

## Integrating Enterprise Risk Management (ERM) with strategic planning

### What does strategic planning have to do with ERM?

An effective ERM program provides visibility into the universe of risks that can impact an agency's ability to deliver its mission—a mission often articulated in a strategic plan. As a result, the strategic planning process is an ideal place to find—and in some cases respond to—a surprisingly overlooked type of enterprise risk: strategic risks.

**Strategic risks are those that either affect or are created by an agency's strategic plan.** The ones that affect the agency's strategic plan can arise from internal operations but are often created by external forces that shape its broader environment—political, demographic, economic—and the dynamics of the industries where the agency plays a role.

There are three distinct points where ERM and the strategic planning process can support one another to detect—and manage—different types of strategic risk:

### Points of engagement



#### 1. Risks that **inform** development of your strategic plan

- The risks from the internal and external environment that help determine which goals and objectives to choose in the first place
- Example: New legislation that curtails an agency's mission may make part of its previous strategy obsolete

#### 2. Risks **to** the implementation of your strategic plan

- The risks that may prevent you from achieving the goals and objectives defined in your plan
- Example: One agency's strategic objective may require a specific set of skills the agency lacks

#### 3. Risks generated **from** implementing your strategic plan

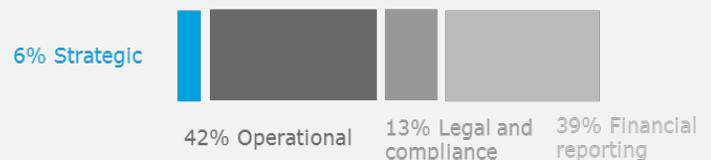
- The new risks created by implementing the strategy itself, or the unintended consequences of success
- Example: A new strategic initiative to implement cloud computing solutions may make the agency more vulnerable to security breaches

### Organizations have traditionally focused on other risk types, even though senior leaders acknowledge the significance of strategic risks

The proportion of significant losses in market value caused by each type of risk over the past decade<sup>1</sup>



The proportion of time spent on each type of risk



<sup>1</sup>"How To Live With Risks," Harvard Business Review, July-August 2015



# Integrating ERM with strategic planning

## Why integrate ERM and strategy?

Integrating ERM and strategic planning can make strategic plans stronger while helping focus limited resources on the risks that matter most.

Without integration, agencies may...	With integration, agencies can...
<ul style="list-style-type: none"> <li>Avoid confronting the constraints that may be outside of the agency's full control but continue to hinder mission delivery</li> </ul>	<ul style="list-style-type: none"> <li>Address risks that require external legislative, regulatory, or budgetary support</li> </ul>
<ul style="list-style-type: none"> <li>Conduct separate ERM and strategic planning processes involving the same stakeholders and similar topics</li> </ul>	<ul style="list-style-type: none"> <li>Capitalize on the strategic planning process to produce a critical input for ERM</li> </ul>
<ul style="list-style-type: none"> <li>Design strategic goals, objectives, and initiatives that do not anticipate barriers to their success</li> </ul>	<ul style="list-style-type: none"> <li>Create resilient strategies that plan for potential risk exposures and are more likely to succeed</li> </ul>
<ul style="list-style-type: none"> <li>Focus on risks that disproportionately relate to internal operations while overlooking risks that outside stakeholders care about</li> </ul>	<ul style="list-style-type: none"> <li>Strike the right balance in dedicating attention/resources between publicly visible risks and mission critical operational risks</li> </ul>
<ul style="list-style-type: none"> <li>Fail to spot the signals indicating a risk affecting a strategic goal or objective is likely to materialize</li> </ul>	<ul style="list-style-type: none"> <li>Monitor external indicators that provide early warning and trigger preemptive actions</li> </ul>

## Identification of objectives according to the Office of Management and Budget's (OMB) Circular A-123: Deloitte's point of view

According to Circular A-123, risk profiles developed for ERM should identify risks affecting the four types of objectives (see figure 1). Strategic objectives are those that relate to the achievement of the goals that are aligned to the agency's mission.

In some cases, the ability to respond to strategic risks may lie outside the agency's control and require external support. Rather than accepting these risks and not taking action, agencies can use ERM to make a case for broader, systemic changes that may require legislative or policy support to address long-standing barriers inhibiting agency missions. While there is no guarantee of success, there can be value in starting the conversation and challenging long-standing assumptions that have constrained performance in the past.



Figure 1 OMB Risk Objectives

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