The Role of Risk Leadership in Defining ERM Readiness in Government

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The Business of Government

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FOREWORD

On behalf of the IBM Center for The Business of Government, we are pleased to release this report, *The Role of Risk Leadership in Defining ERM Readiness in Government*, by Peter C. Young of the University of St. Thomas and Trang Hoang of University of Nebraska at Omaha.

Challenges faced by nations over the last several years demonstrated that managing risk in the public sector has taken on new significance. Government organizations must tackle risk and uncertainty in a more systematic and enterprise manner. The authors of this new report, Peter Young and Trang Hoang, provide timely and insightful perspectives that underscore the connection between leadership actions that support government risk management and successful efforts to implement enterprise risk management (ERM). The report explores two distinct concepts—risk leadership and ERM readiness. The authors aim to better understand the question of ERM readiness, seeking to ascertain the measure by which an organization can self-evaluate readiness for ERM implementation. The findings outlined in this report will help those planning to adopt ERM, as well as those in more advanced stages of implementation.

DANIEL J. CHENOK

Supported by nearly two dozen interviews, the authors address how the role that risk leaders play in ERM implementation is essential to accessing an organization's readiness. Based on an analysis of survey results and interviews with U.S. federal leaders regarding ERM practices, along with supporting evidence from scholarly and professional research, the authors document observations and offer insights on the interconnection between risk leadership and organizational ERM readiness.

The report describes the importance of risk leaders having an overall vision of the interaction between organizational structure and ERM readiness, given the siloed nature of many government operations. Authors Young and Hoang point out that a successful ERM implementation should create more open and agile government structures and operations, enabling agencies to better prepare and react to uncertainty. The authors describe how effective risk leadership can influence ERM implementation, promoting sustainably resilient outcomes that go beyond simply preventing and controlling threats.

TROY EDGAR

Many of this report's findings and observations support work of the IBM Center's "Future Shocks" initiative, a collaboration with the National Academy of Public Administration and the IBM Institute for Business Value. The initiative frames a proactive strategy in identifying and addressing potential disruptions to governments and nations, including through following fundamental principles of risk leadership that foster a culture of foresight and adaptability. By leveraging insights from this report and our Future Shocks initiative, organizations can
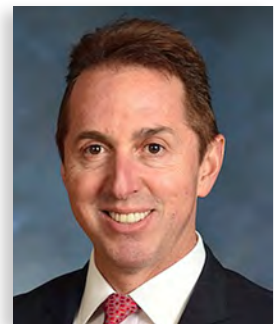
enhance their ERM readiness—enabling them to identify, assess, and mitigate risks that may arise from emerging trends, technological advancements, or unforeseen events. This connection underscores the importance of integrating innovative approaches to anticipate and manage risks in a complex and dynamic environment. Young and Hoang conclude with a discussion around the positioning of ERM as an essential tool for fostering sustainable organizational resilience.

Along with complementing insights from our Future Shocks work, this report adds to the Center's rich library of risk management research, including *Managing Risk in Government: An Introduction to Enterprise Risk Management* by Karen Hardy; *Managing Risk, Improving Results: Lessons for Improving Government Management from GAO's High Risk List* by Donald Kettl; *Improving Government Decision Making through Enterprise Risk Management* by Thomas Stanton and Douglas Webster; *Managing Cybersecurity Risk in Government* by Anupam Kumar, James Haddow, and Rajni Goel, and *Risk Management in the AI Era: Navigating the Opportunities and Challenges of AI Tools in the Public Sector* by Justin Bullock and Matthew Young.

We hope that the insights and findings in this report help government leaders and stakeholders as they continue to mature their risk management capabilities, while building resilient and innovative organizations.

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EXECUTIVE SUMMARY

Today's risk landscape requires a unified, coordinated, disciplined, and consistent approach, no longer focused on risk management as a compliance exercise or perceiving risks solely as problems to avoid. Research is needed on reconceiving risk management as a value-creating. activity integral to strategic planning, decision making, and organizational resiliency.[1]

As former federal Chief Information Officer Suzette Kent so aptly notes, "People and operational changes due to service delivery being significantly more digital, workforce in hybrid location mode and massive growth in automation and artificial intelligence drive the need to reexamine workforce, risk practices, and operational resiliency."[2] This need to reexamine risk and how its effectively dealt with is made even more pressing in a world and at a time where government leaders increasingly agree that "rare unexpected events" are now neither rare nor unexpected. Indeed, they are shocks—more frequent and more destabilizing.[3]

This report seeks to contribute to this reexamination recognizing the critical importance of the role of leadership in effectively managing risk and building more resilient organizations that are mission driven and outcome focused. The insights outlined in this report fit neatly into and complement the work produced as part of the IBM Center's Future Shocks initiative to help governments grow more resilient in the face of increasing risks, promoting research on preparing for and responding to shocks that increase in frequency and magnitude.

Observations on ERM Readiness and Risk Leadership

It is a leadership imperative for government executives to mitigate potency of both risk and uncertainty. Employing an enterprise risk management (ERM) process can assist leaders in doing just that. When employed on a strategic level, ERM can help decision makers evaluate the likelihood and impact of major events and formulate the best way to either prevent them or manage their effects, if they do occur.[4]

ERM proposes a proactive and comprehensive management approach that enables agencies to better function within a complex environment. Many federal agencies are well down the road in implementing ERM, their experiences illuminating both accomplishments and challenges. In this report, we aim to better understand the question of "ERM readiness," seeking to ascertain the measure by which an organization can self-evaluate its readiness for ERM implementation,

1. Chenok, Daniel J., G. Edward DeSeve, Margie Graves, Michael J. Keegan, et. al. 2022. *Eight Strategies for Transforming Government*, p.33, IBM Center for The Business of Government, Washington D.C.
2. Jason Miller. 2021. "Cyber, customer experience will continue to drive major federal technology changes," Federal News Network, December 22, 2021. https://federalnewsnetwork.com/reporters-notebook-jason-miller/2021/12/cyber-customer-experience-will-continue-to-drive-major-federal-technology-changes/.
3. Mihm, Chris. 2023. *Partnering for resilience: A practical approach to emergency preparedness*, p.2. Future Shocks Series, IBM Center for The Business of Government, Washington, D.C.
4. Keegan, Michael J. "Pursuing Risk Management in Government—A Leadership Imperative," *The Business of Government Magazine*, Fall 2015, p.57. https://www.businessofgovernment.org/sites/default/files/Forum_1.pdf.

what is expected, and how an organization develops a preparatory process for that implementation. This objective necessitates a brief retrospective look at the ERM story, which assists in informing a more prospectively oriented evaluation of ERM preparedness.

In looking back, a changing perspective on ERM in federal agencies emerges to undergird the observations recorded in this report. Given the current state of ERM adoption in federal agencies, it could be argued this report might better be oriented toward 'maturation' more so than 'readiness.' Either would benefit from the report's backward/forward approach, however. This report will strive to be attentive to the interests of those planning to adopt as well as those in more advanced stages of implementation.

ERM holds great promise for federal agencies—nearly all efforts to clarify assess and address threats and opportunities in a rational and organization-wide manner can yield positive benefits to leaders and managers. Supported by nearly two dozen interviews, it has become evident that understanding the role risk leaders play in ERM implementation is essential to clarifying an organization's readiness. Emphasis on risk leaders not only reflects the fact that it is critical to understanding leadership attributes, knowledge, skills, and abilities/strategies—a useful outcome in its own right—but also that risk leadership itself is an artifact of dynamic changes observed in the wider evolutionary story of modern risk management thought and practice.

Based on an analysis of survey results and our interviews with risk leaders regarding the actual practices of ERM in U.S. federal agencies, along with supporting evidence from scholarly and professional research, six key observations and insights related to ERM readiness and risk leadership are outlined below:

- **Risk leaders and risk leadership concepts remain insufficiently understood.** The early demand for risk leaders, such as chief risk officers (CROs) outpaced a concrete understanding of the type of leader needed and the skills, knowledge, and abilities these leaders may need to be successful at managing risks across an enterprise. Though this may not be as concerning at the level of the individual risk leaders, this lack of understanding seems to be a significant issue for what we call the practice of risk leadership. Managing risk is imperative for successful leadership. Leaders must develop processes like ERM to improve their ability to manage risks effectively. ERM cuts across an organization's silos to identify and manage a spectrum of risks, which underscores the critical importance of understanding the purpose of risk leadership.[5]

- **Risk leaders act as agency entrepreneurs.** Many risk leaders interviewed for this report leveraged highly imaginative, innovative, and adaptive efforts to build ERM processes within agencies. As such, the qualities they project and the insights they offered on how they implemented and matured ERM within their respective agencies share similarities to those typically associated with entrepreneurs. This is more than a clever description or turn of phrase and more indicative of the core capabilities needed today for risk leaders not usually found in traditional risk management practitioners.

