

ERM – Enterprise Risk Management

Answering the Ultimate Question



Endeavor Management

950 Echo Lane
Suite 200
Houston, Texas 77024

P + 713.877.8130
F + 281.598.8895
www.endeavormgmt.com

Endeavor

ERM – Enterprise Risk Management

Overview

It was a typical Board of Directors meeting. The next agenda item was the audit committee report. At the end of their report the audit chair addressed a question to the CEO. “What is your risk profile and how are you reducing that risk over time?”

The audit committee was aware of the company’s business risk efforts in supply and trading, capital, markets, and insurance, so at the insistence of the Chairman the executive began to find answers for the next meeting. They concluded the audit chair was interested in operational risk and compliance risk. After months of effort and many “dry runs” a report emerged.

At the next meeting they made the presentation. They described all the ongoing risk management efforts including items such as: updated safety standards, process safety programs like Mechanical Integrity, operator training, maintenance certifications, and Emergency Response Procedures.

Heads nodded in the room with this excellent presentation of the major efforts that were in place to minimize risk. When the presentation ended, there was only one question from the audit committee chair: “I am gratified that you have all the necessary programs and systems in place. Now with all of that in place...what is your risk profile and how are you reducing that risk over time?”

Afterwards, the frustrated executive team checked with the board chairman. What does the audit chair want? The chairman replied, “answer the question”.

It is not surprising, in a complex organization, that “the question” was hard for the executive team to answer. The organization had prioritized safety and environmental performance, and routinely monitored the health of the programs through metrics. Where opportunities surfaced, they invested considerable resources into programs to prevent repeat incidents. They had “done the job”; what else could there be?

Somewhere along the way, they lost sight of the big picture - the focus shifted from managing risk to managing programs and projects.

ERM – Enterprise Risk Management

This is a very common occurrence. As organizations grow and become more complex, not only does the risk grow but it also camouflages itself. The risk embeds itself within the organization and makes it very difficult to address at a system-wide level. There are four areas of complexity that make it difficult to systematically address risk.

4 Areas of Complexity

1. **Organizational** – As information is communicated up through the organization it is necessarily summarized to cover all areas of business focus in the allotted time. There is not any intent to mask key information; it simply gets hidden amongst more immediate priorities. Management naturally focuses on the immediate, frequent and easily solvable and can become comfortable with their success.
2. **Management System** – As the organization grows, so does the complexity of its Management System. Growth increases the potential points of failure, and the frequent solution to incidents, audit findings and inspection is to write a new standard or procedure.
3. **Metrics** – Metrics have grown in complexity over the past decade. From simple incident rates to near misses. All these measure past events. Steering the car by looking in the rear-view mirror. These are essential in monitoring the effective implementation of key programs, but which ones are truly predictive of reduced risk?
4. **Time** – Who has the time? Most employees, professionals and managers are 100% loaded. Staff growth usually lags complexity growth without a concerted effort at simplification. This leads to self-prioritization on the most immediate responsibilities, then when there is time the most important. Without a sustained Enterprise Resource Management effort risk identification and resolution suffers.

ERM – Enterprise Risk Management

Installing a Comprehensive ERM Program

An effective way to mitigate this is through a comprehensive Enterprise Resource Management (ERM) program. An effective ERM program should calibrate disparate risks across the organization, clearly present priority risks, routinely track risk reduction efforts and support risk reduction resource prioritization. Risk reduction is an ongoing process so the ERM process must be a sustainable part of the organization.

- Does an executive level committee support ERM Activities?
- Are results and activities routinely communicated to the C-Suite and or Board of Directors?
- Are ERM results routine integrated into planning, budget, compliance and business functions?
- Does accountability for risk reduction rest with the business unit executives?
- Is there an ERM Committee comprised of business unit leaders?
- Is there a process to adjust the organizations risk tolerance to assure continued alignment with organizational changes and priorities?

Taking Action

We can help you get a handle on your risk. The right consultant is one who recognizes each company's ERM must be a customized fit to the organization's structure, culture and risk tolerance, and in this case must generate a result that could simply "answer the question."

An effective ERM effort is a process of simplification. The greater and organization's complexity the greater the likelihood that organizational and operational risk may be masked. Through simplification the ERM process and other key management systems you can achieve more consistent identification and prioritization and resolution of unacceptable risks and "answer the question".

ERM – Enterprise Risk Management

About Endeavor Management

Endeavor Management is a management consulting firm that leads clients to achieve real value from their strategic transformational initiatives. We serve as a catalyst by providing the energy to maintain the dual perspective of running the business while changing the business through the application of key leadership principles and business strategy.

In 2012, Gelb Consulting became an Endeavor Management Company. Our combined experience (Gelb founded in 1965) offers clients unique capabilities to focus their strategic initiatives with a thorough understanding of customer needs to drive marketing strategies, build trusted brands, deliver exceptional customer experiences and launch new products. Our experienced consultants and analysts use advanced marketing research techniques to identify customer needs and spot high potential market opportunities.

The firm's 50-year heritage has produced a substantial portfolio of proven methodologies, enabling Endeavor consultants to deliver top-tier transformational strategies, operational excellence, organizational change management, leadership development and decision support. Endeavor's deep operational insight and broad industry experience enables our team to quickly understand the dynamics of client companies and markets.

Endeavor strives to collaborate effectively at all levels of the client organization to deliver targeted outcomes and achieve real results. Our collaborative approach also enables clients to build capabilities within their own organizations to sustain enduring relationships.