ACHIEVING GREATER VALUE THROUGH RISK MANAGEMENT

FOUR CONSIDERATIONS FOR US FEDERAL AGENCIES

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• The risk management imperative in the public sector
• Opportunities for strengthening risk management programs in federal agencies
  − Boost responsibility and governance
  − Make risk assessments count
  − Align with the agency strategy
  − Enhance value from capabilities
• The potential for invigorating risk management at the core of government
Fiscal constraints and an increasingly complex risk environment are challenging the federal government’s ability to craft effective policies, deliver services efficiently, and provide value for money. Robust risk analyses are essential for guiding high-level policy decisions and supporting execution. By reinforcing current risk management efforts with strategic and targeted best practices used by other governments and private-sector companies, federal departments and agencies can derive greater value from their program investments and strengthen mission performance.

THE RISK MANAGEMENT IMPERATIVE IN THE PUBLIC SECTOR

“Robust risk management practices can help strengthen governance, sharpen strategic decision making, and improve operational performance. In this way, departments and agencies can better demonstrate accountability, anticipate possible crises, and enhance performance.”

Risk is unavoidable in developing and executing federal programs. The goal instead is to manage exposure to risk effectively. Risk management is fundamental to the government’s core mission to ensure the well-being of the nation. This requires the effective management of uncertainty: reducing the downside impact of challenges facing the country, while taking advantage of upside opportunities. Risk management is therefore critical to the prudent operation of government departments and agencies as they create policy, deliver services, and spend taxpayer dollars wisely.

As is widely known from public reporting and program evaluations, the failure to manage risks effectively can have multiple negative consequences. These consequences might be safety- and security-related (loss of life and destruction of assets), financial (wasted expenditures and a drag on economic growth), societal (decline in public welfare and civil unrest), environmental (biodiversity loss and ecosystem collapse), and geopolitical (deterioration in international relations and a decline in global influence). Repeated failures can lead to a loss of public trust in government in general and in those leaders responsible for the failures.
Robust risk management practices can help strengthen governance, sharpen strategic decision making, and improve operational performance. In this way, departments and agencies can better demonstrate accountability, anticipate possible crises, and enhance performance.

- **Demonstrate accountability**: Generating transparency about the risks faced helps to ensure that key impediments to success do not slip below the radar of government leaders and those tasked with advising them. A clear delineation of priorities and trade-offs (between different types of action or levels of expenditure) may stimulate wise decision making, innovative solutions, and improved learning from experience.

- **Anticipate potential crises**: The rigorous exploration of exposures and vulnerabilities should stimulate efforts to reduce the likelihood – and soften the impact – of unexpected events and developments. This includes measures to achieve up-front resilience and a high level of preparedness. In this way, pre-agreed protocols can be enacted in the event of a disaster, resulting in smoother cooperation between agencies and faster mobilization of private-sector resources. This helps to maintain the integrity of the critical infrastructure, systems, and programs on which governmental and nongovernmental stakeholders rely.

- **Enhance performance**: Building risk analytics into planning activities improves program design choices and makes for more realistic budgeting. By anticipating and addressing potential issues, continuous risk management during the delivery phase reduces the likelihood of unexpected cost overruns, contingency expenditures, program changes, and implementation delays. The mission is delivered more efficiently, and the reputation of the department or agency is strengthened.

The huge span and complexity of government call for a layered approach to risk management responsibilities across institutions (see Exhibit 1). Government-wide entities such as the Office of Management and Budget (OMB) and the Government Accountability Office (GAO) play a critical role in setting the tone for risk management in the public sector. Additionally, the Department of Homeland Security (DHS) exercises a different type of leadership role with respect to strategic national risks and threats. But individual departments and agencies also have an opportunity to ensure high performance and enhance budgetary discipline by developing broad-based capabilities for managing the risks associated with their mission. In addition, each major program or investment project needs its own risk management infrastructure to ensure successful delivery within each department or agency.