- **ERM expands the aperture of threats and opportunities to include unmeasurable (and even non-detectable) phenomena.** Expanding the risk landscape ushers in complexity, uncertainty, the unknown, the unknowable, and emergent phenomena. This evolving change of emphasis and focus requires risk leaders to acquire or possess different knowledge, skills, and abilities, such as behavioral psychology, organizational change management, complexity leadership, strategic foresight, and scenario planning.

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5. Hardy, Karen. 2010. *Managing Risk in Government: An Introduction to Enterprise Risk Management,* IBM Center for The Business of Government, Washington D.C.

- **ERM supports sustainable resilience.** An uncertain future will challenge efforts at prediction, leading to different approaches to forecasting. This suggests that efforts to anticipate future events should focus on building a capacity to be resilient, and to maintain resilience over time. This observation confirms the insights derived from the IBM Center's Future Shocks initiative roundtables that identified core capabilities critical to building resilience, noting that that risk must be continuously monitored and reassessed as risk evolves and risk appetites and response strategies change.[6]

- **Characteristics of risk leadership should include the right mindset and behaviors.** It is important to identify essential qualities of how risk leaders think—their mindset, but also what they do—what behaviors they employ to implement, manage, and mature the ERM function successfully within their government agency or department. This report outlines possible responses to both assertions.

- **Obstacles to ERM implementation seem endemic.** Given this observation, it might be better to imagine these obstacles as risks or uncertainties that fall within the domain of the risk leader's responsibilities, rather than as exogenous constraints on implementation. Tending to the well-being of the ERM function itself, beyond the operational methods implemented to address risk and uncertainty, appears to be a critical and—it could be said—political dimension of the risk leader's role.

There are a couple of observation gleaned from our discussions with federal risk management practitioners interviewed for this report. The concept of risk leader as presented in this report does not fit into the U.S. federal government's General Schedule (GS) classification, which covers the majority of civilian white-collar federal employees (about 1.5 million worldwide) in professional, technical, administrative, and clerical positions. The title risk leader does not appear in the General Schedule, which struck us as a potential issue in defining that role for purposes of career development. However, this proved to not be an unusual situation for many agency functions. It does, however, lend some credence to the notion that clarity in understanding the risk leader function might be beneficial to the wider risk leadership profession, if not always quite the case for individual risk leaders.

One final observation concerns the contextual differences of employing ERM in the public sector versus the private sector. Notably, in general, public entity risk management consists not just of the management of risks to the entity, but also (potentially or invariably) to the entity's constituents, clients, communities, and customers. This observation influences much of what the report covers—public entities are risk managers not just of their organization's risks, but as a last resort for the people they represent and serve.

The insights and observations offered above derive from the research done for this report. The report begins with a brief outline of risk management and its evolution; narrowing the focus to the public sector offers further useful context for the purposes of this report, underscoring the critical connection between of risk leadership and ERM readiness. The initial chapters focus on describing the core components of ERM readiness while also clarifying the importance of what we term "risk leadership," identifying key attributes of successful risk leaders. The report concludes with a discussion around organizational readiness and the positioning of enterprise risk management in practice as an essential tool for fostering sustainable resilience across an enterprise.

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6. Mihm, J. Christopher, Rob Handfield, and Tony Scott. 2023. *Preparing governments for future shocks: A roadmap to resilience*, p.13, Future Shocks Series, IBM Center for The Business of Government, Washington, D.C.

Introduction

In 2016, the Office of Management and Budget (OMB) released its A-123 Circular (updated in 2022), thereby providing an explicit requirement for federal executive agencies, along with an implicit expectation for the agencies' affiliated offices, departments, and other functional units, to implement ERM and to report on progress. A number of publications, both academic and practitioner (some preceding A-123's release), have come to inform or advise on ERM implementations.[7] Additionally, the Association for Federal Enterprise Risk Management (AFERM) has served as an important advocate, resource, and community for federal ERM implementation. It is fair to say that we have come to know a lot about this topic. However, there are gaps in our knowledge.

This report focuses on one of these gaps—ERM readiness—referring to the phase of adoption that precedes implementation. Leaders must evaluate and interpret the requirements and clarify meaning for their agency/organization, all leading to the development of an approach to implementation based on the particularities of each situation. Consequently, it will become apparent that this report ultimately focuses on *risk leadership* more so than on *risk management*.

The distinction between risk leadership and risk management rests upon significant developments in the field of risk management study and practice, which will inform how this report comes to influence ERM readiness. First, ERM has been shown to be the path-dependent result of the particularities of its history. Notably, this journey seems to have led to a shift (a *swerve*, as it is sometimes called) in recent years that is yet to be fully understood. And second, evidence suggests the transference of private sector risk management thought and practice to public sector settings may be compromised by key material differences.

Brief Outline of Risk Management

The story of risk management's evolution will be well-known to readers, but a few summarizing observations are worth noting. Despite a general understanding of ERM's broadening remit, it remains the case that most observers and nonspecialists see risk management as primarily focused on addressing *measurable threats.* Even within the context of mandated ERM adoptions, these perceptions have not been widely altered except in the narrower world of ERM experts.[8]

ERM is fairly expansive in its elaboration of intended objectives, but the philosophy behind risk management remains influenced by both historic views and particularly by commercial views of the goals and purposes of risk management (value creation, maximizing value, loss prevention or mitigation, consideration of other factors *in relation to* value maximization or loss control, and—owing to enforcement of mandates—to a particular audit orientation relying heavily on systems and internal control measures).[9]

7. Hardy, Karen, 2010. *Managing Risk in Government: An Introduction to Enterprise Risk Management*. Financial Management Series. IBM Center for The Business of Government. Webster, Douglas, Stanton, T.H, 2015. *Improving Government Decision Making Through Enterprise Risk Management.* Risk Series. IBM Center for The Business in Government.

8. Seetoh, T., Liverani, M., and Coker, R. 2012. Framing risk in pandemic influenza policy and control. *Global Public Health*, 7(7), 717-730. Aven, Terje. 2010. "On how to define, understand and describe risk." *Reliability Engineering & System Safety* 95, no. 6: 623-631. Gollier, Christian, James K. Hammitt, and Nicolas Treich. 2013"Risk and choice: A research saga." *Journal of risk and uncertainty* 47: 129-145. Bromiley, Philip, and Devaki Rau. 2014. "Towards a practice based view of strategy." *Strategic Management Journal* 35, no. 8: 1249-1256.

9. Andersen, Torben J., Peter C. Young, 2023. Enhancing Public Sector Risk Management (ERM) Through Interactive Information Processing. Frontiers: Data Used To Support Government Enterprise Risk Management Programs.

Research on ERM effectiveness offers only inconclusive evidence that ERM adds value to an organization.[10] This is puzzling as, logically, it must be beneficial to reduce losses and enhance opportunities. Two appropriate questions to ask here are: under what conditions will ERM create value, but perhaps more importantly, are we assessing the right performance measures?

While ERM was initially conceived as a commercial sector practice, its central tenets and methods have been increasingly applied—often without much alteration—outside commercial settings. Since context matters in organization management, the differences in legal requirements, organization structures, and values (including public organization's mission-oriented approach) require further alterations and adaptations of commercial ERM in the public sector context. Those distinctions between public and commercial ERM, though beyond of the scope of this report, merit further study.

The appearance of chief risk officers (CROs, aka, risk leaders)—a notable feature of ERM—has opened a whole new avenue of investigation, partly because practicing CROs do not particularly appear to arise from technical, traditional risk management roles. This suggests that risk management at the top levels of organizations requires different sets of thinking and engaging.[11]

Narrowing the focus to the public sector, a brief summary of public risk management offers a further useful context.

In 2002, the UK Cabinet Office identified three basic concerns in public risk management: A *managerial* concern to ensure organizational risk management efficacy; a *stewardship* concern to protect public assets and processes guided by a values-based focus on the well-being of citizens, communities, and society; and a *regulatory* concern to safeguard socioeconomic activities with formal supervision, financial rules, criminal law, building codes, etc.[12] Scholars suggest that publicness—the quest for due process, accountability, and enhanced welfare—shapes these concerns.[13] Further, evidence shows that public actions run a delicate balance between incompatible—even contradictory—concerns for economic order, stability, and reliable public services against restraints to protect individual citizen interests.

