



## Orchestrating enterprise risk management (ERM)

### How successful CROs bring art to the science of risk management

In April 2019, Deloitte held a gathering of chief risk officers (CROs) at Carnegie Hall in New York City and a clear theme emerged: in performing their functions, successful CROs strike a balance between the art and the science of risk management.

Successful CROs recognize the value of what might be termed the science, that is, the quantitative and technological side, of risk management. They understand the role of risk data and information—and risk management processes and technologies. They appreciate the importance of risk appetite and other guidelines. They implement risk monitoring and reporting tools

that support specialized risk managers and assist the business in preventing losses and capitalizing on opportunities.

Yet—and this was a revelation—successful CROs also see their role as one of orchestrating the diverse and often siloed elements of risk management to create an integrated whole. They help people to grasp the parts they play in risk management and guide them to work in concert. They accomplish these things by speaking the broader language of business rather than risk and by focusing on business issues rather than risk issues. They consciously develop their communication, facilitation, and other soft skills to bring art to the science of risk management.

#### 2019 highlights

Our perspective on the art of risk management emerged from both Deloitte's 2019 survey of CROs<sup>1</sup> and the St. John's University Center for Excellence in ERM Spring Summit at Carnegie Hall.

- Deloitte's 2019 risk management survey found organizations that invest in risk management and link it to strategic goals typically achieve higher growth. Yet our survey also found many organizations struggle to realize value and desired outcomes from their risk management programs—often due to failure to coordinate and integrate risk management.

- The St. John's University Center for Excellence in ERM Spring Summit focused on risk culture, the role of risk management in organizational transformation, and how companies have artfully embedded risk considerations into decisions, plans, and initiatives over the past 10 years.

In both instances, successful risk managers revealed themselves as working to balance the art and the science of risk management.

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### Why art, and why now?

If art and science constitute two tenets within effective risk management, in recent years science has arguably become the dominant one. Technologies for capturing, monitoring, and analyzing data now generate a rich base of information. Data visualization and real-time communication provide timely tracking of many risks. Site-specific and risk-specific tools have multiplied to the point where many risks can be quantified and monitored.

Yet risks have become more numerous, interrelated, complex, and damaging. Strategic and reputational risks have proliferated. Conduct risks continue to morph in unpredictable ways, constantly outpacing organizations' abilities to anticipate them. New cyber risks emerge as rapidly as organizations adopt new technologies. Every innovation in areas ranging from business models to operating systems, from supply chains to compensation plans, poses new risks to the organization and its stakeholders, as well as new competitive and regulatory considerations.

For these reasons, many presenters delved into the importance of intentionally developing their soft skills and deploying them to drive an effective culture. Rather than talking about culture (let alone risk culture) in their organizations, they develop their self-awareness as well as awareness of others' points of view. They cultivate a deep understanding of the business and its goals, strategies, and processes. They work to grasp the challenges those in the business face in conceiving and executing their missions. And they take the role of the CRO in orchestrating culture very seriously.

In other words, they realize that organizations now face challenges which the science of risk management cannot address on its own:

- Risks are now too varied and dynamic to understand without ongoing human insight, which can be obscured by purely technical solutions.



- Site- and risk-specific tools tend to reinforce siloed approaches to risk at a time when risks are interrelated and more prone to generate knock-on effects.
- Myriad risk-related processes and tools demand coordination and integration to provide visibility into the organization's true risk profile.
- Lack of coordination among risk management functions and the business obscures risks, increases costs, creates gaps and overlaps, and generates risk.
- Lack of effective risk culture results from failure to promulgate risk consciousness through practical policies and procedures, adequate job training, and robust decision support.
- Risk management often lacks a seat at the table when decisions are made, technologies are considered, and initiatives are implemented.

Addressing these challenges demands a harmony of art and science. It is up to the CRO, or the executive accountable for enterprise-wide risk management, to strike that balance. CROs can begin this effort by deepening their understanding of themselves and of those in the risk management and business functions.

### A new program

The CRO works with people in every part of the organization: operations, technology, finance, accounting, marketing, sales, purchasing, human resources, legal, and facilities management. Managers in each of these functions have different concerns, priorities, and points of view, which means that the CRO needs a wide repertoire of communication and facilitation skills.

Given this and the evolving challenges that organizations face, CROs now need to:

- Position risk management as an insight-driven, business-focused resource rather than a compliance-driven, policing function.
- Enable senior executives, the board, and business managers to look beyond risk indicators and reports to see the total risk landscape and enhance readiness and resilience accordingly.
- Assist the organization in adopting new technologies with a true understanding of their risks as well as their possibilities.
- Facilitate proactive communication about risk at all levels to strengthen the organization's risk culture and responsiveness to change.

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- Coordinate approaches to risk to promulgate successful methods and ensure that all elements of the risk management and governance infrastructure work together.
- Foster teamwork around responses to risks and risk events, often among people with diverse goals, priorities, specialties, and points of view.
- Secure a seat at the table when senior leaders make key decisions and formulate major initiatives, to ensure that all risks are identified, considered, and mitigated.