### Exhibit 1: Core risk management responsibilities within federal government

<table>
<thead>
<tr>
<th>Government-wide</th>
<th>Department/agency</th>
<th>Program/project</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Link risk management priorities to strategic national challenges, priorities, and emerging trends</td>
<td>- Determine the drivers of mission uncertainty</td>
<td>- Optimize risk-return trade-offs to achieve best value in line with defined risk appetite</td>
</tr>
<tr>
<td>- Establish an overarching risk philosophy and imperative</td>
<td>- Secure a portfolio or aggregate view of key risk exposures faced by the organization</td>
<td>- Avoid unintended consequences of strategic choices</td>
</tr>
<tr>
<td>- Set standards for risk management and evaluate the efficacy of implementation</td>
<td>- Articulate the organization’s risk appetite and risk strategy</td>
<td>- Assess delivery challenges and avoid execution failures</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Control costs and liabilities</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Manage risks associated with external partnering, including delivery by third parties</td>
</tr>
</tbody>
</table>

Source: Oliver Wyman
OPPORTUNITIES FOR STRENGTHENING RISK MANAGEMENT PROGRAMS IN FEDERAL AGENCIES

“Risk management programs that truly support the objectives of departments and agencies are well integrated with the core mission of those bodies and are anchored in initiatives with specific goals.”

Risk management efforts within government take place against a backdrop of strong fiscal constraints and an effort by the White House to enhance efficiency and effectiveness in public-sector agencies by clarifying priorities and providing greater visibility into expenditures. Budget constraints imperil investments in risk management. At the same time, those budgetary constraints also underscore the argument that effective risk management helps agencies to achieve their goals and avoid costly mistakes. However, the fact that agencies have considerable freedom with respect to following guidelines on risk from OMB and the GAO inevitably leads to multiple approaches to risk management and varying results. This lack of certainty in direction is compounded by age-old institutional barriers such as political pressures, procedural complexity, and the challenge of achieving cooperation between departments with different objectives and priorities.

Many agencies can secure greater effectiveness from their risk management efforts, whatever their mission and capabilities. Risk management programs that truly support the objectives of departments and agencies are well integrated with the core mission of those bodies and are anchored in initiatives with specific goals. Those that simply follow a routinized set of procedures tend to lack traction at all levels of the organization and generate significant added cost while providing limited strategic benefits. In our view, many US public-sector bodies (both federal and non-federal alike) could strengthen the delivery of their mission, and thus key programs and projects, by enhancing risk management in four key areas: ownership, assessment, strategy, and capabilities (see Exhibit 2).
1. BOOST RISK RESPONSIBILITY AND GOVERNANCE TO DEEPEN ORGANIZATIONAL AWARENESS OF RISKS AND CONTINUOUS PARTICIPATION IN SOLUTIONS

Effective risk management calls for sponsorship from the top. This is essential for ensuring the integration of risk management into core processes such as strategy planning, budget allocation, and resource deployment. It is also critical for instilling a risk-mindful culture throughout the organization, from the leadership team to middle management, and then to front-line personnel.

A senior individual must have explicit responsibility for the incorporation of risk thinking into planning processes, investment decisions, program implementation, and daily behaviors. This role, which often assumes the form of a chief risk officer (CRO), should report to the head or deputy head of the agency. The role of the CRO must be a dedicated position standing outside programs or business units so as to be able to take an objective view. The CRO should be able to challenge high-risk initiatives and to check that appropriate mitigation efforts are in place to address key vulnerabilities. This individual must have a comprehensive perspective on the key risks facing the agency and ensure that attention is paid to those risks that are trending upward and are threatening the organization’s mission or reputation. He or she will also play a key role in the event of a crisis.

