Embedding Enterprise Risk Management (ERM)

Every entity, including higher education, exists to realize value for its stakeholders. Value is created, preserved, or even eroded by management decisions in all activities, from setting strategy to operating the entity day-to-day. ERM supports value creation by enabling management to (1) deal effectively with potential enterprise risks that create uncertainty and (2) respond in a manner that helps reduce downside outcomes and increase upside outcomes.

Embedding ERM. There is no right or wrong way to embed ERM. A department, college, division or the University can embed ERM into existing strategic and day-to-day decision-making processes - adding value without creating a burdensome layer of administration. By embedding the ERM steps into existing processes, managing risk becomes an integrated and effective part of the management culture at multiple levels of the University. For example, ERM can be embedded into:

- **SCOT Assessments**, or similar strategic planning tools, to provide a wider perspective of the potential barriers to achieving Western’s mission, vision and goals, such as SCOT’s Challenges or Threats;
- **New initiatives** as part of assessing and implementing strategies for these plans, thereby improving their chance for success; and
- **Ongoing initiatives** by applying an “ERM filter” to see if their chances for success might be improved.

Steps in the ERM Framework:

- **Step One - Determine objectives.** An objective is any pursuit related to accomplishing a department, college, division or University Mission, Vision or Goal. It may be strategic in nature or involve your day-to-day management or operational activities. It may be related to your SCOT, a new initiative or an ongoing initiative.

- **Step Two – Consider guiding documents.** Consider relevant sections of guiding documents that pertain to your objective. Guiding documents provide a road map for management strategies, and include strategic plans, relevant laws and regulations, internally imposed policies and procedures and department guidelines.

- **Step three - Identify risks.** An enterprise risk is an issue that may adversely (or positively) affect the achievement of an objective. Such risks are not limited to injuries or property damage,
although these aspects are extremely important. They can include almost anything that creates a barrier to achieving an objective and are normally linked to one or more of the following categories, which offer broader meaning and suggest how and where the risk could be managed:

- **Strategic** - high-level goals that are aligned with and support the University’s mission
- **Reputational** - valuable assets that form the University’s image and reputation
- **Operational** - ongoing management processes
- **Compliance** - adherence to applicable laws and regulations and internal policies and procedures
- **Financial** - protection of University property and assets

Keep the *Pareto Principle* in mind by focusing on **core risks** that have will have greatest impact on successfully achieving your objective, rather than focusing on all risks. The synergy created by focusing on core risks is likely to positively impact the others. Any strategic, reputational, operational, compliance and/or financial risk may be a core risk as long as it viewed as having significant impact.

- **Step Four - Assess risks.** The identified risks need to be evaluated and prioritized. As part of the evaluation, it is helpful to start with an assessment of what is happening now (if anything) to manage the risk and how well it is working. Is the current amount of risk acceptable in pursuit of your objective? In other words, does it meet your risk appetite? If the risk exceeds your risk appetite, appropriate management strategies need to be considered.

- **Step Five - Develop management strategies.** If the assessment of risk exceeds your risk appetite, you need to consider and document management strategies for an appropriate risk response from the following:
  - **Avoid** - stopping the activity that gives rise to risk.
  - **Mitigate/Reduce** - responding to mitigate or reduce the risk.
  - **Share** - sharing or transferring the risk to another entity. This may include insurance or outsourcing an activity (e.g. contracting).
  - **Accept** - taking no response to affect the risk, except monitor it.

The goal is not to eliminate risk, although it may be appropriate in some cases. The goal is to avoid taking unplanned or unmanaged risks that could negatively impact your area’s strategic, reputational, operational, compliance and financial interests, which affects the achievement of your objective and thus erodes value for our stakeholders.

- **Step Seven - Monitor.** Monitor the status of your mitigation strategies for achievement and timeliness. Be flexible and make adjustments along the way. **A Final Note.** Documentation of your ERM activities is important. You can simply integrate this aspect of your management activities into your existing management documentation.

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