

Launching Enterprise Risk Management in Your Agency



A Senior
Leadership
Workshop

 spy pond partners, llc



Gordon Proctor
& Associates



Starlis

Aug. 24-25, 2015

AASHTO
THE VOICE OF TRANSPORTATION

NCHRP 20-24 (105)



Welcome and Introduction

Tim Henkel



Host, Sponsors & Research Team



- Host
 - Tim Henkel, Assistant Commissioner - Minnesota Department of Transportation
- Sponsors
 - Matt Hardy, AASHTO
 - TRB, Andy Lemer
- Research Team
 - Gordon Proctor, Gordon Proctor & Associates (Co-PI)
 - Hyun-A Park, Spy Pond Partners, LLC (Co-PI)
 - Shobna Varma, Starlsis Corporation
 - Scott Richrath, Spy Pond Partners, LLC
 - Sarah Spicer, Spy Pond Partners, LLC

Workshop Objectives



- Forum to assist senior state DOT leaders to launch or enhance ERM programs
 - Begin to address uncertainty
- Share experiences and ideas on the various types of risk
 - How to delegate risk management to staff
 - How to assess and manage each type of risk
- Provide input to shape a “roadmap” assisting DOTs with training, tools, and guidance to launch or enhance ERM programs



“Well he certainly does a very thorough risk analysis.”

Workshop Background



EXECUTIVE STRATEGIES FOR RISK MANAGEMENT BY STATE DEPARTMENTS OF TRANSPORTATION

EXECUTIVE SUMMARY

Prepared for:

NCHRP 20-24
Administration of Highway and Transportation Agencies

Prepared by:

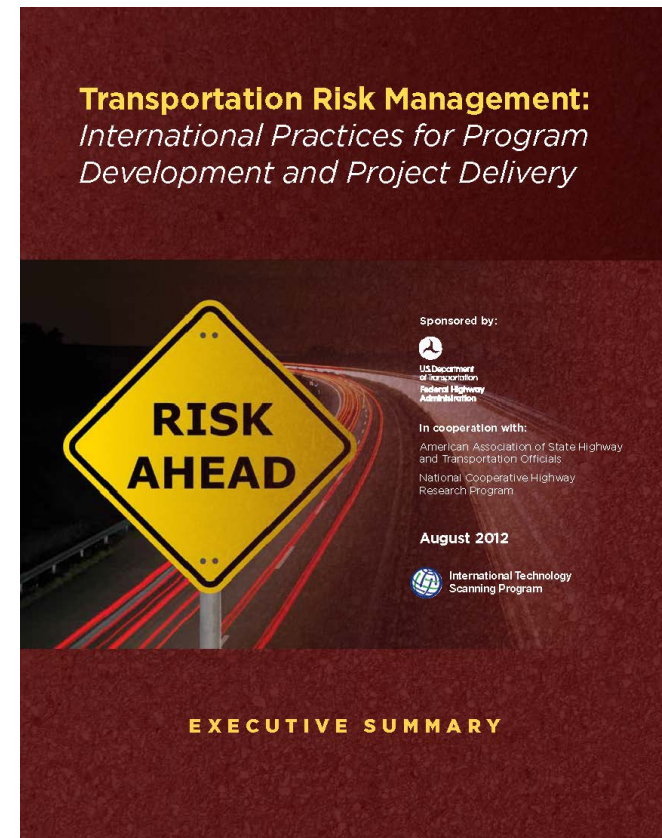
Janet D'Ignazio
ICF International
9300 Lee Highway
Fairfax, Virginia 22031

Risk International Scan Findings



- Risk management viewed as a basic competency abroad
- Supports decision-making
- Complements asset and performance management processes
- The greatest benefit is communication throughout the agency and externally
- It demonstrates agency's foresight and preparation to address risks.
- Avoid managing by crisis
- Builds public trust
- Explicitly recognizes uncertainty that faces objectives
- Capitalizes on opportunities

