thought, "This makes sense!" Although I had been working in loss prevention for a while, I had always hated the fact that it seemed we only had time for negative 'events' and spent most of our time trying to mitigate things that had already happened. ERM finally brought together the swirling concepts of loss prevention, risk reduction, appetite and prediction together into a sharply defined picture and I loved it.

The light bulb came on with a flash and made me realize that ERM was a unified concept I could use, not only in my own work, but as a framework to explain risk management to anyone in a clear, simple way they could immediately understand and use. In an instant, I was a believer.

A few months later, I got a once-in-a-lifetime chance to work in the governor's risk management office to help implement ERM at other state agencies and I jumped on it!

When we started working on this challenge, there were 165 very diverse state agencies in Washington state, although the number varies from year to year. Some were very small, almost tiny, with less than 20 people operating as a regulatory board or commission. Others, like my home agency, were edging close to 20,000 employees. And their missions were also diverse; some agencies only dealt with one thing, like vehicle licensing or state printing, while others housed myriad divisions with varied purposes and methods of operating.

These differences meant that our first challenge was to devise a simple way to provide ERM training in an accessible, usable way to people from many different agencies with widely different skills, experience and frankly, interest. As you all know, some

approaches to ERM require a fairly high level of risk management experience but we needed a way to talk about ERM with people who had very little risk management background. And we wanted our version of ERM to meet some amazing criteria. It had to be easy to explain to many different audiences, flexible, scalable, memorable and a good fit with management practices for state agencies. No small task.

Our team was small and we needed to carefully marshal our resources so the ERM plan we put together had to concentrate on the essentials. We started with purchased ERM training for agency executives to share the concepts and advantages of ERM training with the top people in our agencies. The training turned out to be a great kick-off. It was fast paced, informative, fun and a great vehicle for introducing ERM to the agency community. Unfortunately, it was also very, very expensive.

'Step two' had to be an in-house training plan that we could do ourselves and offer free to agencies. To make that happen, we got to work boiling ERM background, philosophy, vocabulary and techniques down, down, down into its basic essence and what finally emerged was the Seven-Step ERM Method that would work for agencies regardless of their size, business functions or experience with risk management. You know there are many ways to talk about ERM and some of them are quite complex. Because we knew that most of the people we would be training would bring a social service orientation, not a financial or insurance background, we charted a very simple ERM path:

❶ Clearly state the goal.
❷ List everything that could keep you from meeting the goal (the 'risks').
❸ Evaluate each risk:
- Choose a likelihood rating from 1–5.
- Choose an impact rating from 1–5.
- Multiply together and 'map.'

❹ Prioritize (pick the most severe risks).
❺ Treat/Mitigate:
- Avoid
- Accept and Monitor
- Transfer
- Reduce the Likelihood.
- Reduce the Impact.

❻ Make a Risk Register that includes:
- Treatment plans.
- Measures of success.

❼ Communicate Results:
- Gather and share 'best practices.'
- Review and refine.

We used this simple path as a platform to talk about basic risk management concepts, as well. Since the people we worked with were program managers, not risk managers, we needed to cover a lot of basic risk management in the training before we even got to the "Seven Steps." To do that, we always opened the training with a quick game of '21' (using chocolate we handed out to everyone as poker chips) to demonstrate differing risk appetites, generate discussion about what "risk" means and get people talking about risk in their personal and professional lives.

After that, we would do a quick risk management "history lesson" where we defined traditional (or transactional) risk management practice and talked about the growth and principles of enterprise risk management practice, as well as the risks and benefits of each.

Once we actually started explaining the method, the steps gave us plenty of opportunity to explain the other things they needed to know: how to write a goal statement, why anonymous voting works best, crafting effective success measures, mitigation techniques and even a bit about using surveys and online voting. At the end of our training time, everyone got a chance to practice, first on a silly, personal goal like cleaning closets or saving for a vacation, then on a real goal statement about a problem facing the group. This gave everyone who attended a chance to practice and made sure that every session ended with real, practical results!

