TALENT DEVELOPMENT’S GUIDE TO RISK ASSESSMENT

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Risk is everywhere, but how we respond to it says a lot about our personalities. We encounter all kinds of risk in our daily lives—when we’re traveling, in the course of our jobs, or when we’re starting a business, investing money, purchasing a home, or even having children (some people might say especially when having children). We are all, instinctively, risk managers throughout our lives, and we do not even realize it. We choose to avoid, mitigate, transfer, share, or assume the risk—but most important, we identify the risk.

Entrepreneurs tend to be risk takers by instigating business startups and investing their money or time when there is no guarantee of a return. When organizations decide they cannot afford the potential consequences of the risk, they transfer it by purchasing insurance. All organizations face risk. How much depends on leaders and their appetite for potential peril; that appetite ties into the strategic goals and vision of their organization. When considering risk, companies and their leaders must consider the potential consequence and likelihood of the event happening.

As talent development professionals, we are—to a greater and greater degree—being called upon to make sure our recommended solutions are in line with the organization’s strategic goals and vision. To do this effectively, one of the things we must consider is where our solutions will get the biggest bang for their buck. Being part of the risk assessment process can shed light on that. We need to not only be cognizant of regulations that employees must comply with but also consider the potential downside of not complying with these standards—whether that is employee or customer safety or their effects on the organization’s image. Is this training course critical because an event is likely to occur? Or because, if it does occur, the company could face dire consequences?

To create a culture of appropriate risk management, we must recruit employees who will:

• Understand and accept the need to comply with regulations.

• Train and educate staff about compliance.

• Help ensure that managers lead by example and have an open-door policy that welcomes employee conversations about compliance.

• Work to communicate the importance of identifying and managing risk.

• Work with senior leaders to align appropriate enterprise risk solutions with organizational goals.

This issue of TD at Work:

• explains what organizational risk is, and why we should care

• provides an overview of enterprise risk management (ERM)

• lists essential elements of an ERM program

• shows you how to conduct an ERM maturity assessment

• outlines how talent development practitioners can create solutions to mitigate risk.

WHAT ORGANIZATIONAL RISK MEANS

Industry, in general, is regulated by laws, statutes, and standards—with some being more heavily regulated than others—that are intended to protect employees, customers, and visitors. For instance, healthcare is heavily regulated to ensure patient safety; manufacturing to ensure employee safety; and banking to ensure economic stability. Regulations can be burdensome to management because they do not generate revenue, so it can be difficult to justify resources and demonstrate a return on investment to the governing board, which is responsible for overseeing organizational risk.

How do we leverage internal resources to minimize fines and penalties related to the noncompliance of laws and regulations? It’s a question that should be front and center in the talent development professionals’ minds. Indeed, an organization with a mature risk culture has that question in the forefront of everyone’s minds.

As Jonathan Trevor writes in a 2018 Harvard Business Review article, no longer is it up to just senior leaders to think about the company and how it’s building capacity for the future. So, who should be responsible for ensuring your company is as strategically aligned as it can be? The answer
should not be the CEO, chairman, or an equivalent role. The job of aligning the modern corporation is too complex to be added to the slate of someone whose job it is to consider hundreds of other things, no matter how talented or powerful that person is. Thus, it is up to everyone to identify and manage risks to business operations; risk management training and creating a culture of speaking up about risks is critical for all organizations today.

While every organization has a certain amount of risk, how an organization responds to risk can differentiate it from its competitors. Risk has many definitions, but for the purposes of this issue of TD at Work, we will define risk as a probability or threat of damage, injury, liability, loss, or any other negative occurrence caused by external or internal vulnerabilities that may be avoided through preemptive action. Traditionally, organizations have focused on traditional risks such as “hazards,” but for continuous performance improvement, we need to adopt a systematic process for identifying new and emerging risks by utilizing key performance indicators.

