

# ***ERM in the Federal Government:***

## Creating risk advantage by linking strategy to operations

## Risk Reality

*A security breach stifles a major initiative.*

*A patient dies and research stops.*

*An employee misuses government funds and an investigation halts an important program.*

*A breach of trust leads to intense scrutiny, internal investigations, Congressional inquiries and unwanted highlights on the evening news.*

Risk seems inescapable in today's complex world. As complexity has increased – new regulations, evolving operations, massive IT systems – so too has transparency. Risks – and the failure to manage them – are more visible than ever. In the Federal government, this visibility has required that agencies evolve compliance programs that once quietly operated in the back office to more front and center program integrity efforts under the watchful eye of Chief Risk Officers (CROs). Further, Federal guidance, such as Office of Management and Budget (OMB) Circulars A-123 and A-11, continue to move towards requiring Federal organizations to implement enterprise risk management (ERM) programs in order to manage risk to their critical missions.

*While efforts to manage risk have moved up in the line of Federal agency priorities, the challenges to effectively implement and maintain risk management remain.*

The traditional view of risk management, focusing largely on compliance, is insufficient in today's world. Today, Federal agencies have to be much more than compliant. They must perform and achieve a mission that is meaningful to the American taxpayer. To fail to do so in such a challenging economic environment is to invite debate over whether tax dollars should be spent elsewhere - or not at all.

## A New View of Risk

PwC's view is that managing risk is a critical element to realizing an organization's mission and strategic priorities. With this view, ERM does not remain a back office compliance program or even a separate program integrity effort. It is an integral part of strategy development, execution and performance management. To effectively manage risk, organizations must consider what barriers exist to achieve their strategy and accomplish performance targets. These barriers often include:

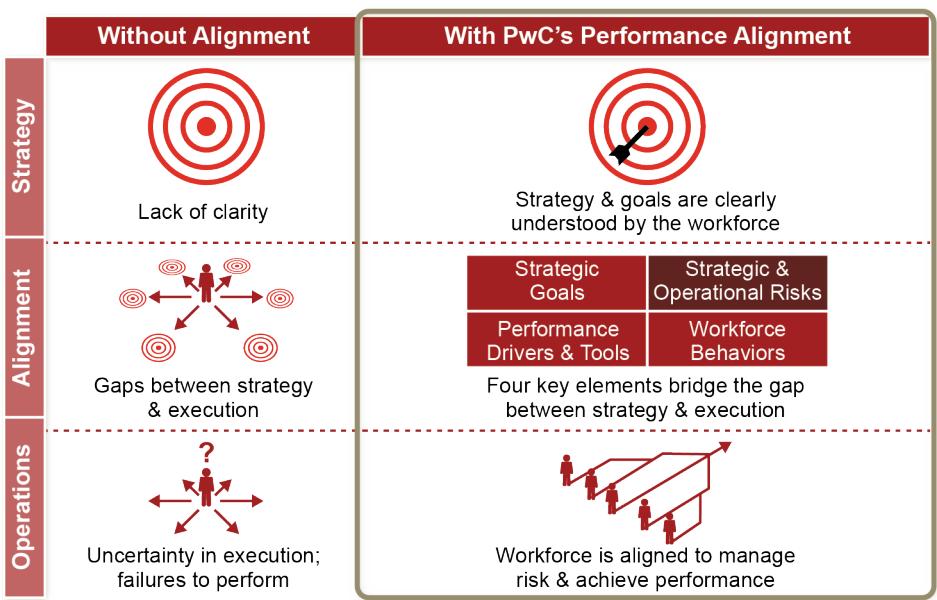
- Failure to acknowledge and understand the risks to achieve goals and mission performance.
- Lack of understanding of the role ERM should play in executing strategy.
- Resistance to adopting risk management in strategic planning and performance management processes and throughout the organization.
- Lack of clarity as to who in the organization should be responsible for risk management.
- Limited data and information to support evaluation of performance and the role ERM plays.

- Limited integration of existing risk management efforts with strategic planning and performance management efforts. In fact, our recent ERM Public Sector survey, conducted with AFERM, bears this point out: "56% of survey respondents forecast strategic risk among their top three future areas of concern and report that strategic risk is managed the least at their department or agency. While the numbers illuminate that leaders are cognizant of this looming exposure, 42% of respondents indicate that their organizations have not yet integrated ERM with their strategic planning processes."<sup>1</sup>

## PwC helps organizations address these challenges.

PwC recognizes the gap that often exists between an organization's strategy and the operations where performance is achieved. Our **Performance Alignment Framework** shows this gap and the four key elements organizations must develop to bridge the gap – as demonstrated in the graphic below.

### PwC's Performance Alignment Framework Considers How Risk Management Bridges the Gap between Strategy and Performance



<sup>1</sup> Association for Federal Enterprise Risk Management (AFERM) and PwC, *Enterprise Risk Management in the Public Sector*, 2015, available at [www.pwc.com/federalERM](http://www.pwc.com/federalERM).

## Aligning Risk Management with Strategy and Performance

To remove risk as a barrier between strategy and execution, PwC advocates examination of four key elements shown in our [Performance Alignment Framework](#), Strategic Goals, Strategic & Operational Risks, Performance Drivers & Tools, and Workforce Behaviors.