A panel composed of individuals selected from senior management can provide valuable support for the CRO and agency leadership by periodically discussing changes in the risk environment, the efficacy of risk management initiatives, and risk-return trade-offs with respect to potential strategic developments. While decision making authority may not lie in the panel (but in the individuals that sit on it), a dedicated forum is a useful platform for instilling risk consciousness in senior managers, applying collective wisdom, and providing a consolidated risk perspective on departmental challenges and opportunities. External experts can support the panel with new research and insights on critical topics.
Risk thinking must percolate through the entire organization. A robust and pervasive risk culture raises awareness of risks and improves an agency’s ability to respond to them. Clear policies and procedures on key issues are essential. But a strong risk culture goes beyond good conduct and compliance – it is integral to the core values of the organization. Risk management is part of “how we do things” rather than a bolt-on burden. Forums that enable frontline staff to raise risk-related strategic or operational concerns with senior management are helpful, as is direct communication between management and the front lines about risk priorities and how to address them. A strong risk culture exists when agency personnel show initiative by anticipating potential problems, generating new risk management ideas, and showing good judgment in striking the right balance between risk taking and risk reduction (see Exhibit 3).

Exhibit 3: Components of risk culture

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk awareness and discipline</td>
<td>Enhanced performance</td>
</tr>
<tr>
<td>Bottom-up generation of risk mitigation opportunities</td>
<td></td>
</tr>
<tr>
<td>Exercise of risk-return judgment</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Foundations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Skills, capabilities, and training</td>
</tr>
<tr>
<td>Incentives</td>
</tr>
<tr>
<td>Organizational design and governance</td>
</tr>
<tr>
<td>Individual and team behavior</td>
</tr>
<tr>
<td>Leadership and tone from the top</td>
</tr>
<tr>
<td>Management systems and processes</td>
</tr>
</tbody>
</table>

Source: Oliver Wyman

2. MAKE RISK ASSESSMENTS COUNT BY FOCUSING ATTENTION ON UNDESIRABLE OUTCOMES AND THE RISKS THAT MOST THREATEN THE AGENCY’S MISSION

Risk management programs lack traction where senior management attention is dissipated across a multitude of risks. Two approaches can prevent this. First, define situations and outcomes that would be unacceptable to agency stakeholders (be they within government or the nation at large). Second, identify and analyze the drivers of uncertainty that most materially affect the agency’s ability to deliver against its mission.

By addressing five key questions, agencies can determine what is tolerable with respect to performance variation and the impact of shock events (see Exhibit 4). Unacceptable situations are eventualities that would expose the organization to severe censure from the oversight community and can be specified with respect to the achievement of strategic goals, the maintenance of operating standards, and prudent budget expenditure. Tolerances and risk appetite should also align with the agency’s core values. In a few short pages, a “risk appetite statement” can present tolerances for risk-taking activities and behaviors, providing evidence to external
stakeholders of a deliberative process that has balanced risk, cost, and benefit in a resource-constrained environment. In the context of a high-level risk reporting framework, the deployment of select lagging and leading indicators enables agency leaders to monitor changes in the organization’s risk profile and to assess performance against predefined thresholds of permissible variation.

Lengthy “risk registers” can quickly become unwieldy and unusable for strategic or day-to-day risk management. For many organizations, focusing on the top 10 to 15 risks yields the greatest benefit. In considering the vulnerability of the agency’s mission (and, indeed, the red lines in the risk appetite statement), it is important to bring together unintended outcomes of strategic choices, steady-state drags on performance, potential sudden-onset events, and emerging risks that may take many years to crystallize. Their likelihood and impact should be considered not only under a base-case scenario but also under a likely worst-case scenario.

Assessment exercises need to analyze the causes of each risk and identify where its materialization would be felt, recognizing economic, social, and other impacts. In this way, agencies can understand any correlation between risks and capture spill-over consequences in their assessments. Undertaking the exercise consistently across key programs and projects is important for capturing a portfolio view of risk across the agency, enabling trade-offs to be made where required, and planning response initiatives. While some top risks exist at an agency level, others are aggregations of risks deemed critical at a lower level.

Exhibit 4: Key questions for setting risk appetite

1. What risks do we want to take?
2. How much added risk can we afford?
3. What risks will we not accept?
4. How much variance from budget is acceptable in a given year?
5. What is the cost versus the benefit of reducing (or adding) risk?

