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Enterprise Risk Management: Materials
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Overview

What you asked us to do
You asked us to develop materials for use in your consideration of enterprise risk management (ERM) practices at Food Bank.

Our approach
The ERM literature seems to contemplate an elaborate implementation process. We are not outlining such a process here. Instead, we propose a set of incremental refinements intended to build off the impressive trend and risk assessment work you already do today, and suggest that you then evaluate whether additional organizational processes are desirable.

Process and limitations

Process

[redacted]

We reviewed documents you provided to us, including your most recent audited financial statements as well as materials relating to your 2013-16 Strategic Plan, Board retreat strategic discussion, recent Finance Committee and Audit Committee meetings, dashboard reporting, project proposal submission, and insurance carrier risk management evaluations.

We reviewed selections from the ERM literature, including materials published by Feeding America and by a variety of consulting, accounting, and law firms, as well as a small set of risk management materials used by other food banks.

[redacted].

Limitations
Our work here is limited in nature. We did not review substantive legal, regulatory, tax, or other risk or compliance matters. We did not review your corporate governance materials, or investigate specific business functions. Instead, we tried to get a sense of your current practices and the extensive ERM literature, and then set out core ERM principles and practical ideas for getting started.

1. ERM introduction

What is ERM?
How is this different?
Why are we talking about this now?
Who's involved?
What are potential drawbacks?
What are you proposing that we do?

What is ERM?

What is ERM?

ERM means enterprise risk management.

The idea is to identify the full spectrum of risks across the organization and manage them in an integrated way.

The goal is to think about the combined impact of exposures, not just individual risks in a particular business area, and factor that into our planning and decision-making.

It’s a way of thinking that should apply across the organization.

How is this different?

How is ERM different from regular risk management?

ERM involves:

- considering all risks, not just insurable or legal risks
- looking at both external and internal trends and conditions
- evaluating risk across the entire business, not just on a unit-by-unit basis
- ensuring that information relevant to risk evaluation flows up to management
- integrating risk information and evaluation into planning, management, and measurement processes

How is this different from we're doing today?

We already do a lot of ERM-type things. For example, we:

- think about big picture risk as part of our strategic planning process
- envision wide-ranging risk and opportunity scenarios in our Board retreat work on mission and business models
- take proactive measures to identify and mitigate risk, including third party audits and evaluations of accounting processes, occupational safety, transportation activities, food safety, and IT security
- address "risk" as part of project proposals submitted during our annual budgeting process
- regularly engage with our Board finance and audit committees on insurance, controls, legal, and regulatory compliance matters

All of these measures represent a concerted effort by Food Bank to identify and act on both big picture and function-specific risk. But we think there is an opportunity to build on what we do and integrate this kind of thinking across the enterprise and support it at all levels of our organization.

Why are we talking about this now?

From a pragmatic point of view:

- **Sector expectations:** ERM is being discussed in the industry, including by Feeding America and other food banks. The expectation is that food banks will be asked about it and that they'll need an answer.
- **Optics:** The optics of considering and implementing an ERM framework reflect well on Food Bank to Feeding America, peer food banks, major donors, and grantmakers. Neither our auditor nor our Board has raised it (yet), but it's likely they will appreciate our attention to the topic.
- **Recent events:** We want to be in a better position to anticipate and avoid surprises, such as the recent union activity.

From a deeper management point of view:

- **Management**: ERM is intended to improve planning and decision-making by increasing risk awareness across the organization; generating better information for strategy development, budgeting, and management; facilitating knowledge sharing; and focusing attention on material exposures.
- **Mission**: Better risk management should reduce the risk of disruption to services essential to the community.
- **Reputation**: Nonprofits are increasingly subject to scrutiny, and Food Bank is [redacted] We're both a target and a thought leader.
- **Legal**: ERM contributes both to fiduciary oversight and legal compliance activities.

Who’s involved?

Is this mainly a finance responsibility?

No. We propose that finance have a leadership role, but the idea of ERM is to break out of silos, not treat this as a check-the-box compliance matter, and evaluate risk across the entire organization based on input from all around the organization.

What role does the CEO play?

The CEO has an important role in getting ERM off the ground and making it meaningful.

She needs to visibly support the effort, which means setting the tone by asking tough questions and encouraging others to do the same.

She also needs to hold all of us accountable to using risk information and “enterprise” orientation in our planning and decision-making.

Does this involve the Board?

It should.

At one level, and as we did at the recent retreat, we can engage the Board in big picture, enterprise-wide thinking and take advantage of directors’ perspectives.

