THE ROAD TO ERM:

Using the Balanced Scorecard to Implement Enterprise Risk Management

BY ELIZABETH COOPER

WHY IS THE ROAD TO EFFECTIVE ENTERPRISE RISK MANAGEMENT (ERM) SO LONG AND BUMPY? This is a question risk managers often ask when trying to transition from traditional risk management to ERM. Yet, ERM has gained significant traction in the corporate world over the last decade, and more recently, increased interest from nonprofits and government entities.

ERM's integrated approach of managing risks considers the broad spectrum of risks across an organization. It helps leaders and employees understand how those risks interact with one another and how they impact organizational objectives. While traditional risk management focuses primarily on financial and hazard risk, ERM includes risks that may impact strategy, operations, communication, technology, finance and reputation, among others. This makes ERM an attractive vehicle for making risk-informed decisions in today's complicated, connected world.

Still, implementing ERM hasn't been an easy road. A recent RIMS Executive Report indicates that more 90 percent of companies practicing ERM have programs with initial or ad hoc maturity levels.[1] This means that most companies are in the early stages of making the transition from traditional risk management to ERM.

As public risk managers, we face additional roadblocks including limited resources, entrenched bureaucracies and competing expectations that come from operating in a political environment. These challenges can make the journey down the road to ERM seem daunting. Isn't there an expressway, high speed train, or hover board to help us get there?

TDI'S JOURNEY FROM TRADITIONAL RISK MANAGEMENT TO ERM

At the Texas Department of Insurance (TDI), we faced many of these roadblocks. For many years, TDI's leaders recognized the need to make the move toward ERM in order to take a comprehensive look at the agency's risks. The first part of the transition involved the creation of a risk assessment process that each division could perform internally. The process required division teams to: review the division mission and goals, identify key processes, identify the risks that threatened the processes, rate the probability and impact of each risk before controls, and identify internal controls and mitigations to prevent or reduce the risk.

"We developed a handbook to guide the process and each division completed an annual risk assessment," said Kim Harris, PMP, BSP, TDI's director of the Office of Strategy Management (OSM). "We called it ERM, but the risks were still considered within the silo of each division. We needed a framework for managing risks across the board so we could understand how they impact our agency's strategic objectives."

The division risk assessment process helped jump-start risk awareness and provided bottom-up information. But, we still needed to foster strong top-down oversight and ERM governance. In the following years, TDI leadership held several workshops in which they identified an ERM philosophy and goals. TDI's leadership assigned the OSM as lead on ERM. In the meantime, the agency began implementing a new approach for strategy management using the balanced scorecard.[2] This laid the foundation for moving forward on our ERM journey.

means to help us get there, and measures help us know where we are along the way.

Moreover, the balanced scorecard allows TDI leaders and employees to view the agency's strategic objectives from four perspectives: Customer; Financial Stewardship; Policy and Process; and People, Tools, and Technology. This structure is well-suited for implementing ERM by helping us focus on the broad spectrum of risk through the lens of the four perspectives.

In addition, TDI's balance scorecard was already part of the organizational culture. As a strategic objective on the scorecard, ERM was part of the discussion at the executive and management levels. The balanced scorecard provided the perfect forum for keeping the right people engaged.

In 2014, we formed an ERM team to ensure that all divisions are represented and contribute to the management of the agency's risks, including: evaluating, reviewing, and recommending ERM policies, priorities, and activities; contributing to enterprise-level risk assessments; identifying emerging risks; and reviewing and improving TDI's risk management framework.

After working for almost a year, we established an ERM scorecard, which helps agency leaders better understand top priority risks that may challenge the achievement of our strategic objectives. The following risk categories are organized by balanced scorecard perspective:

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> **Jonathan Niven, PMP, BSP, TDI's strategic planning and project portfolio manager**

However, there were more challenges to come. We had to build a sustainable ERM framework, establish consistent processes and formalize communication. We also wanted to integrate ERM with strategic planning, so we could better manage risks to our agency's strategic objectives.

LINKING RISK TO STRATEGIC OBJECTIVES

By 2012, TDI leadership had adopted the balanced scorecard as the agency's integrated strategic planning and management system. "The balanced scorecard aligns the agency's day-to-day work with our vision, mission, and core values," said Jonathan Niven, PMP, BSP, TDI's strategic planning and project portfolio manager. "It helps us understand where we are going, how we're going to get there, and whether or not we are on track."

Key elements of the balanced scorecard approach are strategy maps, strategic objectives, initiatives, measures and perspectives. The strategy map helps us understand where we are going. It connects strategic objectives and emphasizes the relationship between the perspectives. Strategic objectives describe what we are trying to achieve, initiatives are the

In addition, the balanced scorecard is a communication tool. It provides multi-level communication channels for discussions through an executive steering committee, agency and division perspective champions, and initiative teams. Updates and reporting occur at monthly champion meetings and quarterly review meetings. "We highlight the strategic objectives, measures, and current initiatives at the agency quarterly review meetings," Niven said. "In addition, we connect employee performance to balanced scorecard strategic objectives. This helps employees see how their work directly contributes to the strategic objectives of their divisions and the agency."

We would soon discover that using the balanced scorecard would help employees better understand ERM as well.

INTEGRATING ERM INTO EXISTING PRACTICES

Although it seemed like ERM was an impossible journey, once we started integrating ERM into the agency's balanced scorecard, the impossible began to feel possible. We began to view risks from different perspectives and now have a better understanding of the agency's top risks.

BALANCED SCORECARD PERSPECTIVE	ENTERPRISE RISK CATEGORY
Customer	• Communication • External Factors
Financial Stewardship	• Budget • Financial Management
Policy and Process	• Business Processes • Regulatory Environment • Enterprise Risk Management
People, Tools, and Technology	• Workforce • Technology • Information Security • Business Continuity

It's still being refined, but it's a starting point for high-level monitoring of the agency's greatest risks.

CONTINUING DOWN THE ERM PATH

While we have made significant progress, we still have a long way to go to apply ERM at the strategic,

tactical and operational levels. The OSM works directly with the executive steering committee and the ERM team on strategic risk issues. The executive steering committee approves all ERM activities. The Policy and Process champions report on the ERM program at balanced scorecard quarterly meetings and are currently working with the OSM to establish a maturity score as a balanced scorecard performance measure to gauge the ERM program's progress.

"We occasionally have to circle back around to confirm mandate and commitment when we have changes in leadership," Harris said.

"While it causes some delays, it's a critical part of on-going ERM education and awareness

building." Without full support from the top, an ERM program may be stalled or totally derailed.

Although there is no silver bullet, public risk managers can better navigate the path to ERM by looking at risks from different perspectives. We have customers who depend on our services and expect us to deliver them. Taxpayers expect us to be diligent financial stewards. Turnover in leadership and changes in strategic direction can affect our policies and processes. We also have the challenges of keeping up with changing technology while working with limited resources and competing with the private sector for highly skilled workers. Having a framework that considers the perspectives of: Customer; Financial Stewardship; Policy and Process; and

People, Tools, and Technology can help. The balanced scorecard provides a structure that may help public risk managers travel down the path to ERM with fewer bumps and maybe just a little bit faster. ∎

Elizabeth Cooper, MPA, ARM-E, is responsible for coordinating the agency's TDI's enterprise risk management activities.

FOOTNOTES

1 RIMS Executive Report, State of ERM Report, 2015.
2 The balanced scorecard was originated by Drs. Robert Kaplan and David Norton of the Harvard Business School.