Source: Oliver Wyman
3. ALIGN RISK MANAGEMENT WITH THE AGENCY’S STRATEGY BY EXPLICITLY ADDRESSING UNCERTAINTIES AND INVESTING IN INITIATIVES THAT HAVE CLEAR VALUE

Good strategies are deeply informed and safeguarded by risk analytics and the agency’s risk appetite. In evaluating initiatives and expenditures, it is essential to ask “what if” questions that alter the assumed levels of risk and thus affect the performance of programs and projects. For some major investments, it is critical to consider the implications of potential changes in the risk environment over a 10- or 20-year period, or even longer. The impact on public benefit and financial goals can be assessed through tools such as stress-testing, the analysis of competing hypotheses, scenario planning, and Monte Carlo simulations. Choice of tools may depend on the nature of the key risks, the nature of the commitment, and the analytical capabilities of the agency.

Assessing the impact of different mitigation options on potential variations to policies or programs helps to identify which approach offers the greatest benefit for the least risk at an acceptable cost, bearing in mind pre-identified tolerance thresholds (see Exhibit 5). It provides a stronger analytical basis for senior management and political decision making. Good cost-benefit analyses not only assist with the evaluation of key management options, they also make transparent any residual, or even new, exposures. Outsourcing service delivery (and the associated risks) to the private sector, for example, does not eliminate the agency’s exposure, even if the initiative offers better value for money. It simply gives rise to new risks, some of which may be harder to control.

Understanding the risk profile of all major commitments (noting intrinsic variations between them and how the profile changes at different points in time) supports budget allocation and helps to identify the possible need for contingency funds. Indeed, when risk information is embedded into financial and operational performance reporting, agencies can exhibit agility and flexibility in responding to changing situations.

Additionally, a structured approach enables agencies to assess the value of risk management efforts as a whole rather than on a piecemeal basis. It encourages broad thinking about solutions – including actions such as policy redesign, new project management procedures, tighter control frameworks, a revised approach toward structuring supplier contracts, and managing demand expectations with the general public. It should result in targeted actions without creating overly restrictive policies or limiting upside opportunities. Ultimately, it may lead to an overall allocation of agency resources that is more efficient on a risk-adjusted basis and yields maximum benefit to the nation at large.

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**Exhibit 5: Risk responses and illustrative application**

<table>
<thead>
<tr>
<th>Response measure</th>
<th>Basic conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accept</td>
<td>• Benefits outweigh the potential downside in comparison with other strategic options</td>
</tr>
<tr>
<td>Mitigate</td>
<td>• Potential risk impacts are unacceptable and the benefits from reducing them warrant the cost</td>
</tr>
<tr>
<td>Transfer</td>
<td>• Liabilities are unacceptable and the cost of transferring the risk is affordable and offers value for money</td>
</tr>
<tr>
<td>Avoid</td>
<td>• Rewards for risk taking are minimal and there is limited value from mitigation or transfer opportunities</td>
</tr>
</tbody>
</table>

**Evaluation of Scheme X with selected risk measures**

- **Benefits**
- **Cost**
- **Risk mitigation**

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**Source**: Oliver Wyman

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4. **Enhance Value from Risk Management Capabilities by the Smart Use of Risk Data and Efficiently Leveraging Expertise Both Inside and Outside the Organization**

Without meaningful risk data, it is hard to assess risks confidently and deploy risk management efforts efficiently. Increasingly, many public-sector bodies struggle with a growing volume of data, which needs to be corralled and converted into metrics and insights that can drive risk-based decision making. The best risk-reporting frameworks are crafted on a top-down basis, thereby ensuring that data and analytics link to risk appetite monitoring, planning decisions, and performance management. Sometimes, where the right risk data do not exist, proxies may provide a suitable interim alternative. But where insight into vulnerabilities is lacking, it is important to invest in developing or acquiring the right data.