Put slightly differently, it could be said that public sector risk management has two related but distinct roles: 1) the management of an entity's own risks, but also 2) the risks to its constituencies, citizens, or communities. Governments seek to fulfill the second role by exercising powers of oversight, taxation, enforcement, etc.; all positioning them as de facto insurers—or risk managers—of last resort for society.[14] Taken together this implies, among other things, that public exposures in principle are potentially unlimited in scale and scope.

It is true, as is sometimes asserted, that this description of the public risk environment is broad brushed. For example, not all entities have the capacity to tax, and some do not really interface directly with the public. Nevertheless, the preceding description represents a *public risk context*, and it proves almost invariably true that when crises arise to a public entity's constituency, expectations can suddenly, and dramatically, expand its risk management responsibilities.

10. Andersen, T. J., and Sax, J. 2020. *Strategic risk management—A research overview*. State of the Art in Business Research. Abingdon, UK, Routledge.

11. McDonald, L. G., and P. Robinson. 2009. *A Colossal Failure of Common Sense: The Inside Story of the Collapse of Lehman Brothers.* New York, NY: Three Rivers Press. University of St. Thomas (2013), *The Risk Leadership Challenge*. UST Press.

12. Moss, David. 2002. *When All Else Fails: Government as the Ultimate Risk Manager*. Cambridge, MA: Harvard University Press.

13. Pesch, Udo. 2008. "The Publicness of Public Administration." *Administration and Society* 40: 170-193.

14. May, Peter J., Chris Koski. 2013. Addressing Public Risks: Extreme Events and Critical Infrastructures. Review of Policy Research 30:139-159. Moss, David. 2002. *When All Else Fails: Government as the Ultimate Risk Manager*. Cambridge, MA: Harvard University Press.

Overview of OMB's A-123 Circular

The A-123 Circular, initially an internal controls guidance, was updated to require federal agencies to adopt Enterprise Risk Management (ERM). Among the delineated responsibilities was the argument for an agencywide approach that 1) would be based on a portfolio view of threats and opportunities to be assessed and addressed, but also 2) would conceive the responses an agency might construct to follow that portfolio approach. This integrated view of both the challenge and the response reflects the ERM view of *risk* as the effect of uncertainty on organizational *objectives* and *outputs*.

The risk management literature—more so academic than practitioner—has posed the question whether mandating ERM is the most effective means of promoting its implementation. The earliest Association for Federal Enterprise Risk Management (AFERM) surveys found that respondents believed a mandate would be necessary to provide proper motivation for top management, but other research suggests a number of issues can arise from a mandate, including tick-the-box responses, resistance and apprehension within top management, and some bewilderment in terms of how ERM is supposed to be implemented in light of sharply drawn deadlines and wide-ranging expectations.

The A-123 Circular both creates and addresses some of these issues. On the one hand, the circular helps legitimize ERM and provides a launching platform for ERM in federal agencies. It also provides some guidance for ERM efforts to promote implementation and monitor performance. Further—at least indirectly—it promotes a degree of integration between ERM, strategy-making, and budgeting processes. On the other hand, the means by which enforcement occurs is rather indirect, and it is not entirely clear how, say, penalties for noncompliance are imposed.

Beyond these observations, other issues have been identified:

- ERM can be, and has been, mistaken for an internal control exercise since it emerged within an audit and internal control guidance. As such, at its initial stage of implementation, ERM was often housed within an agency's internal control function, though a number of organizations have subsequently transferred ERM elsewhere.

- The circular, even though it provides guidance on management's responsibilities for ERM, is more open in terms of how an ERM program should be structured—for example, whether or not a chief risk officer is needed or where ERM should be housed? This might be less of an issue than it appears. An open 'market' for assisting agencies in ERM adoption has appeared in the form of guidelines, case studies, consultancy services, external audits, and—indeed—AFERM itself plays an active role. But perhaps even more intriguingly, the lack of strict guidelines appears to have promoted agencies 'finding their own way,' rather than simply following instructions.

- This greater flexibility does produce positive and less positive effects. The flexibility does at least challenge agencies to think critically about their unique needs and characteristics, which—in principle—might lead to better customization of ERM. However, this flexibility also leads to confusion if an agency does not have existing experience or knowledge of risk management and ERM or if the agency does not have (or has very limited) human capital dedicated to the task of designing and running an ERM program.

State of Practice: Findings Relevant to Readiness

To examine U.S. federal agencies' current efforts in adopting and implementing ERM, the authors drew insights from the AFERM annual surveys (2015-2022), and interviews with risk leaders. While AFERM annual survey results are reasonably well-known among ERM practitioners, we intended to obtain some verification of those findings through the interviews and to attempt to examine the underlying obstacles for successful ERM implementation. No startling discrepancies emerged, but key survey responses were elaborated on, which provided some insights into the issue of readiness. In this regard, four findings are highlighted.

Difficulties in achieving and sustaining top-level buy-in. In the 2015 survey, respondents voiced a belief that a mandate would likely be necessary to engender top-level management support and commitment to ERM. It is generally understood that institutional commitments to ERM tend to derive from one or more sources: 1) mandates, 2) major loss events, or less often 3) preexisting 'enlightened' leadership. Regardless of the motivation, generating meaningful and sustained top-level support is seen by many as a necessary condition for successful implementation of ERM.

Challenges in implementing holistic initiatives. While one of the main goals of ERM is to create more comprehensive approach to risk management, in part through breaking down organization silos, survey and interviewee responses acknowledge that the organization-wide aspirations of ERM add complexity and difficulties, not just in implementation but in terms of comprehension. Those challenges include a lack of understanding on the purposes of ERM, problems with clarity of terminology, and human tendencies to revert to the known, the safe, and to a just-do-what-we-are told mentality.

The influence of culture. If one particular observation approaches the level of a *truism*, it might be a version of the oft-quoted Peter Drucker dictum, "Culture eats strategy for breakfast." There is a widespread acknowledgement that existing culture is either an obstacle to, or in some fortunate instances, an enabler of effective ERM implementation. Even though culture— and especially "risk culture" has been a focused topic in ERM discussions, there remains ambiguity on the meaning of "risk culture," and more importantly, the actions or ways of thinking that risk leaders can apply to successfully break down cultural barriers, the silo-mentality and resistance to change.

Leadership and time. In a variety of ways, time and leadership appear as critical issues. As risk management fundamentally is a long-term exercise, the adoption of ERM requires a consistent commitment of the leaders and an extended period of time to demonstrate actual outcomes, which in many cases can be complicated by the shift in organization's priorities and attention. One particular observation in academic literature is the influence of short-termism in public sector risk management due to political cycles (election, budget, leadership turnover) as well as basic difficulties in committing resources to achieve long-term outcomes.

To be clear, survey results as well as the numerous case studies that now exist, provide evidence of positive advances in ERM adoptions, and these should not be downplayed. A conscious commitment to risk management will almost inevitably produce positive results (i.e., losses prevented, opportunities achieved, and a broader understanding of the risk environment). The difficulties registered in survey responses do not specifically cast a shadow on the value of ERM—that is, arguments of 'what' and 'why' are reasonably outlined and defended. The 'how' is another matter. To be clear here, there are numerous documents and other materials describing actions to be taken—for example, 'communication must flow freely across organizational silos.' Less is written about how that information's importance is decided, how people process the information they receive, how particular information relates to other information, how managers and staff break through silos—indeed how and why the silos exist in the first place. In other words, explicit consideration of the 'human dimension' seems underrepresented in guidance on ERM implementations.

Connecting Enterprise Risk Management Research to Practice

ERM proposes a proactive and comprehensive management approach that enables agencies to better function within a complex environment. Previous reports funded by the IBM Center for The Business of Government underscore the rapidly emerging presence of—and interest in—ERM in U.S. federal government department. In 2010, Karen Hardy set forward a detailed overview and rationale for ERM (*Managing Risk in Government: An Introduction to Enterprise Risk Management*). Then, in their 2015 report, *Improving Government Decision Making Through Enterprise Risk Management*, Douglas Webster and Thomas Stanton introduced and discussed a step-by-step approach to successful ERM implementation. Their report also identified the particular benefits for federal agencies that would derive from inclusion of ERM in top-level decision making. This report on the specific topic of readiness complements the insights offered in these previous reports but also presents deeper insights into the particularities of risk leadership—an under-examined topic within the broader risk management literature.

For a more complete list of IBM Center reports focusing on the topic of risk management, please see the Foreword of this report.

