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The challenges of and solutions for implementing enterprise risk management

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Abstract Enterprise risk management (ERM) began to take root in the late 1990s and has since become generally recognized as an expectation of good management and corporate governance. However, as evidenced by surveys and research, many companies still struggle with ERM implementation. This article explores the challenges companies face when implementing ERM and offers solutions for firms struggling with the concepts and execution. We draw upon Hydro One's experience in achieving ERM maturity as a best practice case study. The company's ERM methods have been researched and documented extensively. With over 15 years of ERM success, Hydro One is an excellent organization to benchmark for ERM best practices.

1. The importance of enterprise risk management

Historically, risk management was viewed very narrowly and handled separately in silos. Under this fragmented view of risk, businesses focused on specific potential events that could be insured against (e.g., property, safety, health). In financial areas, the focus was on interest rate risk, currency risk, or commodity risk (Kloman, 2010). In the mid-1990s a number of publications began advocating to businesses that risk management should include all risks, not just specific ones that are easier to quantify, and that risks should be managed as a portfolio across the enterprise. Leading the way were the Australian/New Zealand Risk Management Standard 4360, Tillinghast-Towers Perrin, and the Conference Board of Canada. The Australian/New Zealand Risk Management Standard was first published in 1995 and the Canadian Standards Association (1997) soon followed with its version that added 'communication' and 'consultation' to the framework (CAN/CSA-Q850-97). The Australian/New Zealand Standard was then re-issued (Standards Australia/Standards New Zealand, 1999) with updates, including the Canadian additions.

The 1990s saw an increased emphasis on governance, risk, and control, with several important publications moving forward the concepts of governance and risk management. These included the Group of Thirty report (USA), CoCo (the criteria of control model developed by the Canadian

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Institute of Chartered Accountants), the Toronto Stock Exchange Dey report (Canada), and the Cadbury report (UK). During this period, many thought of enterprise risk management (ERM) as just another flavor-of-the-month management technique, especially since it was often consultants who pushed for it—with their guidance, of course.

ERM has come a long way since we began researching the topic at the beginning of this century. Much has been written about it and the concepts are now well enough entrenched that ERM is likely here to stay. Many misconceptions exist about ERM, however, such that someone starting on the implementation journey is likely to be confused. Furthermore, a number of additional drivers for ERM have emerged: rating agencies (particularly Standard and Poor's and Moody's, which include assessments of ERM in their methodologies); regulators; and, in the United States, the Committee of Sponsoring Organizations of the Treadway Commission (COSO), which in 2004 developed its own ERM framework, lending credibility to the concept of ERM among U.S. management and boards.

The credit crisis of 2008/2009 demonstrated that risk management was weak in many companies. As a result, financial regulators now promote ERM to help manage risks and to demonstrate that they are taking action. Given this momentum, one would expect that ERM would now be widely adopted, practiced, and entrenched. Unfortunately, however, the lack of progress has been disappointing. Recent surveys demonstrate that only about 25% of large organizations claim to have ERM in place (Beasley, Branson, & Hancock, 2015). Some organizations have tried and failed; some are still trying to get started; and many of those who start are struggling and doing only a partial job.

We use Hydro One's ERM practices from 2000 to 2013 as a case study throughout this article to draw on the company's experiences in achieving ERM maturity, and illustrate the process using various aspects of ISO 31000 (see International Standards Organization, 2009). With over 15 years of ERM success, Hydro One is an excellent organization to benchmark for ERM best practices. ERM methods at Hydro One have been investigated and documented in numerous academic and other publications (e.g., Aabo, Fraser, & Simkins, 2005; Mikes, 2010). We also draw on the experiences documented in our second book on ERM, *Implementing Enterprise Risk Management: Case Studies and Best Practices* (Fraser, Simkins, & Narvaez, 2014), and numerous interviews with active risk managers/executives. This article explores the struggles organizations face and offers some solutions. We proceed by explaining the challenges many organizations experience in attempting to implement ERM, as well as why this leads to frustration and failure or ineffective results. We then provide highlights of proven solutions and suggestions, referencing additional guidance materials to assist implementers of ERM.

2. The challenges

This section discusses challenges we have observed in companies trying to implement ERM. We have identified these challenges—including misconceptions, implementation challenges, corporate governance, and external challenges—through our own experience, research, analysis, and conversations with risk executives. The challenges represent obstacles to success.

2.1. Misconceptions

In our article *Ten Common Misconceptions about Enterprise Risk Management* (Fraser & Simkins, 2007), we described many of the misconceptions about ERM that were then limiting organizations' abilities to implement ERM. Based on our research to date, we do not believe that—in the last decade—much progress has been made in overcoming these issues.

2.2. Internal challenges

We next discuss eight internal challenges we have observed in implementing ERM. These are: (1) corporate culture, (2) boards of directors' knowledge, (3) not applying a KISS mindset, (4) training without having risk workshops, (5) identifying too many risks, (6) no timeframes, (7) not making ERM enjoyable or meaningful, and (8) not recognizing ERM as change management.

2.2.1. Corporate culture

Unfortunately, ERM will not work in all corporate cultures. Successful implementation of ERM depends on organizational willingness to be open, to share, and to develop teamwork among the board of directors, senior management, and staff. Much of Hydro One's ERM success was due to the firm's openness and desire for transparency on the part of various chairs, CEOs, and senior management over the years. More research is needed regarding how corporate culture affects ERM. We would postulate that a firm's chances of success with ERM are directly proportional to its cultural capacity for openness, transparency, and teamwork.