

ERM: Thinking About Risk in Making Major Decisions

Enterprise Risk Management (ERM) can help leaders to change the culture of their organizations so that higher-level managers and employees think in advance of major risks in their decisions.

A field office of one large federal agency proposed a major new initiative to solve a chronic problem. The office had presented the initiative to the agency's Chief of Staff who sent the proposal back with a series of questions. Now, a year later, officials from the field office again met with the Chief of Staff to discuss the revised proposal. It became clear that the Chief of Staff was worried about possible downsides of the proposal but didn't know what questions to ask.

Consider how much stronger the proposal would have been if the field office had included the following in its proposal: (1) "Here are the major risks that we have identified about this proposal," and (2) "Here is how the proposal has been shaped to address those risks." The conversation with the Chief of Staff would have gone far better if only the Field Office had anticipated concerns about downsides and had presented up front the major risks that the proposal would involve and how to address them. Requiring discussion of major risks and how to address them can improve the value of all proposals for major new initiatives.

Building consideration of major risks into an agency's processes is a good way to enhance performance. An agency can improve consideration of risk in key areas such as:

1. Strategic planning: "Here are our organization's objectives for the year, and here are risks that could prevent us from achieving those objectives." This analysis can help the strategic planning office to make plans more valuable to leaders by tying its plans to obstacles the agency needs to overcome to achieve its goals.
2. Budgeting: "Here are parts of the agency facing major risks, and here are available extra budget resources to address high priority risks." Note how when the CFO suggests making resources available to address major risks this can improve the willingness of unit heads to discuss their major risks before the risks get out of hand.
3. Personnel Performance Reviews: To help improve the flow of risk information, use performance reviews to assess the willingness of (1) higher-level managers to give and take feedback about risks graciously and (2) employees to bring "bad news" to leaders who need the information to make key decisions.

Over time, ERM can help leaders strengthen their agency's culture in these and other ways so that information about major risks flows promptly to decision makers who need it.

--Thomas H, Stanton