Good risk analysis resulting in reports that combine financial, operational, and goal-based metrics can quickly point senior managers toward the most impactful risk trends and help them understand the causes (see Exhibit 6). A combination of lagging and leading indicators can stimulate an adjustment of priorities in line with changing circumstances. Tracking too many indicators, on the other hand, can distract leaders from prioritizing mitigation efforts where they are most needed. A dashboard-style report can be particularly helpful.

**Exhibit 6: Risk reporting framework**

<table>
<thead>
<tr>
<th>Inputs</th>
<th>Detailed report</th>
<th>Summary report</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Data</strong></td>
<td>Status reports</td>
<td>Basic conditions</td>
</tr>
<tr>
<td>• Internal (from programs/functions)</td>
<td>• Aggregate impact by risk type</td>
<td>• Likelihood of achieving performance targets (strategic, financial, operational)</td>
</tr>
<tr>
<td>• External environment</td>
<td>• Impact on program/project performance (historic, forecast)</td>
<td>• Status versus risk appetite thresholds</td>
</tr>
<tr>
<td><strong>Analysis</strong></td>
<td>Commentary</td>
<td>Recommendations</td>
</tr>
<tr>
<td>• Link to baseline planning assumptions and performance metrics</td>
<td>• Key risers/fallers among top risks</td>
<td>• New strategic, financial, operational measures to be undertaken (if any)</td>
</tr>
<tr>
<td>• Assessment against potential scenarios (as required)</td>
<td>• New/rising risks outside the top risk group</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Oliver Wyman

Risk management will add most value when it is properly integrated into strategic and daily decision making. A risk appetite statement, for example, is only a piece of paper if it is not embedded through policies, procedures, decision limits, training, and communications. Where necessary, planning and investment decisions need to be adjusted to explicitly incorporate risk-based evaluations. Leadership team meetings need to accommodate an update on top risks. Risk management goals should be built into the performance objectives of personnel at all levels of the organization. These initiatives do not require huge complexity or effort. Indeed, supported by the right mandate from the top, a lean central Risk function can build capability across different functions and teams for the good of the entire organization. To do so effectively requires a clear definition of the expectations of risk management in the agency that takes into account historic incidents, future concerns, and the nature...
and complexity of the agency’s mission. This should determine issues such as the level of sophistication in risk analytics, the most suitable operating model for risk management, and optimal governance arrangements.

Finally, agency risk management systems often depend on the efficient engagement and coordination of external resources. In the spirit of networked governance, other public-sector agencies, private-sector contractors, or voluntary-sector bodies may be essential to monitoring risks, developing and implementing solutions, and supporting crisis management. Achieving successful partnerships and collaborations requires not only clear protocols that define expectations, but also interactions that are recognized as valuable by all parties. To ensure that mission is prioritized over jurisdiction in cross-agency interactions, it is critical to build relationships early. And it is important to understand where vital interests overlap, as a prelude to outlining opportunities for enhanced action. In terms of private-sector participation, clear strategic goals, regulatory stability, carefully scoped investment opportunities, and an appropriate sharing of risks will provide confidence and stimulate interest. Private-sector companies will resist risks being transferred to them where they perceive no gain and where they lack the levers to manage potential impacts.
A VIEW FROM THE OTHER SIDE: RISK MANAGEMENT AS A DIFFERENTIATOR IN THE PRIVATE SECTOR

Large corporations with complex business portfolios are finding that the quality of their enterprise risk management (ERM) program is starting to separate winners from losers in the eyes of investors, rating agencies, and companies with high supply-chain dependency.

- Recognition is growing among institutional investors that risk management delivers not only more stable returns but stronger ones as well. For example, risk management investment in the area of occupational health and safety has been estimated to provide, in addition to the benefits of protecting employees’ well-being, a return of $3 to $5 for every dollar invested. Asset managers seeking a high degree of certainty about company dividends are reluctant to invest in firms that have made only token risk management efforts.

