

© 2020. Association of Government Accountants. Reprinted with permission. All rights reserved.

Journal

OF GOVERNMENT FINANCIAL MANAGEMENT® SUMMER 2020 VOL. 69, NO. 2

*Leaning in on
Technology*



An Unmodified Opinion

Discover the Upside of Risk

By Kate Sylvis, Idalia Moore, Thomas Holland and David Fisher

Before the COVID-19 pandemic forced government agencies to quickly alter the way they work, pressures of expanded missions, taxpayer and lawmaker expectations, multifaceted operations, rapid communications, big data, the internet of things, and a shrinking workforce were already becoming burdensome. Present times demand leader readiness to respond to emerging risks with new approaches and technologies to improve operations.

Senior agency leaders are primarily responsible for ensuring an organization meets its mission. In the federal government, those in Senior Executive Service positions must demonstrate certain core competencies, or Executive Core Qualifications. Also applicable to leaders at other levels of government service today, one essential qualification is the ability to lead organizational change with resilience, strategic thinking and innovation to help the agency meet its goals.¹ In cases where traditional methods have proven unsuccessful, change may be needed, and leaders may need to implement innovative risk responses to protect the agency from systemic and/or emerging risks. Enterprise Risk Management (ERM) is a way to handle the uncertainty inherent in innovation; to manage change, which may include improving critical business processes and programs; and to protect the mission.

As the federal government collectively moves toward modernization, along with a number of state and local governments, ERM capabilities can

help clarify goals, identify opportunities to innovate, and assist in calculated risk-taking (within risk appetite) to execute strategy. ERM also requires agencies to examine their entire risk landscape to grasp how risk is changing their operating model. Leaders may then determine whether an innovative solution would be appropriate to help restructure it.

Pursuing initiatives toward change requires an iterative approach. For this reason, management should not only monitor the performance of initiatives, but also be prepared to miss performance targets before achieving them. ERM will help leaders prepare their employees for possible disruptions in their daily duties and foster the cultural change required to embrace the new.

Foster a Culture of Innovation with a Risk-Based Approach

Many think risk management is designed to stop leadership from taking risks in pursuit of mission. Many also think risk management is a compliance activity that hinders organizational growth and causes missed opportunities from risk-averse behavior. However, such opinions are fallacies.

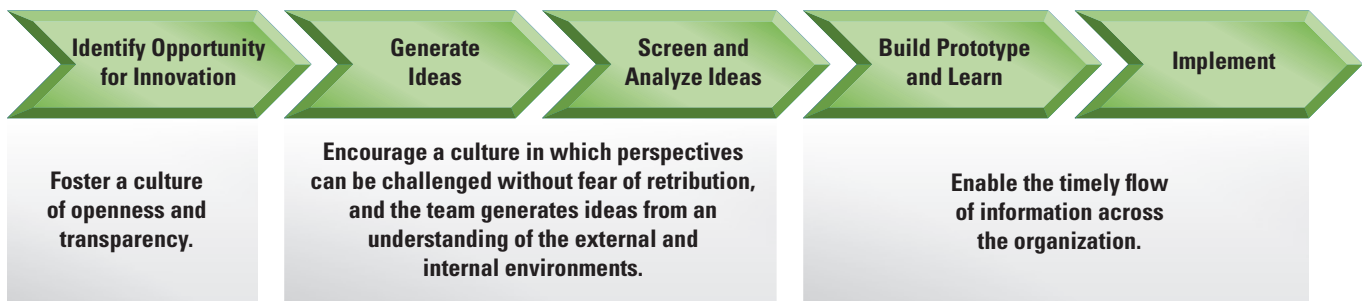
ERM is not an inhibitor of innovation; it is an enabler. Senior leaders may use ERM to:

- build a culture of openness and transparency.

- support the timely flow of information up, down and across an organization.
- encourage a culture in which perspectives may be challenged without fear of retribution.
- utilize risk appetite to determine which types of innovation hold acceptable risk.
- require personnel to examine the external and internal environments to generate new ideas.
- promote the implementation of innovative ideas with regulators and oversight bodies.

Shown in **Figure 1**, the ERM Practices model shows how leaders can cultivate a workforce ready for change. Opening and encouraging conversation on innovation to get employees involved in the process will help avoid surprise or shock when change occurs. For example, many federal agencies have opened innovation labs within their business units to encourage research, information sharing, and ideas on emerging risks and to find cutting edge solutions toward strategic goals. The labs serve as forums and hubs where employees may discuss and identify best practices and opportunities to innovate with less direction from the top, which inspires them to become more involved. Good governance of the labs, with formal monitoring and leaders who are open to new ideas, can shield employees who suggest new ways of doing things. Moreover, an agency innovation lab can easily satisfy the first and second stages of innovation in **Figure 1**.

Figure 1. Stages of Innovation in Common ERM Practices



ERM encourages leaders to assess and consider employee perspectives. It is especially useful in determining whether and how to execute a new strategy that may affect a substantial amount of their workforce or customer base, which is normally the case during change. Creating virtual feedback sessions, possibly in the form of targeted townhalls or focus groups, allows employees to provide routine input and feedback from their perspective on a new approach, before and after implementation. This action can satisfy the third and fourth stages of innovation, in **Figure 1**, and help personnel feel heard and involved in the process. It is a mechanism that permits more employees to offer feedback in a highly matrixed organization or one in which many employees work remotely.

