



Muse

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Enterprise Risk Management - A Sound Strategy for the Recovery

With the economic outlook in the United States beginning to brighten, now represents a valuable opportunity for organizations to evaluate their stance on risk management

The economic turmoil of the past few years and the difficulties that some organizations have faced can be greatly attributed to misjudging risk or not having sufficient risk management procedures in place. Implementing an Enterprise Risk Management (ERM) program can help to more holistically define what risks your organization may be facing. Additionally, once the risks have been defined, you can then associate risks with the strategic objectives of your organization to align controls that will be complementary to the pursuit of your mission.

In today's increased regulatory environment, there is more emphasis on transparency, but also more attention on your control environment. There is greater scrutiny on the policies and procedures that your organization has in place, and ERM can help to address and better define these procedures.

While an ERM system is not required for not-for-profit organizations, it is considered a best practice to encourage the development of a proactive risk environment and a clear and consistent risk strategy across your organization.

What is ERM?

ERM represents an evolution from operational and business risk management, by evaluating all processes and departments and taking a much broader view of the risks that are apparent to your organization. It is an organization-wide initiative impacting all levels of management and all departments. Risk can impact different areas of your organization in a variety of ways. With that in mind, ERM helps to identify, measure, mitigate and monitor risks so that you and the board of directors can make more informed decisions.

This process can be very beneficial for many not-for-profit organizations, helping to identify the organization's risk appetite, align strategic objectives with risk tolerance, maximize efficiencies through risk analysis and minimize operational expenses and losses. Other benefits include more strategic training and allocation of resources as well as creating a more conducive regulatory environment.

ERM is an ongoing process, and there are several internal and external factors which can impact its scope or focus such as the economy, expansion of services, or changes to your organizational structure. Your ERM strategy can and should evolve along with your organization.

Getting started with ERM

Often, the biggest challenge associated with ERM is getting started. ERM is not a checklist for risk, it is a cultural change that involves bringing risk more to the forefront and making it a part of the strategic thought process. Two integral factors in establishing ERM are setting a successful tone from the top and determining your risk appetite. Tone from the top is the overall organizational direction set forth by the board of directors and senior management for the entire organization. This includes identifying risks and mitigating entity level controls that affect the entire organization, such as a code of conduct, policies and procedures and training guidelines. Communication is also important, as buy in from all levels and knowledge of objectives is critical to the success of an ERM program.

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Before establishing an ERM framework, you also have to consider your risk appetite and how it aligns with the mission of your organization. This is important because some organizations are more aggressive toward risk, while others tend to be more conservative and cautious. You want to make sure that your ERM system does not leave you under, or over exposed to risk.

Your ERM system analyzes the threats to your organization depending on impact and probability, according to your risk appetite. Those events that are deemed unlikely and low impact will not receive as high a level of attention as those that will likely come to fruition and could have a harmful impact on the organization. This helps to determine where your organization directs your energy and focus in terms of addressing and mitigating risk.

ERM framework

A key for successful ERM implementation is to find a methodology that fits with the goals and mission of your organization and implementing it consistently and successfully over time. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework is widely used as the basis for implementing ERM, but other methodologies are also utilized depending on the needs of your organization.

As an example, the COSO framework identifies four critical risk areas of your organization: strategic, operations, reporting and compliance. For each of those areas, eight layers are evaluated to help build a platform for measuring and evaluating risk:

- Internal environment – The foundation of ERM, defining your risk management culture
- Objective setting – Aligning organizational objectives with strategy and risk appetite
- Event identification – Identifying external opportunities and threats
- Risk assessment – Identifying the impact and probability of risks
- Risk response – Assigning strategic actions to address risks; several potential actions ranging from evading a specific risk to exploiting it
- Control activities – Policies and procedures
- Information & Communication – Strategy for communication throughout the organization
- Monitoring – Actions for monitoring and remediation of the risks that are important to your organization

An organization will never be able to fully eliminate risk, but with the right controls in place, you can more effectively take advantage of risks that may present opportunities and avoid those that could adversely affect your operations. Implementing an ERM system could help your organization to create a more proactive atmosphere to successfully identify and address risk.

For more information and benefits of ERM for not-for-profit organizations, view a [recent webinar](#) featuring RSM McGladrey Managing Directors [John Brackett](#) and [Dan Whelan](#) and Manager [Keri Venkatesan](#) at