These tasks demand people skills and the emotional intelligence that informs effective communication, facilitation, and coordination. These fall under the art of risk management and they are essential. While science has incredible explanatory power, we all know that it does not bring about proactive change, or even effective action, on its own. Therefore, it can be useful to see the art of risk management as creating the context in which risk information is interpreted and in which decisions are made.

## Working in concert

The Carnegie Hall event, which was attended by more than 100 risk executives, placed a spotlight on the findings of Deloitte field experience and research, which point to specific approaches that bring about connection, coordination, and change.

Successful senior-level risk managers work to:

**Connect with their audience:** They aim to help people at all levels and in all functions to manage the business better. They focus on the goals people are trying to reach and what could prevent them from reaching them. That's the chief concern of business people, which is why they see other things as distractions.

- Successful CROs don't make it about risk. They focus their conversations on business decisions and initiatives and what could go wrong, and work to understand those things from their audience's perspective.



**Consider differences:** Some businesspeople prefer data, charts, and numerical information while others prefer narratives or verbal explanations. Still others prefer a mix. None of them enjoy being buried in details they see as irrelevant.

- Successful CROs try to understand—or simply ask—how people prefer to consume risk information. Then they gear their communications to those preferences.

**See the big picture:** Every organization is already managing risks, such as cyber, credit, operational, financial, or health and safety risk. Often, these risks are intrinsic to the business or subject to regulatory expectations, but they are not always the greatest threats.

- Successful CROs target major threats and strategic risks, reputational risks, and interconnected risks, none of which can be managed in silos. In this way, they reframe risk management as being a business priority rather than a compliance issue.

**Go where they get traction:** Organizations try to invest for the greatest return, but sometimes fail. Similarly they work to execute on strategies, but success varies wildly. While rarely seen as “risk issues” the forces that undermine sound investment decisions and successful execution of strategies are exactly that.

- Successful CROs realize that an investment that can be shown to mitigate a strategic risk will usually rise in priority. Similarly, they focus on risks that lead to implementation failures. In these ways, they shed new light on the role of risk management.

**Develop sponsors and deliver value:** When an organization has a CRO or equivalent and they have seat at the table for key decisions and plans, their views on risk are taken seriously by the senior leadership. In addition, a solid risk management program calls for robust funding and enthusiastic senior-level support.

- Successful CROs avoid compliance roles and check-the-box reporting by helping the business to address key risks to drivers of value. By delivering on a strong value proposition, they ensure they are viewed as contributors rather than a cost.

**Deploy soft skills:** Just as an organization cannot create a culture of quality by talking about statistical process control, it cannot create a culture of risk management by talking about inherent risk and risk limits. Science can easily overwhelm non-scientists.

- Successful CROs ask good questions, listen actively, meet others where they are, and speak their language. They also understand their own styles of thinking and behavior and those of the people they work with, so they can adjust their style for maximum effectiveness.

In sum, successful CROs respect both the art and science of risk management—the art because people need coordination, direction, and inspiration; the science because the business needs facts, data, and tools in order to operate effectively.

### Keep your balance

It's no accident that some of the most effective CROs do not have risk management backgrounds, but do understand strategy and risk, people and priorities, and art and science. CROs need data and information and the tools that provide them. They also need to build relationships, prioritize needs, and deploy communications in ways that connect with the audience, optimize resources, and create a culture with an awareness of risk and of the importance of risk management.

Yet it's natural for a risk manager to lean toward the art or the science of risk management. We have seen CROs armed with sophisticated analytical tools and state-of-the-art risk reports who cannot get a seat at the table. By the same token, we have seen extremely affable and communicative CROs who cannot convey, or in some cases even understand, the organization's risk positions from the likelihood and impact perspectives.

In practice, a balance of art and science can enable CROs to succeed on the multiple fronts on which they must address risks.

### Contacts

Please share this perspective with your teams and contact us when you're ready to start your Risk Intelligence journey.

#### **Chris Ruggeri**

National Managing Principal  
Risk Intelligence  
Deloitte Transactions and Business  
Analytics LLP  
[cruggeri@deloitte.com](mailto:cruggeri@deloitte.com)

#### **Mike Kearney**

Principal  
Risk Intelligence  
Deloitte & Touche LLP  
[mkearney@deloitte.com](mailto:mkearney@deloitte.com)

#### **Cynthia Vitters**

Managing Director  
Risk Intelligence  
Deloitte & Touche LLP  
[cvitters@deloitte.com](mailto:cvitters@deloitte.com)

### End note

- 1 Reimagine risk: Thrive in your evolving ecosystem  
Deloitte's 2019 survey of risk management,  
Deloitte, 2019 <https://www2.deloitte.com/insights/us/en/topics/risk-management/cro-risk-management-survey-results.html>

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