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Risk Management is not New



- Risk management permeates agencies
- Examples include:
 - High risk crash locations
 - Focus on high-risk structures
 - Firewalls on our IT networks
- We just don't formalize it, document and communicate it

Workshop Background

International Scan Implementation Plan:



- Communication and Marketing
- Research
- Training
- Governance

Workshop Background

Completed and Planned Activities

The top section of the slide features a collage. On the left is the AASHTO 2012 Annual Meeting logo, which includes the text '2012', 'AASHTO THE VOICE OF TRANSPORTATION', and 'ANNUAL MEETING'. Below the logo is the text 'Hosted by PennDOT'. To the right is a photograph of the Pittsburgh skyline, showing the city's buildings and the yellow arch bridges over the rivers. Below the photograph is the text 'PITTSBURGH. Where Rivers Converge to Forge Leaders'.

2012
AASHTO
THE VOICE OF TRANSPORTATION
ANNUAL MEETING

Hosted by PennDOT

PITTSBURGH. Where Rivers Converge to Forge Leaders

CEO Roundtable
Risk Management in the MAP-21 Era
—A New Paradigm for Leaders

November 19, 2012
Pittsburgh, PA

New York State Department of Transportation
Enterprise Risk Management
Joan McDonald
Commissioner

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Workshop – Completed Activities



Agency Risk Management Benefits

- ✓ Makes the business case for transportation
- ✓ Builds public trust
- ✓ Avoids managing-by-crisis
- ✓ Recognizes risks in multiple investment options
- ✓ Provides a broader set of viable solution options
- ✓ Communicates uncertainty on key strategic issues
- ✓ Improves organizational alignment
- ✓ Promotes an understanding of the repercussions of failure
- ✓ Helps apportion risks to the party best able to manage them
- ✓ Facilitates good decision-making and accountability at all levels

Agency Risk Management Implementation

- ✓ Develop executive support for risk management.
- ✓ Define risk management leadership and organization.
- ✓ Formalize risk management approaches.
- ✓ Use risk management to examine policies, processes, and standards.
- ✓ Embed risk management in business practices.
- ✓ Identify risk owners and levels.
- ✓ Allocate risks appropriately.
- ✓ Use risk management to make the business case for transportation.
- ✓ Employ sophisticated risk tools, but communicate results simply.



U.S. Department of Transportation
Federal Highway Administration

What risks could affect our agency's strategic goals and objectives?

How should I prioritize program investments in our agency's assets?

What is the probability of finishing our project on time and on budget?

Transportation Risk Management: Strategies for Success



Transportation Risk Management: Strategies for Success

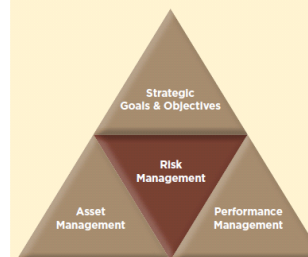
Transportation agencies with mature risk management policies, processes, and tools address these questions routinely and can answer them explicitly. Risk management is implicit in transportation business practices. Agencies set strategic goals and objectives—such as the reliable and efficient movement of people and goods—but success is uncertain. Internal and external risks can have a negative impact on the achievement of these goals and objectives. Likewise, agencies set performance measures and develop asset management systems to optimize investment decisions, but risks can affect performance and assets. Risk is pervasive in transportation, and transportation agencies need to develop clear enterprise risk management strategies, methods, and tools.

What is Risk Management?

International standard ISO 31000 defines risk as "the effects of uncertainty on objectives." In its broadest terms, risk is anything that could be an obstacle to achieving goals and objectives. Risk management is a process of analytical and management activities that focus on identifying and responding to the inherent uncertainties of managing a complex organization and its assets.

The leading international transportation agencies have mature risk management practices. They have developed policies and procedures to identify, assess, manage, and monitor risks. On a Federal Highway Administration international scan on risk management practices, a U.S. team observed the following:

- Risk management supports strategic organizational alignment.
- Mature organizations have an explicit risk management structure.
- Successful organizations have a culture of risk management.
- A wide range of risk management tools are used.
- Risk management tools are key for programmatic investment decisions.
- A variety of risk management methods are available.
- Active risk communication strategies improve decisionmaking.
- Risk management enhances knowledge management and workforce development.