Understanding Readiness in the Adoption of ERM

The previous chapter sets out findings from an AFERM survey across a range of issues related to ERM in U.S. federal agencies. This report focuses on the matter of 'readiness to adopt.' To get beneath the surface of survey data and observations with the kind assistance of AFERM, we conducted in depth interviews with risk leaders in 17 U.S. federal agencies and with other individuals who are close observers of the development of A-123 or affiliated ERM guidelines (such as the ERM Playbook and various case study reports) as well as those who continue working with federal agencies on the issues of ERM implementation (such as federal oversight and consultancies). The interview period spanned April through September of 2023. These risk leaders offered insights on not only the challenges of ERM adoption and implementation, but also how to overcome those challenges, how to prepare the governance structure and support for ERM implementation, and what can be done to improve the effectiveness of ERM in federal agencies.

It is not surprising that interviews with risk leaders would yield observations that align with AFERM survey findings. For example, the issue of developing and maintaining top-level support and commitment was frequently cited, as were concerns about leadership and time, and adequacy of resources. Additionally, one of the developing ideas in risk management (also observed in the interviews) is the view that risk leaders and risk managers have very different roles—but that those roles are frequently conflated. Further due to this distinction, there is limited evidence that experience in traditional risk management necessarily leads directly to advancement into careers in risk leadership. This is a significant issue because risk leadership is primarily a strategic function while risk management's role is essentially operational. For example, addressing the matter of top leadership support and resource adequacy are not just problems, they are a feature of the risk leader role. Without senior leadership support, it will be difficult to get buy-in throughout the organization. Thus, ERM will be seen as another task and paper exercise rather than a strategic management process.

At a more practical level, interviews highlighted a potentially interesting feature of ERM done within public sector agencies. The term risk leader or chief risk officer do not appear in the U.S. federal government General Schedule classification system. Given this absence of guidance, agencies have displayed creative thinking, in the first instance, by using program management or program analyst job categorizations for a range of ERM positions. Nevertheless, from the "readiness" perspective, this matter may present an issue for the profession of risk leader, if not for individual practicing leaders. A lack of job specifications for risk leader may hinder the development of a pipeline of future CROs, and a general understanding of what the job entails, how one is evaluated, and what career opportunities might exist prior to and beyond such a role. Adjunct to this is a question regarding the nature of training or development for the role. While there are some quite good certification, diploma, and other similar programs, it seems to be the case that they focus more on management considerations than on leadership issues.

It should be emphasized here that the matter of overall readiness calls into consideration not just personal/leader readiness, and organizational culture, structure, and functional readiness, but also a recognition of the external requirements and expectations that must be met. Most obviously, OMB's A-123 Circular specifies expectations that shape ERM implementation, but other requirements are influential. One particular example looms large for ERM adoptions; the Foundations for Evidence Based Policymaking Act ("Evidence Act")—Public Law 115–435 115th Congress: Jan. 14, 2019, 132 Stat. 5529. The Evidence Act sets a requirement for the White House Office of Management and Budget and federal agencies to build a foundational capacity to gather evidence and data for decision- and policymaking. The relevance to ERM readiness is hard to miss. The Evidence Act directs agency leaders to develop a systematic plan containing:

- A listing of policy-relevant questions for which the agency intends to develop evidence to support policymaking

- Identification of data the agency intends to collect, use, or acquire to facilitate the use of evidence in policymaking

- An itemization of methods and analytical approaches that may be used to develop evidence to support policymaking

- A list of any challenges to developing evidence to support policymaking, including any statutory or other restrictions to accessing relevant data

- A description of the steps the agency will take to accomplish the preceding requirements

From the standpoint of ERM readiness, these requirements align with an overall risk leadership perspective that unfolds in this report and particularly with the suggested Tools and Tactics discussion in Chapter Three.

Readiness for Risk Leaders

Many of the interviews we conducted with government agency risk leader focused more on how they implemented ERM. Nevertheless, we also identified knowledge, skills, abilities, strategies, and thought processes that enabled these risk leaders to position their agencies to think more strategically about risk. We would go so far as to argue that risk leadership involves a particular 'way of thinking'—a mindset that is critical, proactive, and imaginative—characteristics of what might be called 'risk entrepreneurship.'

The concept of public entrepreneurship is well-studied, though to date it has not been much examined within a risk leadership context. Public entrepreneurs are generally described as "[existing] in or out of government, in elected or appointed positions, in interest groups or research organizations . . . with a willingness to invest their resources—time, energy, reputation, and sometimes money—in the hope of a future return."[15] Typically, these individuals possess a set of attributes, skills, and approaches—and plausibly even a mindset or personality—to see opportunities or problems and to imagine pathways to solutions; pathways that may not formally exist within an organization or context. Notably, their efforts may follow highly imaginative and innovative insights, often functioning in the face of concrete obstacles such as unsupportive leadership and cultural barriers as well as structural boundaries. Often risk leaders not only operate within a structure (a risk governance structure), but also, may have to envision and/or create that structure as they proceed.

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15. Petridou, E. and Mintrom, M. (2021), A Research Agenda for the Study of Policy Entrepreneurs. Policy Stud J, 49: 943-967.

The Organization's Readiness

When focusing on organizational readiness in the U.S. federal agency context we were specifically interested in understanding how risk leaders viewed their responsibilities to comply with the A-123 Circular's directives. It proved necessary to gain clarity on how these agency leaders interpreted OMB Circular A-123, how they translated that interpretation into a workable approach for their organization—which included the process by which they came to understand the organization's readiness to adopt—and what that assessment produced in terms of an approach to implementation. Though understanding the outcomes of any implementations was important, it seemed that the least understood aspect of implementation was the initial phase where ERM expectations were assessed, and implementation plans were set out.

In the process of aggregating our interview findings, four themes arose that seemed to characterize how risk leaders conceived the requirements and their basis for evaluating organizational readiness: establishing governance structures, the matter of resource availability, understanding institutional forms, and *culture*.[16]

Establishing governance structures

> *A key focus area for us was to develop an ERM governance structure that asked the agency to have a consistent and strong tone at the top, emphasizing that enterprise risk management is everybody's responsibility. . . . Governance has an important role to communicate [ERM] will not be ignored, nor fit neatly into a compliance box.*
>
> *—Interview 9*

> *I felt the important thing to get started was putting in place a governance structure for the program committees. It's very mechanical, but people understood the goal. Then when we started digging into the risks facing the organization, there were channels and opportunities for people to communicate those risks.*
>
> *—Interview 14*

Risk governance could be considered the spine of ERM. Some of the experts and practitioners interviewed for this report indicated that the internal audit and control influence within A-123 could produce a view that risk governance would invariably align with existing internal control systems and processes. Interestingly, though A-123's update has taken pains to clarify this issue, interviewees reported encountering persistent views of risk management as an internal audit function. Somewhat in response to this, several reported developing what might be called alternative approaches to governance by taking on the role of envisioning, building, and maintaining a more customized governance structure. This is seen to a degree in commercial settings, but one particular observation stood out. The initial expectations for ERM (commercial and public) imagined organizations establishing a risk governance structure through what was called a championing role. Top-level commitment, advocacy, and ongoing tone-at-the-top are required as climatic conditions for risk governance. One of the features of the consequent risk governance structure, it was argued, would then be the appointment of a risk leader. This sequence does happen, but the interviews included several instances where the risk leader

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16. The term "culture" is italicized because the authors believe there is an interesting problem with that term.

had to serve as—it might be said—that leader's own champion, from which derived a number of challenges regarding establishing standing, credibility, and influence that would otherwise be supported and fortified by top level leaders.

One descriptive illustration of an alternative approach described a risk governance structure through the initial creation of lower-level working groups of employees and program managers to promote the idea of active risk management. This might be seen as an organic approach whereby risk leaders emphasized the need to have a flexible and transparent system of reporting risk that aligns with the programs and projects or subdivisions within the departments or agencies. In other words, this approach personalized the process of building relationships between the risk leader and other people in the organization with responsibilities.

> *If we could start to promote the idea of active risk management somewhere, I thought I could find the most effective advocates in the project management space. Then, what I've focused on is what I call messaging in the middle—finding those folks who have these big responsibilities, not just projects. Now I've moved from projects to programs, trying to find folks who are trying to do big things or have significant responsibilities and just talking with them, helping them understand risk registers.*
>
> *—Interview 18*

> *My working group focuses on the day-in, day-out issues. We make sure we're integrating feedback from different levels of the organization, and putting that together. Then we work through our program managers and risk council to get buy-in. Everyone's interests are represented. It's not until everyone agrees that we start moving through our chain of command for senior leadership approval. By attacking risk issues at the lower-level group, we get the buy-in at that level. I almost see it as trying to teach them ERM in those meetings so that they can help their folks. While we don't have a formal training process, I provided three one-hour training blocks with over 200 attendees, which I thought was a resounding turnout.*
>
> *—Interview 22*

This illustration aligns with A-123's building-block approach, which is to say, the outcome is likely to be more relevant to the organization and thus will engender more sturdiness, support, and commitment. And more generally, this approach can become even more important from the standpoint of program longevity. As the risk leaders and other ERM champions may move on to other positions, having a more organically derived governance structure and ERM network may be a more effective way for the program to establish itself in the organization structure and sustain itself during leadership or personnel changes.