We trained hundreds of people in ERM, but we didn't stop there; we also developed simple tools and tracking methods to chart our progress. These included an online version of the risk register (*Illustration 1*), tools and a framework for agencies to use in government management accountability and performance (GMAP) reporting and even a customized maturity model just for Washington agencies.

**ILLUSTRATION 1**

| GOAL: | | HEAT MAP | 1 Very Little | 2 Minor | 3 Major | 4 Critical | 5 Fatal |
|---|---|---|---|---|---|---|---|
| | | 5 Almost Always | (5) | (10) | (15) | (20) | (25) |
| | | 4 Frequent | (4) | (8) | (12) | (16) | (20) |
| | | 3 Often | (3) | (6) | (9) | (12) | (15) |
| **To treat a risk, you can:**<br>• Avoid<br>• Accept and Monitor<br>• Reduce the Likelihood/Impact<br>• Transfer the risk | **Treatment must reflect the:**<br>• Risk appetite of your group<br>• Amount of control you have<br>• Values of the group, and<br>• Be measurable, and time-limited | 2 Once or Twice | (2) | (4) | (6) | (8) | (10) |
| | | 1 Hardly Ever | (1) | (2) | (3) | (4) | (5) |

| RISKS: | LIKELIHOOD | IMPACT | YOUR SCORE (L X I) | GROUP SCORE (AVG.) | COLOR |
|---|---|---|---|---|---|
| Risk 1 ... | | | | | |
| Risk 2 ... | | | | | |
| Risk 3 ... | | | | | |

While the reporting framework linked ERM implementation to the overall goal of reducing deaths, serious injuries and other substantial loss in the state, the tools we developed, including the maturity model, helped agencies track their progress in managing risk.

Using a maturity model tool is a sound business practice of ERM and our Washington tool, still in use, measures ERM maturity in five areas annually: fundamentals of risk management, executive leadership, ERM integration into agency culture, applying ERM principles and ERM embedded into agency strategic business operations. One hundred agencies have been using this tool for several years now and reporting their progress and their plans to reach maturity in this area.

In addition to basic and advanced training and measurement and reporting tools, we provided other ERM resources including quarterly risk "forums" on topics as varied as e-discovery, public disclosure law and reducing employment liability risk, a risk management Web site, an online risk management manual, 'Risk Management Basics' (*http://www.ofm.wa.gov/rmd/publications/rmbmanual.pdf*) and ongoing, regular meetings for agency risk managers.

All of this work really did pay off, raising awareness of ERM and increasing agency skill levels in this area. The free training customized to agency needs, the simplified 'plain-talked' ERM method we developed and the ongoing dialogue along with the new resources like the Web site and manual worked together extremely well.

Not so successful? Well, you have to admit that the vocabulary of ERM is not exactly mainstream; it was tough to get people to make "COSO-speak" the norm and while I hear more people talk about "enterprises" and "mitigation," it would have been easier if we could have started with more familiar terms.

And there is always a struggle to get non-risk managers to move beyond their definition of risk management as a safety program or an insurance/workers' comp program into a broader application of risk management as a set of principles and tools they could apply to better reach their program goals. Add that to the reluctance most people have to talk about or focus on risk, and their limited definition of the term, and you have a topic that doesn't come up much unless people are educated to bring it up.

Finally, of course, budget matters. In times like these, people fall back on old habits to manage the crisis and it is hard to change course in a storm. If you have been around for a while, though, you know that every storm passes and I believe ERM will prevail here.

It is easy to explain and easy to learn. It brings focus to what is important and helps us put scarce resources where they will do the most good. It fosters a 'no-blame' culture and teaches that risk can be measured and managed. It helps us look at goals instead of just talking about things after something goes wrong and it provides a framework for dealing realistically with problems that can help us make bold, proactive decisions that fit the amount of resources we actually have available. Government will always need that. ■

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