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The ERM Tipping Point

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What does it take to tip the scales in Canada, from practitioners constantly selling ERM to having a sustainable and in-demand enterprise risk management (ERM) program that drives material incremental value to the business? When will we reach the tipping point where the majority of Canadian companies see ERM as essential to strategic success?

There have been numerous Canadian and American surveys over the last couple of years that show a minority of companies believing they have reached a high level of ERM maturity. The results between Canada and the United States seem to be very consistent.

What these surveys often do not capture is the perception of how well the ERM value proposition is being achieved, in the eyes of the board of directors and senior executives. I know of several ERM success stories that have added tremendous value to stakeholders; quite often these companies are also market leaders with great leaders throughout. I also continue to see many ERM attempts fail to achieve their true potential.

Over the last ten plus years, I have directly or indirectly overseen ERM initiatives at General Mills Inc. globally, and now for AltaLink/Berkshire Hathaway Energy. I must admit the early years had more failures than success stories, but this has taught me some very valuable lessons in optimizing the value of ERM.

The ERM Value Proposition—The Sweet Spot

It has become obvious to me that there is an ERM sweet spot. This is when three things all exist at the same time. The first is having the executives and board buy into the ERM value proposition. The second is having expertise in the art and science of ERM. The third is when ERM practitioners develop a strong comprehension of the strategy and operations of the business.

Over the last decade, I have collected the following secrets to ERM success:

- **Negotiate ERM support before you take the ERM leadership role.**

  If you join a company with leadership or a board who are not sold on the value of ERM, you have a small window of opportunity to pitch your ERM value proposition. In fact, the best ERM leaders do this in the interview process.

  If you join a company with a senior executive or board sponsor who believes in your ERM value proposition, you will have more time to deliver value—but be careful not to take too much time.

- **Create an ERM plan that maps strategy to risk, to your value proposition, and to continuous wins over the short term and long term.**

  I have seen great ERM leaders lose support from leadership and the board because they put too much focus on initiatives that are either not perceived as value-added or that are so complex that the return will take too long to deliver. When you create your ERM plan, make sure you can deliver on your value proposition in some way each quarter. This may be by emphasizing the enhanced preparedness to mitigate strategic risk, or how this has enhanced your capability to take even more intelligent risk.

  For example, oil and gas companies that have planned how they would deal with a $50 a barrel oil price are much better positioned than those who did not even think about this. Those who invested in merger, acquisition, and integration capability may also be able to take intelligent risk to acquire and integrate other energy companies at a discounted price.

- **Always quote strategic imperatives in ERM communication.**

  You will never go wrong when you remind leadership and the board of what they already know is critical to success.

  The best ERM practitioners I know proactively research and benchmark to discover insights related to risks that are impacting the industry and competition, and provide this information to leaders to help them make better decisions.

- **If your ERM function is too focused on the "how" versus the "what," it may fail.**

  I have attended presentations where the presenter spends the entire time explaining "how" the organization created a great process or system implementation without once mentioning "what" this did to add value to the business.

  ERM leaders need to make it as easy as possible for executives and the board to recognize the value being provided to the business. This requires you to constantly market your value-added work. Never assume that anyone really understands the value that risk management can provide a business.

- **Most humans are born with a curiosity to take risk, but they may not have thought about how to deal with things that do not go as planned.**

  It is very important for ERM practitioners to constantly remind themselves of this. The more we learn about the science of risk management, the more we know about being prepared (versus the average person).

  When my son was four he would constantly try to stick things in electrical sockets. As a paranoid dad, I put plugs in every socket in the house. Then one day he sneaked up behind me, put a metal wire in a socket, and got quite a shock. Fortunately, he was okay, but he has learned never to take this risk again. I believe seasoned business leaders, who have witnessed failure several times, are the best risk managers. They will never forget failures or near misses. So never assume a new recruit from university will have the same level of risk management wisdom. It continues to intrigue me why universities did not teach these skills for many decades. Still, today, many universities do not teach students how to manage risk effectively and efficiently.

- **The best ERM leaders know how to always keep the executive and board on their toes, and focused on optimizing agility.**

  I think one secret to success is always spending a mix of 60 per cent of your time identifying the potential for future value-added risk management preparedness to address strategic risk, and 40 per cent related to what you have already done to be prepared. In the world we live in today, there will always be new and emerging risk that we are not prepared for.

  Cyber security is a great example of an emerging and constantly changing risk that will impact companies for many years. Today when a company falls victim to a phishing attack using ransomware, the company does not want to admit publically that it paid the ransom to unencrypt their entire network. The reality is this is happening everyday, even if we are not aware of it, and many hackers are becoming very rich.

- **Mature risk management businesses find it easy to define risk appetite and tolerance.**

  Many companies have failed in the past because leadership has taken much more risk that the collective appetite of the board, or the average company in the industry.

  One of the most famous examples of this is the Lehman Brothers collapse in 2008. Understanding if a business has exceeded the risk appetite of its board is rather easy, after it has been exceeded.

  I believe this will become easier for companies to define as companies develop mature enterprise risk management functions. Also, the more education board members receive on ERM, the more they will understand the value of defining risk appetite and tolerance.

- **Selling and marketing the value of risk management must be a conscious and consistent strategy.**

Assume that all leaders and board members do not truly understand or value risk management. You must constantly promote risk management value-added wins and continuously find opportunities to educate people on relevant, but material, risk management opportunities. Eventually the masses will truly see the value and this will get easier and easier.

A very successful Canadian business leader recently asked me why there wasn't a course on ERM when he went to university 30 years ago. My response was that risk management has always been part of decision-making, but enterprise risk management has just evolved as a formal business practice over the last decade. Then I mentioned that over 30 years the world has seen many new risks emerge—such as cyber security—and the pace of change is faster than ever because of technology. He strongly agreed and said, "It's critical that risk management be taught in all universities going forward:" This would definitely help achieve the tipping point.

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Richard Arthurs is currently the Vice President of Risk Management, Audit and Compliance for AltaLink LP, based in Calgary, Alberta. AltaLink provides and manages the electrical transmission to 85 per cent of the population of Alberta. AltaLink was recently acquired by Berkshire Hathaway Energy. Prior to AltaLink Richard spent 13 years with General Mills Inc. in the U.S. and U.K., where in his last role he was the Director of Global Internal Audit.. Presently, Richard is the Chair of the National Thought Leadership Committee and a Certified Trainer for the Institute of Internal Auditors. Richard is also a facilitator of the ERM course for the Institute of Corporate Directors, Directors Education Program.