Issues of resource availability

The interviews did thematically reflect on the issues of resource limitations along with limited understanding of risk management within all levels of the agency. For numerous reasons, budget constraints were widely cited as problems for ERM implementation. One solution appears to be found in better integration with strategic planning. But perhaps one of the more intriguing ideas recommended was to link risk management budgeting to broader programmatic

activities or in partnership with such programs. This might seem to be a sleight-of-hand approach, but in fact it echoes a long-standing risk cost-allocation approach employed in many advanced risk management programs.

A particularly important observation arose in discussions about human resource availability. Even though training and other development measures might address the limitations of preexisting knowledge and experience, a very specific risk leadership issue was identified—creating a pathway to develop a clear job function for risk leaders. As noted before, there is no job classification for risk leaders in the General Schedule (and only limited guidance for risk managers). This raises an adjunct question about the body of knowledge that would be associated with a risk leader/manager position.

Understanding institutional structures

> What I tried to do when I took over was to move us in a totally different direction. This is not internal controls. We are going to integrate this completely—within still separate lines, but within our strategic planning efforts.
>
> —Interview 26

Embedded within the quotation above sits one of the more profound observations that can be made about any effort to adopt ERM in any setting. Extensive research and commentary have shown that ERM may not just represent an expansion of historic risk management thought and practice but may have set risk management on a different course. This is important to acknowledge because despite its many significant and positive developments, the historic gravitational pull of risk management—mitigating threats arising from measurable/predictable phenomena—seems to lead to difficulties in more consciously introducing a new way of thinking about risk management.

Internal controls-based thinking is still relied upon—which is not wrong, but it is quite incomplete in terms of framing the work that must be done. The goal of ERM is to bridge through organization silos and provide tools for leaders to think more strategically about their programs, the opportunities, the uncertainty, and be aware of the risks if the organization decides to take or not to take actions. In this sense, ERM should be contextualized as aspiring to an integration into strategic planning or to directly supporting the pursuit of objectives. These aspirations are important. Still, an emerging view—originating in the adaptive and complexity leadership fields of scholarship—provides a somewhat different way of framing ERM. This view is based on three premises:

- Organizations are complex adaptive systems. However, unlike naturally occurring systems, the human dimension challenges organizations to recognize the need for 'rules of the road' (audit and regulatory requirements, moral and legal constraints), while seeking the most open-form organizational structure possible.

- Complex adaptive systems consist of agents working/collaborating within the system— building, reforming, discontinuing networks in response to stressors (we might say risks, uncertainties, emergent phenomena).

- Complex adaptive systems call on leaders to perform different roles, but significantly this entails empowering all employees to be risk managers individually and collectively.

This different way of thinking would influence how ERM is undertaken, seeking sustainably resilient outcomes beyond just preventing and controlling threats. Notably, it represents something of a complete reset for understanding the difference between risk leadership and risk management. One of the real strengths of A-123 is found in the latitude it provides in allowing agencies to adopt very different approaches to ERM, but that very latitude does not adequately assist agencies in finding their own way. Existing guidelines can be helpful, of course, but as is often the case, guidelines quite often are leaned on as a substitute for thinking. This, then, puts pressure on finding effective risk leadership that can address this dilemma.

Culture

When I think about what success means in developing a risk culture, I think more about our people thinking about risk in our day-to-day decisions. Are they assessing risk at different levels both opportunity and downside risk management? And if I see the work I'm doing is having an impact—where people are discussing risk beyond just our risk committee meetings—I know the culture is moving in the right direction. . . . As long as people are incentivized to look at risk and recognize their own risk, that's a good risk culture to have.

—Interview 13

Often discussions regarding risks can be confused with internal audit considerations, which causes hesitance for managers and employees to talk about risk. Therefore, creating a risk culture is argued to be a means to break through these barriers to create a trustworthy environment where people can be candid about uncertainties they face. Risk leaders have identified different ways that the organizational culture and ERM practice might interact. Through their actions and conversations, risk leaders can use risk-based thinking to promote consideration of risk in decision-making processes.

A point worth mentioning arose in a few interviews regarding the use of the term risk culture and those comments reflect a wider question about that subject. Although there are numerous, sometimes contentious, views on culture, a generally accepted view posed by scholar/practitioner, Geert Hofstede, is illustrative. It sees cultures as revealing a distinct set of 'dimensions' that are highly interlocked and cannot be addressed individually without affecting the others.

Alongside the wider issue of culture, many public agencies might be described as presenting risk averse attitudes and views, meaning use of the word *risk* generally conjures feelings of apprehension or fears of being found out or judged by superiors, thereby making discussions difficult or impossible. Aside from the fact that it would be more terminologically appropriate to focus on complexity, uncertainty, and even the unknown, a risk averse environment and the perspectives it engenders can make it hard for the agencies to accept ERM. An open and trust-based environment where employees and program managers can raise their concerns about potential risks that can affect their mission are a critical foundation for effective ERM. That environment can only be accomplished when the employees believe that the organization's top leaders have empowered and supported them. For upper-level management, this requires a balance between the level of transparency, compliance with internal control/internal audits, and the support and open discussion regarding the organization practices. Indeed, it is a very different approach to leadership. Such transformations are difficult to imagine, but what are our other choices?

It's about the art or the teasing out of the possible in a way that doesn't have to feel like a gotcha exercise. It's really about being transparent and honest about what we face and finding ways forward through things like scenario planning.

—Interview 9

At the beginning, people were reluctant to identify certain risks, because of an agency culture of retribution when things went wrong. But then, we'd standardized a way for people to report about risks. Now, instead of seeing them as punishable, managers see risk as something everybody needs to get behind and figure out how to fix. The person who raises the issue should be applauded, because you had a better likelihood of getting where you need to be.

—Interview 14

Clarifying Readiness for Risk Leaders
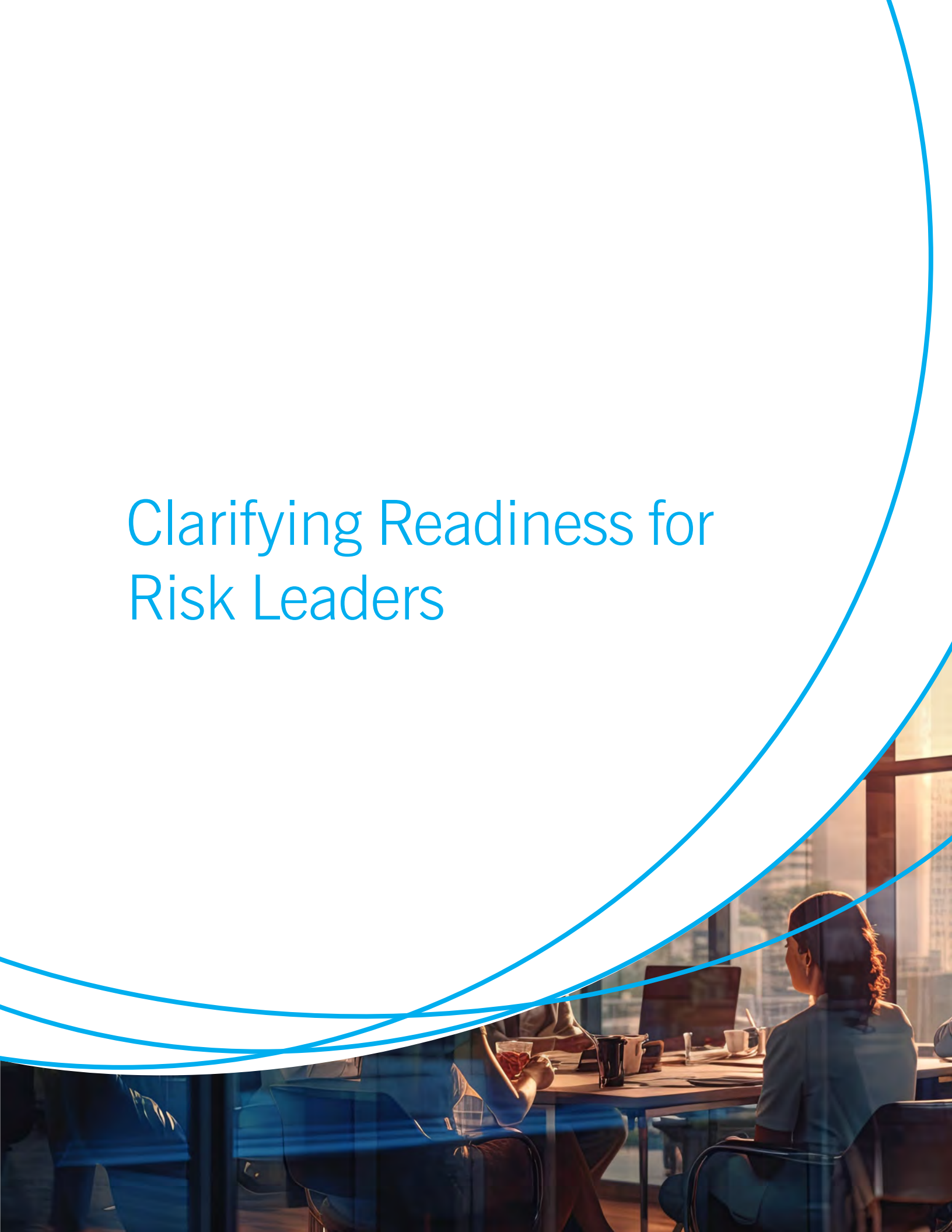
The following discussion consists of two distinct-but-related subjects. First, what is the essential description of readiness for risk leaders, and second, how might we explain the readiness of an organization and how that readiness is created or capitalized on for effective ERM implementations.