- Rating agencies such as Standard and Poor’s (S&P) consider ERM effectiveness as part of their evaluation process. Recently, S&P evaluated the risk management programs of over 2,190 US companies and published the names of the top 125 they rated as “strong” and the bottom 64 they rated as “weak” as part of their credit review process.

- In many industries, large companies are increasingly concerned about the reliability of their supply chains. These businesses are refraining from entering into contracts with firms that cannot answer hard questions about their processes to manage operational and financial risk.

EXEMPLARY INITIATIVE: A LEADING INDUSTRIAL COMPANY ANALYZES KEY PLANNING UNCERTAINTIES TO IMPROVE STRATEGIC DECISION MAKING

A large industrial company recognized that a planned shift in its business portfolio toward traditionally non-core activities would result in much higher earnings uncertainty due to the different risk profile of the new ventures. This conflicted with another corporate imperative – improving financial performance through disciplined capital, portfolio, customer, and risk management.

The Chief Financial Officer led an exercise to evaluate the balance between the company’s willingness to take risks and its ability to do so. This involved building a tool that linked company risk assessments (including the impact of potential mitigation measures) to different planning scenarios and examining what was achievable, taking into account the company’s rating target and earnings-per-share expectations.

As a result of this work, the senior management team decided to concentrate on financial stability and refocus near-term investments on more stable, core activities in line with shareholder expectations. The exercise also resulted in improvements to the company’s performance management framework.

EXEMPLARY INITIATIVE: A LARGE PENSION FUND UPGRADES ITS RISK REPORTING TO STRENGTHEN GOVERNANCE AND PERFORMANCE MANAGEMENT

A large pension fund wanted to design a Board reporting package to support its risk oversight mandate and to streamline risk reporting for senior management to assist performance management. It was important for both groups to understand the fund’s risk exposures and risk management approaches, and also to see the potential impacts on financial performance of both risk events and failures in risk management processes.
For each stakeholder group, the company focused on three key questions: what type of risk information does the Board need to know; what level of detail is appropriate; and what is the optimal format? Drawing from these questions, risk reports were restructured to include a “quick glance” executive summary, dashboards for investment and non-investment risk, and appendices with more details if required.

The revised risk reports have sharpened senior-level focus on the key indicators, metrics, and trends that drive business performance. As a result, the Board and senior management are better able to focus resources on responding to key risks.

EXEMPLARY INITIATIVE: A PROFESSIONAL SERVICES FIRM BUILDS A CULTURE OF RISK MINDFULNESS TO REDUCE THE LIKELIHOOD OF DAMAGING INCIDENTS

A global professional services firm recognized that operational and behavioral failures could be extremely costly for the entire enterprise due to claims payouts and lost business as a consequence of reputational damage. As a result, the leadership launched a companywide initiative that aligned individual responsibilities and the collective good.

A code of conduct articulated the importance of the issue to the firm and set out the priority areas for action. This was accompanied by a corporate video on the firm’s values, which was shown in all offices, and a mandatory online training program that required participants to answer situational questions that proved they had digested the materials. Risk mindfulness was introduced as a criterion in the performance reviews of all personnel.

The initial campaign was followed up after 12 months with further online training that obliged participants to address workplace dilemmas and encouraged collaborative spirit in pre-empting potential incidents. Periodically, personnel are made aware of recurring issues to help them watch out for these.
TARGETED RISK MANAGEMENT – APPLICATION TO LARGE PROJECTS

Multimillion dollar projects, be they infrastructure or IT, are notorious for cost and time overruns that can result in taxpayer dissatisfaction and congressional inquiries. That is before anyone considers the knock-on impacts such as foregone economic gains or gaps in service provision. By developing greater transparency around the risks, thoroughly analyzing the levers available, and tracking mitigation efforts rigorously, it is possible to create savings on the order of 20% versus projects with less advanced approaches to risk management (see Exhibit 7).

