



How enterprise risk management (ERM) and operational risk management work together to drive performance

How are enterprise risks different than operational risks?

As federal agencies continue to mature their ERM programs, many are asking how risk management at the enterprise-level relates to risk management at the program, function, or operation unit levels. If ERM is disconnected from the offices responsible for mission delivery, then risks may be identified but not elevated. This could cause agencies to miss opportunities to properly resource and effectively manage those risks and create the potential for those risks to mushroom into agency-wide crises.

Agencies talk about program, function, or operation unit level risks (collectively referred to as “operational risks”) differently. In addition, what may fall within “operational” risk management in one agency may be defined differently in another.

The definitions at right differentiate risks that are traditionally the focus of ERM and risks that exist within the programs, functions, and operations that carry out specific parts of an agency’s mission.

Enterprise risk
<p>An uncertainty whose impacts could significantly affect the ability to achieve the mission. Enterprise risks can be:</p> <ul style="list-style-type: none"> • Pervasive: Cut across an agency’s organizational boundaries • Localized, high-impact: Applicable to one office/division
Operational risk
<p>An uncertainty associated with the delivery of specific program, functional, or operational objectives, and includes risks inherent to the design, management or performance of business processes, systems, people, and external events</p>

What are the potential benefits to integrating ERM and operational risk management?

For operational risk managers

Shared solutions: Reveal risks that share the same root cause, creating opportunities for agency-wide solutions rather than each program being left to manage the risk on their own.

Escalation: Creates a channel to elevate operational risks to ensure they are acted on appropriately; broader executive involvement, in turn, may generate new and better ideas for how to manage the risks

Visibility: Sharing risks with senior leaders expands awareness and, in effect shares ownership

Resource allocation: Comprehensive view of how to effectively resource risk management activities and agency-wide investments to treat a relative few root causes instead of many symptoms and drive resources to key risk management activities

For ERM leaders

Fewer crises: Reduced likelihood of worst-case risk scenarios occurring, enabling agency leadership to focus more on mission priorities

Consistency: Common view of risk both vertically and horizontally that leverages shared risk infrastructure

Risk and reward: Balance risk seeking activities in operations with agency’s risk appetite

Reputational resilience: Better protect an agency’s reputation by proactively managing risks

Performance: Increase the likelihood of achieving mission objectives due to improved decision-making

Data: Use operational risk data to help quantify enterprise risks, making ERM more actionable

Coverage: Program and operational risk programs can manage large parts of the risk taxonomy without the ERM team having to expend resources



How can ERM integrate with operational risk management?

The drive to integrate ERM and operational risk management comes from leaders who want to use risk information to make better decisions. If ERM and operational risk programs are defined in terms of how they impact performance, risk management becomes more than an insurance policy to guard against downsides; it becomes a tool to improve operational excellence and mission success by helping to remove the barriers that get in the way.

Some agencies may lack the capacity to establish formal programs to manage operational risks and need to rely on ERM. Others may focus on formalizing risk management in specific operational areas with the greatest need, while still some others are comfortable maintaining implicit risk management activities embedded in daily operations.

Integration of ERM and operational risk management holds great opportunity to unlock performance gains that can advance an agency’s mission. In order to unlock those gains, agencies should build on what is already in place, and working well within the agency, so that implicit risk information can be used and acted upon – thereby increasing the value of the information.

How ERM and operational risk management work together to drive performance

What relationship should exist between ERM and operational risk management?

The relationship between enterprise and operational risks is one-to-many: many specific operational risks can be rolled-up into fewer and broader enterprise risks. In an ideal state, each program, function, or operation unit has its own risk register and priority risks to manage, but shares common tools and processes established by the ERM program. In practice, the line between enterprise and operational risks often blurs and differs from agency to agency.

Four key enablers to strengthen the relationship between an ERM program and operational units are:



People: ERM strives to create a “risk aware” culture, where employees at all levels identify and communicate risks for evaluation and action. Some agencies employ a network of liaisons in each office. These risk champions harvest risks within the office, elevate them to ERM and leadership, and create the critical link between the ERM program and the offices of which they are a part.



Process: ERM programs often cannot reach into each office to identify and assess risks in a meaningful way. This responsibility must be delegated and each office should identify, assess, and prioritize its own risks before elevating them to the ERM program. Existing operational risk processes feed into the ERM process, yielding greater depth of coverage while giving program leaders the authority to judge what and when to escalate.



Governance: A risk taxonomy can create a common system to organize risks consistently across the agency and establish “parent-child” relationships between broad risk categories and specific sub-categories. A detailed taxonomy can show how operational risks are often the root causes of enterprise risks which helps agencies anticipate how operational risks may evolve and have impacts across the agency. Similarly, a risk lexicon can play a similar role by providing a “common language” of terms so teams at all levels can consistently distinguish between different types of risk.



Technology: As agencies become more digitized, operational risk data from different programs can be aggregated and rolled-up from spreadsheets to create databases with consistent data fields and formats. This enables agencies to quantify enterprise risks based on the operational risks under them and provides more granular data to drive better decisions on how and where to apply resources to manage these risks.

Questions?

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