Ready to Lead

We can dispense with the idea of perfect readiness. Reality intrudes and risk leaders must find ways to move forward with ERM implementation recognizing that there is no such thing as perfect readiness. Derived from our interviews and research, there are certain key attributes identified that can help risk leaders to push forward towards success.

Key Attributes of Successful Risk Leaders

Competencies: Based on interviews and other sources risk leader competencies might include at least the following:

- Strategic thinking is a skill that can be learned, and it would be essential to recognize its importance as risk leadership is, in the first instance, a strategically-oriented critical thinking function.

- Team building is an important skill, but also an important insight into the risk leader role. ERM, despite some early (and some continuing) efforts, is not suited to a command-and-control approach. Everyone is a risk manager within the scope of their responsibilities and team-based or other collaborative approaches are mainly the mechanisms through which a more organic approach becomes possible.

- Collecting evidence is a learned investigative skill, but here is suggestive of a systematic approach to assessing and addressing complexity, risk, and uncertainty.

- Engaging multiple audiences is included here to reflect the importance of stakeholder leadership in public settings.

- Negotiation is also a learned skill, but here is intended to acknowledge the limited ability to *command* organizations and individuals to follow the leader.

- Networking would be obvious even in the most basic of settings, but emerging thinking about risk leadership is based on collaboration, cooperation, and working within complex adaptive systems, where networks are the pathway to solutions.

Operating in uncertain, often unstructured, environments, it is important for risk leaders to be agile and sensitive to organizational changes. Their ability to assess complex situations and a demonstrated ability to take initiative in responding to rapidly evolving risk situations is crucial to setting the tone for the ERM program. Ultimately, an ERM program aims to help organizations to better prepare and mitigate adverse impacts and maximize opportunities with the ultimate goals of being more resilient and sustainable. To achieve those goals, the risk leaders themselves must be ready to evaluate and respond to changes.

Knowledge: As risk leaders wear many hats and will play a role as consultant to their colleagues and programs, their understanding of what ERM requires of the agency is critical. More importantly, their knowledge and understanding of the organizational structure, context, and—yes—culture is essential to help them navigate and tailor the ERM program to tackle unique challenges and meet the agency's missions. They need not be technical experts in risk management, but probably should possess:

- A broad knowledge of modern risk management—its forms, functions, history, purposes, and characteristics.

- An advanced level of knowledge regarding general management practices, with additional emphasis placed on knowledge of governance, strategy and overall operational management. Understanding complexity and complex adaptive systems, the authors believe, would be part of this.

- Experience in working with upper management, dealing directly with boards and elected officials, supervising, motivating, and supporting higher level managers.

- Knowledge geared toward working in uncertain, often unstructured, environments; an ability to assess complex situations and a demonstrated ability to take initiative in responding to rapidly evolving risk situations.

It's change management that you're talking about. If we don't talk about risk and if we're not addressing it at the strategic level and we continue to do the A-123, then it's just a check-the-box compliance exercise.

—Interview 15

The first executive core qualification is leading change—it's all about resilience. We like being flexible, being able to implement a strategic vision, such as using resources wisely and managing and mitigating risks. I anchor it to performance. Meeting your performance is toughest in terms of your mission and operational space. . . . It's doing the homework, coming up with that list, and doing interviews in an organization. So it's baking—it's a lot of baking, before you actually say we think we need to have a program.

—Interview 21

One of our anchors is change management practice and understanding behavior. I have a behavioral economist on my team. It matters to have people who understand human-centered design, to see what will get people to change.

—Interview 21

Tools and Tactics

There are many ways to build out the toolkit for risk leadership. In the interest of simplicity here we believe the likely list of essential tools would include:

- Problem framing

- Using and expanding networks

- Working with advocacy coalitions

- Leading by example

- Scaling up change processes

These tools or tactics become relevant in different ways within a variety of approaches to ERM adoptions. Some of these tools or tactics may be transitional or an intermediary step in a process, but given existing constraints within specific organizations, these tools may be seen as free-form—that is, operating outside formal structures or processes, and, in fact, early or limited outcomes may be as far as a particular risk leader can progress.

Taken as a whole, then, how do we characterize the risk leader function? At its most basic level a risk leader should be a critical thinker—to be specific, a critical thinker in the service of assisting organizations, communities, societies in pursuing objectives within a complex world. It should be possible to imagine a happy world where organizations are disposed to effortlessly implement ERM. Top leaders are engaged, knowledgeable, effective in providing tone-at-the-top, managers at all levels are—let us call it—risk aware. The organization is open-form with free flows of information, and the entire organization is high-trust and everyone is empowered to be a risk manager/leader within the scope of their responsibilities. However, there is very little evidence that this is the natural state of most organizations.

This is a reality that is not properly recognized in a great deal of the ERM literature (professional and academic). What ERM proposes is an exceedingly difficult thing to achieve, and in fact, there are a set of features that may be impossible to adequately address. The top-level turnover and the political dynamics in federal agencies may make 'sustained commitment' almost an unrealizable dream. An attempt to change an organizational culture by changing how it perceives risk seems a rather confined view of what culture is and how it works. Further, structural impediments exist within governmental organizations for reasons, some of them even positive (e.g., silos can create efficiencies through the consolidation of specific functions, and desirable impediments exist to support the separation of powers). The list could go on, but any version of ERM is going to contain within it several not-fully-reconcilable features.

Therefore, ERM leadership represents primarily a 'way of thinking' much more than it is a structured set of systems, processes, tools, and techniques. It is—at its heart—an informed way of managing life in a complex world. Many of the things ERM has done have proven effective, but it is important to reckon that the history of risk management has tended to lead to the view that ERM is the 'things you do to manage risks.' It could be said that understanding risk leadership involves a conversation about 'envisioning,' while understanding risk management involves a conversation about 'doing.' This is why it seems unhelpful to conflate risk management and risk leadership. They are close partners in ERM, but they are not the same thing.

We have created and tested a template for characterizing key elements of critical thinking relevant to risk leadership.

Risk Leadership Critical Thinking Checklist

Step One: Development of the Narrative

How did we get here?

A. Setting narrative parameters

    I. Where do we start?

    II. What is in-bounds and out?

    III. What are the essential plot points?

B. Are we satisfied with this narrative? How might we be wrong?

Step Two: Structuring the Current Context

What is known; what is unclear; what is presumed?

A. Can analogous thinking inform us here?

B. What is the problem/opportunity?

C. Whose problem/opportunity is it?

D. Are we satisfied with our analysis of the problem/opportunity? Are alternative analyses possible?

Step Three: Framing the Decision

How do we conduct our analysis and decide?

A. Identify a listing of options.

B. Assign odds with each option.

C. Assess the uncertainty associated with both the options and the process of framing the options.

D. What is the decision 'rule'?

E. What is the decision?

F. How might the decision be wrong? Do alternative decisions warrant identification and consideration?

This process deserves a much fuller elaboration than this report can provide but consider the following. This framework stands as an idealized conception that seeks to characterize elements of the risk leader perspective that are distinct in their totality, though it shares many of these elements with other forms of risk management. Furthermore, it is infused with several insights gleaned from wider critical thinking literature—could we be wrong, measure twice/cut once, acknowledging what don't we know, asking whether we are identifying the right question, the right problem, and the right assemblage of decision-making assets.