For continuous performance improvement, we need to look more broadly than beyond our own department or team, to the enterprise level. Let’s look at what that means in terms of risk and risk management.

**WHILE EVERY ORGANIZATION HAS A CERTAIN AMOUNT OF RISK, HOW AN ORGANIZATION RESPONDS TO RISK CAN DIFFERENTIATE IT FROM ITS COMPETITORS.**

**Types of Risk**

When we’re looking at the risks that organizations generally face in their day-to-day operations, we’re generally talking about:

- Financial: loss of program funds and resources
- Process: the risks associated with misaligned processes to achieve business objectives
- Intangible: damage to reputation and brand, as well as lost information
- Time: delays, opportunity cost, or mission loss
- Human: loss of knowledge, skills, and commitment of people
- Legal: harm resulting from governmental, federal, and local regulations
- Physical: loss of land, buildings, and equipment.

In this publication, we will look at the benefits of implementing an enterprise risk management program in various industries, including healthcare, manufacturing, finance, insurance, not-for-profit, and information technology. I’ll present case studies relating to patient safety, employee safety, money laundering, workers’ compensation fraud, grant fraud, and ransomware attacks.

**Why We Need to Be Aware of Risk**

Leaders of an organization are responsible for identifying risk within their areas of program responsibility. Leaders are the risk owners because they are the ones with the most knowledge and awareness on how to address risks.

The Sarbanes-Oxley Act, a U.S. federal statute enacted in 2002 in the aftermath of the Enron scandal, sought to increase public confidence in public companies through stricter corporate governance. Within individual organizations, the law led to a scrutiny of practices and culture.

Apart from necessary compliance training to meet federal regulations, including Sarbanes-Oxley, an organization should look at risks and the likelihood that those risks, should they come to fruition, will do grave damage.

Being aware of potential risk is an important early step in risk management because in many instances, actions can be taken to reduce the likelihood of incidence. For example, manufacturing employees can implement proper procedures to keep their plant as safe as possible. Computer users in all industries can be heedful of malware and refrain from opening suspicious emails, maintaining the safety of customers’ financial or other personal data.
WHAT IS ENTERPRISE RISK MANAGEMENT?

According to the U.S. Government Accountability Office, ERM is a forward-looking management approach that enables organizations, through an integrated approach, to assess threats and opportunities that could affect the achievement of their goals.

The Committee of Sponsoring Organizations of the Treadway Commission (2017)—a joint initiative of five private-sector organizations “dedicated to providing thought leadership through the development of comprehensive frameworks and guidance on internal control, enterprise risk management, and fraud deterrence”—defines ERM as a process, put in place by an organization’s board of directors, management, and others, designed to identify and manage the spectrum of risks an organization faces so that it can be reasonably assured of achieving its objectives.

Benefits of an ERM

While there are many different enterprise risk frameworks, the benefits of implementing an ERM program with routine risk assessments include:

- improving organizational decision making and financials
- taking risk into consideration when making business decisions
- managing all risk across the organization
- assessing risk consistently across the organization.

ERM focuses on results-based risk assessments and performance measurement across the organization, thereby depending on organizational leadership to provide insight on risk identification and assessments. It is up to the talent development team to work with leadership and L&D to approach risk through a strategic lens.

Before an organization can implement an ERM program, it should conduct an ERM maturity assessment to establish the baseline for the organization’s current state of risk management.

ERM Maturity Assessment

The Chartered Global Management Accountant (2012), a worldwide management accounting designation, created an ERM assessment tool for senior management and the board of directors to assess the effectiveness of their ERM program (there are several other, similar tools). Talent development practitioners, too, can use this tool or a similar one to plan their programs with a more strategic eye.

The assessment measures organizational maturity of the essential elements of an ERM program based on eight characteristics:

- integration with strategic planning

ESSENTIAL ELEMENTS OF ENTERPRISE RISK MANAGEMENT

Adapted from Government Accountability Office (2016).