Feedback received from employees during these virtual sessions may help leaders understand the risks in pursuing a new strategy by taking their viewpoint into consideration. Such information is

often not available to leaders, because employees are typically not invited to comment to superiors at the highest levels of an organization, yet these opinions will help leadership assess the feasibility of any alternatives presented by the frontline. Also, these virtual feedback sessions offer leaders a chance to communicate directly with their employees and thereby build the trust and confidence that is crucial in change management to avoid attrition and further disruption.

Understanding the integration of ERM with performance is critically important in innovation. Although targets may be missed and performance may not reach expected levels for a period of time, leaders should maintain real-time communication with employees as much as possible to assess whether the lull is a reflection of their performance, to acknowledge and empathize with their frustration during the transition, and to reiterate the strength of the organization during the change.

Examples of Using ERM Capabilities to Implement Innovation

The final stage of innovation is implementation. Agencies are looking for new ways to meet the needs of their constituents, despite ever-increasing resource constraints. Leaders can use ERM capabilities and practices to inform decisions on solutions. Some practical examples of agency ERM applications in these instances include:

- **Robotic process automation (RPA) to manage systemic risk.** A strategic goal of Agency X is to maintain operational effectiveness by making sure processes perform efficiently. After conducting the enterprise risk assessment, senior leaders discover many processes are subject to systemic errors. They review the internal assessment results provided by the CFO and find the errors are coming from several routine manual processes. They decide to mitigate the risk instead of accepting it,

because the significant dollar-value loss of the manual errors exceeds the agency's risk appetite. They implement RPA, which gives commands to other software systems like a human being but with significantly fewer errors. The RPA solution results in the automation of 75% of the manual processes and reduces errors by 93%, even though the original target was automating only 40% of manual processes to achieve a 90% error reduction rate. The employees formerly assigned to the manual processes were retrained to perform other tasks in critical but short-staffed areas.

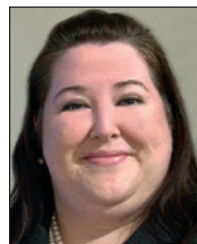
■ **Artificial intelligence (AI) to manage emerging risk.** Government agencies aim to deter fraud, waste and abuse. One federal agency is susceptible to fraudulent activity in its funds disbursements. External threat actors devise a scheme to steal electronically processed agency disbursements, resulting in multi-million-dollar losses, reputational harm, and congressional scrutiny. Senior leaders determine the theft is an enterprise level risk and conduct a risk assessment, which reveals that the fraud scheme — never before encountered by this agency — is a result of network cybersecurity issues. They opt to mitigate the risk, because the dollar-value loss and reputational harm exceed the agency's risk appetite. After discussions in various governance meetings, they form a task force of technical subject matter experts to choose the best course of action. The task force gathers feedback from other key internal stakeholders involved in the incident to determine possible root causes. When they find outdated cybersecurity software is one source of the problem, the task force recommends the purchase of AI technology to monitor the network for suspicious activity and block

dubious transactions with customized algorithms and logic. With leadership approval, they implement AI. The agency experiences no further successful network breaches, and AI correctly blocks 97% of detected suspicious transactions. The result exceeds expectations, because original target performance was set to less than 1% of successful data breaches and only 85% correctly blocked transactions.

ERM practices and capabilities can enrich the ability to lead organizational change. Partnership and consistent communication between leaders and frontline personnel is important to reduce attrition and maintain an engaged and invested workforce, vital to new initiatives. Leaders can also use ERM in managing change to achieve personal goals and demonstrate leadership skills. Highly versatile, the practice of ERM can help almost any organization create opportunities, foster innovation, execute strategy, and discover the upside of risk. ■

Endnote

1. See all Senior Executive Service core qualifications on the Office of Personnel Management website at www.opm.gov



Kate Sylvis, CPA, RIMS-CRMP-FED, is a director in the Guidehouse risk consulting practice, specialized in complex organizational, governance, operational, compliance, and risk management challenges coupled with high transparency and regulatory scrutiny. She served on the principal authorship team of the 2017 COSO ERM Framework Integrating with Strategy and Performance.



Idalia Moore, RIMS-CRMP-FED, is a senior associate at Guidehouse, providing ERM support to federal agencies. She also provided risk management, internal controls, and strategic planning support as a federal employee at the U.S. Department of Energy.



Thomas Holland, RIMS-CRMP-FED, is a director at Guidehouse, focused on helping federal agencies enable their missions through enhanced ERM. He serves on the Board of Directors for the Association for Federal ERM (AFERM) and also served as a principal contributor to the 2017 COSO ERM Framework Compendium of Examples.



*David Fisher, PMP, leads the Guidehouse risk consulting practice with a particular focus on assisting federal agencies to design, implement and fully operationalize ERM programs. With an extensive executive career across multiple federal agencies, he is author of the book, *Optimize Now (or else!): How to Leverage Processes and Information to Achieve Enterprise Optimization (and Avoid Enterprise Extinction)*.*