Why do these projects go wrong? First, they are often planned in an environment where demand is not fixed and technology changes – over both the timeline of project delivery and the subsequent deployment of the outcome. Second, those who champion large projects in investment committees are often unaware of the technical risks involved, and in particular the interdependency between project work streams, which are vulnerable to major risks. Third, the reliance on external contractors for many large projects inevitably introduces information asymmetries and misaligned agenda. Fourth, engineers or technicians engaged in delivery have trouble making the case for risk reduction efforts because they cannot quantify the benefits of their suggested actions on the bottom line.

Three key opportunities exist for reducing the likelihood of unwelcome surprises:

1. **Taking a risk-adjusted view of all the project’s assumptions** (on the benefit side as well as the cost side) helps to ascertain where the most significant areas of uncertainty lie and assess the project’s value on a risk-adjusted return basis rather than on single base case net-present-value estimates. A better understanding of the likelihood that the project will meet budget – and the effect of low-probability/high-impact scenarios – can help inform choices between competing projects. The same understanding can guide design decisions and provide parameters as to when to pull the plug on projects already underway so as not to throw good money after bad.

2. **Designing a plan that has a high level of flexibility** means that costly delays can be avoided and unexpected opportunities can be exploited. This might involve decoupling project work streams or buying two sets of a key piece of equipment. While such actions may appear expensive on the face of it, they are much less costly and damaging than substantial delays.

3. **Developing an early warning system** focused on key points of vulnerability concentrates management’s attention on the risks that can cause greatest damage. Preparing detailed mitigation actions and contingency plans, backed up by a clear allocation of risk ownership and monitoring expectations, significantly lowers the likelihood of disruption.

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**Exhibit 7: Impact of mitigation efforts on project completion time and costs**

<table>
<thead>
<tr>
<th>Project Costs ($Billion)</th>
<th>Date of Completion (Years)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Baseline</strong></td>
<td>60% reduction in cost overruns</td>
</tr>
<tr>
<td><strong>Unmitigated simulation</strong></td>
<td>5% reduction in project costs</td>
</tr>
<tr>
<td><strong>Simulation with mitigated plan</strong></td>
<td>30% reduction in delays</td>
</tr>
<tr>
<td><strong>Projected completion</strong></td>
<td>20% reduction in time to completion</td>
</tr>
</tbody>
</table>

Source: Oliver Wyman
THE POTENTIAL FOR INVIGORATING RISK MANAGEMENT AT THE CORE OF GOVERNMENT

“There may be a stronger role than at present for cross-government bodies to refresh thinking on risk management and foster stronger coherence across the public sector.”

In today’s fast-moving world, dynamic approaches to risk management – those that are able to flex effort in accordance with changing circumstances – provide greater resilience than frameworks that are rigid and formulaic. Refocusing agency ambitions along these lines would result in more forward-looking risk reporting, greater integration of risk information in planning processes and performance management, more explicit risk-based trade-offs, and the development of more sustainable solutions. Agencies would be better able to anticipate upcoming challenges by quickly adjusting risk management priorities, efficiently reallocating budget, and mobilizing capabilities in new directions.

Arguably, agencies already have all the requisite know-how and can take on many of these opportunities by themselves. Nonetheless, there may still be a stronger role than at present for cross-government bodies to refresh thinking on risk management and foster stronger coherence across the public sector. This includes both raising standards and better connecting program-level risk management priorities to overarching policy goals. This is particularly important in areas like health, where priorities are implemented through multiple agencies with different areas of specialist expertise or delivery responsibility.

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To this end, there may be merit in four initiatives:

- Institute better two-way (or even multidirectional) flows between departmental risk assessments and the Strategic National Risk Assessment undertaken by DHS;
- Establish a stronger set of cross-government expectations for departmental and agency approaches to risk management that would encourage more advanced enterprise risk thinking and a commitment to opportunity capture as well as hazards-based risk reduction;
- Develop a review program based on those expectations to assess the quality of departmental and agency frameworks and the efficacy of their implementation, highlighting best practices, useful tools, and challenges faced;
- Promote stronger, and more cohesive, interagency collaboration on crosscutting risk issues that threaten the missions of multiple public-sector bodies.