Organizational Readiness

As stated previously, out initial interest was in the earliest stages of the ERM adoption process, and therefore the interviews were inevitably focused on the perspectives of the risk leaders as well as their attributes and actions. Thus, discussion about actual organizational readiness to implement emerged only as the interviewees illustrated what they had decided to do and how they did it. Nevertheless, in that context information emerged about how they judged their organization's readiness. The following outlines an organizational readiness checklist shaped by a summarization of interviewee comments.

Organizational Readiness Checklist

Customize ERM Implementations

ERM requires risk leaders envision and customize ERM implementations to fit their agency's operation and mission. This ability seems to be a fundamental element in the success of ERM adoption. The ERM playbook, training, and communities of practice can be good resources to accelerate preparatory work. However, risk leaders will need to spend time analyzing the current structure of their agencies and produce lists/ideas/arguments on the values of ERM to their organizations. Here, the preceding sections of this report have set out a perspective on what a risk leader brings to the table, and thus this point is a matter of self-assessment. What are your strengths, weaknesses, and needs? As a prompt, this report includes a short risk leader bookshelf in the Appendix.

> *I did a lot of outreach to our executives. I have a particular skillset to meet somebody cold and explain to them why this is valid. I put a lot of prework into thinking about why it's valuable to them and why it solves their pain points.*
>
> *—Interview 13*

> *As a CRO, you have to come up with the elevator pitch, where you can explain to agency leadership why it's important to take the time to implement ERM or other risk management processing procedures.*
>
> *—Interview 14*

> *I built an [agency] enterprise risk management playbook and so basically I had federal level guidance. Then I distilled that down to how the [agency] is actually implementing this, and build it from that standpoint.*
>
> *—Interview 22*

Focus on Sustainable Resilience

One of the key shifts in ERM thinking is the move to a more centered focus on sustainable resilience. This means, for example, that decisions and choices are based more emphatically on developing organizational flexibility in response to uncertain conditions and unexpected events—and *relatively* less on loss mitigation, internal controls, and systems. Those more traditional objectives are important in the specifics of individual matters, but seeking resilience is likely to lead to a different organization-wide approach. It opens the door to consider social (constituency) risk responsibilities an agency may or might have and how to build resource capacity, engender perseverance, and accumulate programmatic strength beyond the entity or agency.

More broadly, this highlights what could be called a "leading change" role. Will the agency's performance evaluation effectively reflect this shift to a more sustainable, agile, and resilient path? For example, while there has been emphasis on the strategic review process which asks agencies to use ERM as an input to identify future mission/operation risks and mitigation plans, there is a need for an agency to better integrate this "forward looking" approach in their strategic plan, performance evaluation, etc. (e.g., viewing ERM not as an input to but as an integral feature of planning).

> *Risk management needs to be resilient and for us to understand what risks we face and putting in risk mitigation measures as appropriate to also leverage opportunity as well.*
>
> *—Interview 9*

Distinguish the difference between risk management and risk leadership

Point 1 addresses the risk leader role, but there the focus is on the nature of risk leader preparedness. Here, a broader organizational understanding of what risk leadership entails and how this differs from the managerial side of ERM seems important. This issue might come hand-in-hand with recognizing there has not yet been a clear pathway and specifications for the risk leader/CRO position.

Understand organizational capacities

There will be organization-specific considerations that cannot be anticipated here. However, in general terms an organization that is ready to adopt ERM either knows, or has the capacity to learn, the answers to the following questions:

1. What do we know/what don't we know/what must we presume?

2. Can we specify our organization's existing risk core competency?

3. What are the appropriate levels of risk knowledge throughout the organization, and if not, how are they developed?

4. Is our organization more amenable to a top-down or bottom-up approach to development and implementation?

5. Can we specify what are the idealized resources as well as available resources?

6. Is it possible to anticipate or understand the barriers to ERM implementation (top leadership, silos, other structural or personal barriers)?

7. Can we think about our agency as a complex adaptive system and assess the possibilities of implementing ERM under such a framework?

If you are doing something great to save time, money, and resource because budgets are thin, the staff is short or overworked—spread it. If there's a best practice—spread it. Identify opportunities to say yes, to help set up succession planning. Or if you need a tableau visualization, maybe this agency area over here built it. Just put your information into it. You use it with for one team and then systemically across the board.

—Interview 12

The first thing you have to do is get a sense for people's gaps on what ERM is. Do they understand what opportunity management is? Do they understand that risk? Risk is uncertainty, so there's both the possibility for things to go bad but also the possibility for things to be better. So you can influence the outcome, you need to know what actions to take to address risk.

—Interview 13

Start with that dialogue of what keeps you up at night and what do you really want to be able to fix. You start with your evaluators, you start with your performance—people who already have metrics in place. Say what we have in place is actually meaningful and not just output metrics; do we have any outcome-based metrics for our organization? If we do, which are the ones that are hardest to reach and why? And then you say, what is the root cause of why it is hard to reach? You already start to do think about it like you have to, like you know your program and know your agency.

—Interview 21

Demonstrate signs of success

When initiating ERM, it can be a challenging task for risk leaders to engender early support—support necessary to develop credibility, standing, and authority. Demonstrating success is difficult as many activities in any risk management program take time to reveal benefits. One suggested (and obvious) approach is to identify an existing challenge that agencies can understand or to partner with current featured initiatives (cybersecurity, or work-related injuries, for example) where the risk leader can more visibly illustrate how ERM contributes to better agency performance.

I found working with the cybersecurity folks was one area where you could show something that they would really be able to grasp, and you could say—so we're working with the cybersecurity folks to make sure that when they have their cybersecurity reviews every year by all means. They get the readout for the things that need to be fixed, and when we can show this is how far we've come in getting these things fixed and this is how far we need to go. So if you can pick something like that that they can understand, then you can show how strategy and budget can also fit into the risk assessment process that can help.

—Interview 14

Anticipate training and development

Though notable professional certification programs exist, there are some issues about the availability of leader training. Some of the more basic managerial programs need to be adapted to consider the role of risk management within ERM architecture, as well as the relationship between risk managers and risk leaders. This is a topic worthy of broader consideration, and AFERM is a logical facilitator.

> *I also think ERM communities focused on the federal space have been immensely helpful because there have been OMB personnel that have been part of those discussions. Webinars explaining or giving a bit more context to OMB revisions have been helpful for my team as they go about implementing various changes. I think GAO's fraud risk framework was a key document that we used to implement our fraud risk—anti-fraud plan. Having a playbook that you can align your activities to—so that people can see how they are complying from an oversight perspective but also how our specific activities relate to the various components of that plan— was helpful.*
>
> *—Interview 9*

> *AFERM was helpful in trying to get things together—get people to communicate, as was the AGA, the association of government accountants. For me, it was extremely helpful because I was coming in from a program risk management perspective. There are things you can do to implement ERM, and there are various kind of structures and formats that you could follow. There was a lot of really good communication during those first few years—some formal through these councils, some informal, from practitioners like myself. We're just finding ways to get together and talk. For me, the small agency council or the small agency community of practice that was sponsored by AFERM was particularly useful because I think smaller agencies had different issues with implementation.*
>
> *—Interview 14*

> *We establish a community also at the staff level, we meet monthly, and provide some training and workshop. Our ERM toolbox and trainings include helpful materials from the conference board, RIMS, AFERM, etc. We also bring in guest speakers—bring more of risk practices to talk about cyberrisks, financial risks, acquisition risks.*
>
> *—Interview 16*

Develop a sustainable and supportive structure

Building a leadership team with diverse and inclusive backgrounds can open different discussions on organization operations and generate new ways of thinking about the current issues while controlling for "group think." In other settings developing an effective team is considered a search for an organization's Core Risk Competency. This concept reflects that fact that organizations already manage many risks reasonably well and that there are individuals with risk expertise—even though they are likely not designated or recognized as risk experts.

Observations of real efforts to identify and develop teams oriented around Risk Core Competency often reveal that this competency may come from surprising or unexpected directions. Further, following a Complex Adaptive System-style line of thinking, it would seem logical that an organization might have multiple Core Competency teams and—indeed—those teams might be highly fluid—forming, dissolving, reforming as needed. Professional and academic writing on complexity or adaptive leadership (and change leadership) provide many useful ideas in this regard.