Relationship of risk management to transportation agency management

Applying Risk Management

The scan generated a fresh perspective on how the U.S. transportation industry can use risk management practices to better meet its strategic objectives, improve performance, and manage assets. The following recommendations offer a path forward for the transportation community as it develops a culture of risk awareness and management in the United States:

- Develop executive support for risk management.
- Define risk management leadership and organizational responsibilities.
- Formalize enterprise risk management approaches using a holistic approach to support decisionmaking and improve successful achievement of strategic goals and objectives.
- Use risk management to reexamine existing policies, processes, and standards.
- Embed risk management in existing business processes so that when asset, performance, and risk management are combined, successful decisionmaking ensues.
- Identify risk owners and manage risks at the appropriate level.
- Use the risk management process to support risk allocation in agency, program, and project delivery decisions.
- Use risk management to make the business case for transportation and build trust with stakeholders.
- Employ sophisticated risk analysis tools, but communicate results simply.

Workshop – Completed Activities



NCHRP 08-36, Task 121

Successful Implementation of Enterprise Risk Manager
in State Transportation Agencies

Requested by:

American Association of State Highway and
Transportation Officials (AASHTO)
Standing Committee on Planning

Workshop – Completed Activities



Risk-Based Transportation Asset Management:

*Evaluating Threats,
Capitalizing on Opportunities*

REPORT 1: OVERVIEW OF RISK MANAGEMENT



U.S. Department of Transportation
Federal Highway Administration

JUNE 2012

Risk-Based Asset Management:

*Examining Risk-based Approaches to
Transportation Asset Management*

REPORT 2: MANAGING ASSET RISKS AT MULTIPLE
LEVELS IN A TRANSPORTATION AGENCY



U.S. Department of Transportation
Federal Highway Administration

AUGUST 2012

Risk-Based Transportation Asset Management:

*Achieving Policy Objectives
by Managing Risks*

REPORT 3: RISKS TO ASSET MANAGEMENT POLICIES



U.S. Department of Transportation
Federal Highway Administration

SEPTEMBER 2012

Launching Enterprise Risk Management in Your Agency

NCHRP 20-24 (105)

Agenda: Day 1



10:30am Welcome and Introduction

10:45am Key Note Speaker - Kristin Rebertus, CHS, Inc.

11:30 am Exercise 1: Kickoff Exercise

Noon Lunch

1:00 pm Defining ERM and How It Benefits an Executive

1:15 pm Case Study 1: Senior Executive Perspective - Eric Davis, Minnesota DOT

1:45 pm Exercise: Addressing Risks to the Resilience of a Highway Network –

3:00 pm Break

3:15 pm Exercise 2: Using Risk-Based Approaches to Addressing Revenues and Investment Needs

4:15 pm Discussion: Effectively Communicating Agency Risks to Legislators and Other Key Stakeholders

4:45 pm Day 1 Wrap Up

6:00 pm Group Dinner

Agenda: Day 2



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|----------|---|
| 8:00 am | Breakfast |
| 8:15 am | Day 1 Summary and Day 2 Agenda |
| 8:30 am | Exercise 3: Active Management of Risks to High Priority Objectives |
| 9:30 am | Case Study 2 – ERM Supporting Performance Management
John Milton, Washington State DOT |
| 10:15 am | Break |
| 10:30 am | Launching an ERM Program |
| 11:15 am | Group Brainstorming - National Research and Resources Needs |
| Noon | Lunch with TAM Peer Exchange Group |
| 1:00 pm | How Risk-Based Asset Management Programs can catalyze ERM |
| 2:00 pm | Exercise 4: Group discussion of lessons learned and how to apply risk management to key agency processes |
| 2:45 pm | Workshop Wrap-Up -
Developing the Roadmap Nationally and in Your Agency |
| 3:00 pm | End of Workshop |