PwC has considered how these four elements apply to Federal agencies and developed recommendations to help create an ERM program or improve an existing one.

### **Don't Just Retrofit Risk; Make It New.**

When considering how to integrate risk management with strategy and performance, some organizations move to retrofit risk management into existing strategy and performance efforts. While taking advantage of a foundation that already exists seems logical, consider whether there is an opportunity to improve all three disciplines together. An updated strategy and revamped performance measures may be needed to assure the organization effectively operates in today's world.

**Cross the Aisle.** While risk management has traditionally operated in the back office, strategy and performance are

decidedly in the front, driving the organization's mission. In Federal agencies, the front and back office frequently have challenges working together. Management may need to make the first move in crossing the aisle to approach the front office about how risk should be considered. Keep in mind, risks aren't just negative; there are many positive opportunities. The private sector considers positive risks for competitive positioning. Federal agencies tend to be more conservative, but taking risks is a big part of advancing the Federal mission.

**Design Mission and Management Oriented Processes to Work Together.** Because the back office management and front office programs in Federal agencies are often designed to work independent of one another, some new processes may be needed for integration. They certainly don't need to be onerous, but they do need to exist. If management personnel – including those in the CRO organization – aren't a part of strategic planning efforts and aren't considered during performance planning or evaluations, new processes can help. A combined focus on lean process improvements and internal process controls is ideal.

### Measure Risk and Performance

**Together.** Truly managing risk isn't just about considering what may disrupt your strategy. To be proactive, risk management should be considered when measuring performance. Organizations should ask, "What risks are preventing me from achieving my performance targets?" and "What new or evolving risks could derail performance?" While existing performance monitoring efforts may already be in place, some changes may be needed to integrate risk management. Consideration should be given to how risk and performance data may be harnessed using enterprise resource planning (ERP), business intelligence (BI) and governance, risk and compliance (GRC) tools that are already in place at many Federal agencies.

**Put Your Money Where Your Mouth (and your risk) Is.** Organizations, including Federal agencies, consider strategic and performance priorities when allocating coveted budget dollars. Thinking about risks is equally important. Mitigating negative risks and pursuing the positive don't always cost money...but they can, and managing risk

now can save a lot of money in the long run. Further integration of risk into the budget process can help organizations prioritize their programs and consider how funds help them be successful. This may mean setting aside funds to manage a risk that gets in the way of your mission.

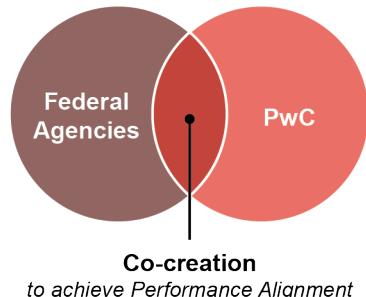
**Think Positively; Risk Can Be a Good Thing.** As mentioned before, risk is sometimes a positive thing. Consider the risks associated with going to the moon or developing a new vaccine. These accomplishments started with a well-defined strategy, a quest for performance and the careful management of risk along the way. The challenges faced by Federal agencies in today's world demand no less.

### Taking Action

The first step can be the hardest, but PwC can help. PwC professionals can work with your organization to help you take the steps that link strategy to execution, managing risk along the way. Our co-creation model actively engages your workforce in creating processes and solutions that they own. This model increases awareness, accelerates adoption and drives accountability.

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### PwC's Co-Creation Model Helps Federal Agencies Manage Risk and Align Performance



PwC can help Federal agencies achieve performance alignment using a process of co-creation. Our co-creation approach can enable Federal agencies and their workforces to own the outcomes and drive decision making. PwC provides deep industry and mission-focused expertise to enable strategic planning, performance alignment and execution. The result is increased adoption of the strategy and accountability for improved performance results.

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## ➤ How Can We Help?

Our consultants help clients remove many different barriers – including risk – to achieve success. We drive this success by supporting our clients from strategy through execution. Seasoned professionals and industry expert consultants are equipped with research, methods, tools and training to get the job done.

As a leader not only in ERM services, but strategy and performance consulting as well, PwC offers expertise to help you implement or improve your ERM program and remove risk as a barrier to your organization's strategy achievement and performance. Our services include:

- **Defining Your Strategy.** PwC provides strategy services in the public and private sectors. Our strategy services range from helping organizations prioritize research to cure cancer to creating new products that grow market share. Working with a variety of organizations, our deep industry knowledge connects strategic vision to operational execution.
- **Planning and Measuring Your Performance.** PwC helps organizations deliver operational excellence through planning and measuring performance. We help public and private sector organizations develop, track and measure performance. Our services, including planning, analytics and IT systems, enable executives to understand and make decisions based on performance.
- **Managing Risk.** From individual projects to the enterprise, PwC helps organizations manage risk. When building or improving ERM programs, we help our clients unite management and mission to achieve strategy and performance.



### ➤ *Award-Winning Excellence*

In 2014, PwC's Public Sector became the first large professional services firm ever to receive the nation's highest Presidential honor for quality - the Malcolm Baldrige National Quality Award. The Baldrige Award was established by Congress to recognize organizations for performance excellence through innovation, improvement and visionary leadership. Winning the award demonstrates PwC Public Sector's unparalleled commitment to quality and continuous improvement, which is embedded in everything we do and has enabled us to provide exemplary service to our Government clients.



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