Raising the bar for agencies, by being more explicit about future expectations, would help shift the focus from process to capability and results, thereby unlocking the true potential of risk management in the public-sector to enhance performance.
HOW FORWARD-THINKING IS YOUR APPROACH TO RISK MANAGEMENT?

EIGHT QUESTIONS FOR AGENCY LEADERS

1. Does the agency have a designated individual for driving the risk management agenda and ensuring risk analyses are embedded in key planning, investment, and operational decisions?

2. Are there clear platforms and mechanisms for enabling all personnel to contribute to risk management priorities in line with the agency’s values?

3. Has the agency clearly identified outcomes that would expose the organization to severe censure, and thresholds for acceptable variation in performance?

4. Does the agency quantify the potential impact of its top risks under different scenarios and bring the results together to form a portfolio view of risk for agency leaders?

5. Are risk analyses embedded in key planning and budgeting processes in a way that engenders solutions for programs and projects and achieves an appropriate equilibrium between benefits, risk, and cost?

6. Do key risk management initiatives enable senior managers to capture upside opportunities as well as mitigating downside risks appropriately?

7. Do agency leaders receive risk reports that highlight worrisome trends in a timely manner and spur adjustments to risk management efforts?

8. Are there effective processes and mechanisms for leveraging external capabilities to support risk management efforts in a cost-effective way?
OLIVER WYMAN STRATEGIC PARTNERSHIPS

The Oliver Wyman Global Risk Center is the firm’s research institute dedicated to analyzing increasingly complex risks that are reshaping industries, governments, and societies. Its mission is to assist decision makers in addressing those risks through research and insights that combine Oliver Wyman’s rigorous analytical approach to risk management with leading thinking from research partners.

The Center works with a range of partners versed in risk issues and engaged with the public sector. Our company is a founding contributing partner to the World Economic Forum’s Global Risks, an annual report that helps structure much of the WEF’s annual meeting of global political and economic leaders in Davos, Switzerland. The Global Risk Center also has partnered extensively with the OECD’s Public Governance and Territorial Development directorate, supporting research on the effective management of major threats faced by countries. In addition, the Global Risk Center has worked with the International Risk Governance Council to raise awareness of emerging risks and encourage the identification of risk governance deficits in governments and industry.

SELECTED PUBLICATIONS (OLIVER WYMAN AUTHORSHIP OR INVOLVEMENT)

**Unlocking the True Potential of Enterprise Risk Management**, Oliver Wyman, 2014

Importance of integration of ERM programs into strategic decision making and planning

**Getting Things Done**, Oliver Wyman, 2013

Guidelines for government delivery of projects on time and within budget

**Risk Journal Volume 3**, Oliver Wyman, 2013

Annual publication exploring emerging risks, industrial developments and their role in a new risk environment


Value of risk appetite statements and best practices in their development
Risk Communication: Aligning the Board and C-Suite, Oliver Wyman, NACD and AFP, 2014
Problems experienced by companies and solutions to generate better discussion and decision-making

Future Global Shocks: Improving Risk Governance, OECD, 2011
Impact of interconnectedness on likelihood and scope of disruptions

Annual report exploring leading risks for governments and companies with a 10-year time horizon

Preventing Future Catastrophes, IRGC, 2013
Governance principles for slow-developing emerging risks

Public Sector Governance of Emerging Risks, IRGC, 2013
Transferable lessons and guidelines for emerging risk management

The Emergence of Risks: Contributing Factors, IRGC, 2010
Examination of 12 contributing factors which are pertinent to emerging risks

Risk Governance: Balancing Risk and Reward, NACD, 2009
Blueprint for risk governance and oversight, with 10 risk oversight principles for directors

Risk Governance Deficits: Analysis, illustration and recommendations, IRGC, 2010
Identification and analysis of 20 deficits; recommendations on assessment and management

Risk Governance Deficits: An analysis and illustration of the most common deficits in risk governance, IRGC, 2009
Exploration of deficits in systemic risk management with global examples

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