> *That was my strategy: messaging the middle, finding allies, finding people willing to work with us, use our tools, and using our templates that allow us to participate with our risk products.*
>
> *—Interview 18*
>
> *I set up in a group of key risk leaders who had understanding of our operation and our need to cut across silos to take the promise and potential of ERM to help us make better decisions. People who came from performance, programming, and contracting—bringing all of that sort of expertise—they provided a strong steer from our office at the time.*
>
> *—Interview 9*

CONCLUSION

ERM offers the prospect of assisting organizations in achieving two broad goals. First, to provide an infrastructure to move toward better and more conscious integration of the management of risk and uncertainty. This, of course, was the original (and continuing) ambition of ERM. Second, advances in risk leadership can lead to a better focus on the strategic dimensions of ERM—that is, on more consistent thinking about risks, uncertainties, complexities, social risks that fall outside the operational risk domain, and/or risks that are so large that centralized coordination (or collaboration with other organizations) becomes necessary. ERM provides an underpinning for the presence of risk leadership itself—a central role intended to provide those means for assuring that the entity remain resilient in anticipation of, and in response to, the changing conditions that emerge.

Five Key Takeaways

Drawing on the observations of professionals and academic literature, this report has been wide-ranging, prescriptive, principle-seeking, and reflective of the influence of risk management's history. It also has been focused on what could be called the emergent topic in modern day risk management—risk leadership. For readers and top leaders, however, the natural response to all this is likely to be: "So what are we supposed to do with such information?" Many conclusions might be drawn but these five seem most important.

- **Promote the importance of building risk leaders and risk leadership.** As detailed previously, there has been an overall sense the demand for risk leaders/leadership has outpaced our understanding of what those terms and functions mean. So there is a sense we are playing catch-up. Standardization should not be the goal, and there always will be a level of customization necessary in an individual risk leader's work. But it seems evident that the field of risk leadership requires a systematic and separate effort to clarify concepts and practices. Organizations like AFERM can play a critical role with such an undertaking. It is worth mentioning that—as with all managerial/leader functions—the academic world has a necessary accompanying role in investigating, challenging, and proposing conceptual and practical aspects of its affiliated fields of practice. A cautionary view reminds readers of the 'swerve' referenced early in the report, suggesting efforts to better understand risk leadership must take care to avoid presuming risk leadership is 'just risk management except more so.'

- **Designated risk leaders are the fulcrum in successful ERM implementation; an agency cannot be 'ready' in any meaningful sense until a leader is 'ready.'** It would be easy to say a risk leader needs to be adequately resourced and supported, but in the first instance, designated risk leaders must be given space to work. Risk leadership was posed in this report primarily as a 'way of thinking' and this assertion provides one insight into what is the essential need of a risk leader.

- **Everyone in an organization is a risk manager within the scope of their responsibilities.** This, nearly bedrock, vision of ERM presents implications that have not been fully embraced or understood. One key implication is that ERM sees organizations functioning much as a Complex Adaptive System (CAS)—a daunting conceptualization that views leaders as largely empowering, supporting, and allowing managers and employees to assess and address risks and uncertainties they encounter. It also envisions organizations as essentially 'silo-free.' There are, in truth, many impediments to ever achieving a CAS-state—but can leaders imagine an organization that may, in important ways, act as if the organization may achieve that state?

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- **Leaders must be able to address the fact that, in public agencies, the range of responsibilities includes risks and uncertainties that directly impact the agency, but also to the agency's constituent parties (citizens, clients, customers, communities, perhaps even the environment).** Declaring a commitment to the most comprehensive effort to manage risk and uncertainty leads to a presumption that an agency must step beyond its own direct risk environment to consider risks to the communities that agency serves. Note this observation is not simply a logical consequence of the step-by-step expansion of ERM practices. It is also the consequence of the impact of major events—pandemics, climate change, military conflicts, refugees, and other disasters. These are kicking down the edifice of ERM organizational practices and demanding an even wider field of vision along with an insistence that collaboration must be the essential characteristic of ERM practice.

- **Risk leaders must always ask: How might we be wrong? It is true that there are more detailed risk-related activities that executives and board members will undertake.** But reserving a space in every meeting or decision process to ask this question reveals a multitude of implications that support the ERM mindset. It suggests the inclusion of a level of skepticism necessary to function in a complex world. What don't we know? How might our mission or process for arriving at decisions be a source of risk itself? Can we contemplate the unknowable/unimaginable and find a space for that contemplation in our leadership processes? Who is essential to the decision-making process? Are optional decisions imaginable?

We realize that the arguments and suggestions offered in this report may strike a current risk leader—or perhaps someone new to the job—as overwhelming. Still, it is important to set out a reasonably holistic vision that does include a reflection on the influence of history on present day thinking and practice of ERM. This vision acknowledges academic research has identified a range of insights that may be beneficial to practitioners. Of course, any emerging vision of ERM must be leavened by the growing experience of the many risk leaders that have established themselves over the past decade. On this point, the report returns to possibly the most fundamental insight that can be made when considering how the collective efforts around ERM are changing.

> *The expansion of the ERM remit is forcing greater consideration of 'things not easily measured, identified, or even understood' and how this is changing ERM. Addressing risks remains critical, but there are important emergent challenges when considering the complex and the uncertain. It is early days, but this is a new world shaping the role of risk leaders. There remains much to learn.*[17]

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17. Andersen, T. J., and P. C. Young. (2020). *Strategic risk leadership: Engaging a world of risk, uncertainty, and the unknown.* Abingdon, UK: Routledge.

This perspective dovetails with many of the insights and considerations outlined in the IBM Center book, *Transforming the Business of Government: Insights on Resiliency, Innovation, and Performance*. Government leaders continue to face the unforgiving realities of disruption and uncertainty. Risks have grown due to complex variables. Addressing these risks has placed renewed emphasis on the importance of being resilient. Resilience involves more than pushing through after adversity or disappointment. But rather, resilient organizations turn crisis into opportunity and discover value in the unexpected.[18] The book points out that the combination of perpetual uncertainty and an ever-evolving risk environment continuously overtakes current planning models. From our research, the use of ERM, its maturation, and the evolution of risk leadership can go along with helping navigate this current situation.

Two additional points as we conclude this report. First, there is some consideration on how risk management in the public sector is 'materially different' from risk management in a commercial sector context. We are inclined to believe that the differences are important and deserve further investigation that public risk management may—in fact—be distinctly different from its commercial counterpart. Second, we encourage continuing efforts to clarify the distinction between risk management and risk leadership. We recognize management and leadership work together, often doing similar things, and even may exist as two hats worn by a single individual. But the importance of making this distinction should not be dismissed. There are aspects of ERM that are distinctly functions of leadership (as opposed to management). Among other things, this means when organizations turn to the question of 'agency readiness to adopt' the first question to be posed: Is an agency risk leader ready to lead and, in turn, is the agency ready to collaborate? It is our hope that this report has taken some modest steps toward developing a few answers to that question.

Finally, an important and clear distinction between risk management and risk leadership is warranted. We recognize management and leadership work together, often doing similar things, and even may exist as two hats worn by a single individual. But the importance of making this distinction should not be dismissed. There are aspects of ERM that are distinct functions of leadership (as opposed to management). Among other things, this means when organizations turn to the question of 'agency readiness to adopt,' the first questions to be posed are: Is an agency risk leader ready to lead and, in turn, is the agency ready to collaborate? It is our hope that this report has taken some modest steps toward developing a few answers to that question.

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18. *Transforming the Business of Government: Insights on Resiliency, Innovation, and Performance. 2024.* Daniel J. Chenok and Michael J. Keegan, editors. Rowman & Littlefield Publishers, Inc.

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Professor Young has been a visiting professor to City University in London and Aoyama Gakuin University in Tokyo, and has held a distinguished honorary professorship at Glasgow Caledonian University in Scotland. He was selected as a Distinguished Alumnus of the Year for the University of Nebraska-Omaha as well as for Augustana University. Honored with the ALARM-UK Lifetime Service award, he was also selected as an Honorary Fellow of the Institute of Risk Management in London. Most recently, he was awarded the Otto Mønsted Visiting Professorship at Copenhagen Business School in recognition of research excellence in risk management.

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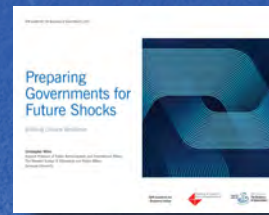
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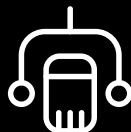## Five Easy Ways to Connect
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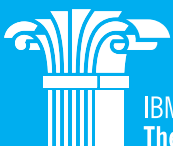
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