At a second level, we have Board members who likely have dealt with ERM implementation at their companies and with clients. At the right time, these individual directors could be valuable discussion partners for us.

At a third level, the Board has broad oversight responsibilities. To that end, ERM can help the Board understand Food Bank’s risk profile. The Board should also monitor our planning and risk management processes generally, of which ERM activities will be a part.

What are potential drawbacks?

Does ERM involve substantial costs?

It could, if we approached it as a big, process-and-template heavy initiative. But, as you'll see, that's not what we propose.

Instead, we think it's best to build off what we already do, and then assess whether we need to put more infrastructure behind it.

Longer term, ERM could in fact reduce costs. It may help us avoid risk events or minimize the impact of adverse developments.

How might this backfire on us?

- **Enterprise "list" management:** ERM is not intended to be an exercise in listing out concerns; it's supposed to help us prioritize and address those concerns in an ongoing fashion.
- **Too much bureaucracy:** We don't want to add unnecessary process to our existing risk identification and management activities. We want to build off and refine those activities.
- **Burden, not benefit:** This isn't intended as a compliance project detached from the practical realities facing management. Unless ERM is seen as a benefit to management, we won't get the buy-in we need to make this work.
- **Abandoning what works:** We're already doing a lot of good things, and those things should continue.

Will this process result in additional work for management?

It depends. The way we're proposing it, the only additional work involved is a set of start-up fact-finding activities and then deciding what adjustments to make to existing processes.

Longer term, we think it could make decision-making more efficient and effective.

What are you proposing that we do?

Where do we start?

At a high level:

First, we, as a management team, should expressly adopt ERM principles as part of our management objectives and devote time to learning more about it.

Second, the finance team should plan and lead the initial fact-finding work, with the project visibly endorsed by the CEO.

What specifically does this initial work entail?

We propose these actions:

- inquire about management and staff perspectives on risk (“what do you lose sleep over?” “what are key dependencies?” “what issues are we not talking about in the organization?” etc.) through surveys and interviews

- inventory current risk identification and evaluation activities (ranging from third party safety audits to Board discussions)

- identify any gaps between current activities and existing needs

- identify opportunities for ERM-enhancing refinements in existing management processes and documents

- take action on substantive concerns, if any, emerging from initial phase work

After those initial steps, we should:

- continue review of ERM literature to identify tools and frameworks (e.g., risk mapping, defined risk categories)

- take advantage of upcoming benchmarking activities to learn about how peer organizations are addressing ERM

- develop talking points for addressing inquiries from Feeding America and others about our ERM work

After doing this work, we think we will be in better position to decide whether to adopt a more formal approach to ERM.

2. Getting underway

High-level plan
Risk framework
Risk identification
Risk process identification
Near-term refinement

High-level plan

This initial high-level plan reflects the emphasis in the ERM literature on attaining management buy-in, developing a common risk language, and gaining a broad understanding of risk. It involves taking an initial inventory of risks and risk management processes with a focus on cross-silo thinking, and incorporates that work into ongoing planning and management decision-making.

ERM RAMP-UP

education:
management briefing

planning:
initial planning

develop:
develop initial ERM tools (e.g., framework, survey questions)

BASELINE FACT FINDING AND ASSESSMENT

fact finding (risk):
management survey about about risks, broadly defined

fact finding (process):
survey of current risk identification and assessment processes

review:
review results of survey; note themes, surprises, blind spots

review:
discussion about effectiveness of current use of information, quality of integration, visibility across silos

NEAR-TERM REFINEMENTS

refine:
identify changes in risk identification and assessment processes, with focus on material risks

LONGER-TERM MANAGEMENT ACTIONS

act:
use new tools in ongoing planning and management work

act:
take actions to eliminate, avoid, mitigate, or transfer relevant risks

act:
monitor implementation process and risk response activities

act:
report to Board in line with its risk oversight responsibilities

Risk framework - 1

The ERM literature encourages development of “common risk language” for use within the organization. To that end, it suggests using a framework for: (i) identifying conditions, trends, and resulting risks, (ii) structuring internal discussions, (iii) prompting thought, and (iv) use in ongoing internal monitoring and reporting. Our impression is that a risk framework could be especially useful in giving your team a common language and structure for use in discussing risk. The following illustrates principal risk categories set out in several examples and, on the right, an idea we developed for comparison.

Feeding America (2010)

Strategic
External
Information
Integrity
Operations
Technology
Financial

Note: Reproduced in Appendix B

Consulting firm (Protiviti)

Environment

Process:
Financial
Empowerment
Governance
Information technology
Reputation
Integrity
Operations

Information:
Strategic
Public reporting
Operational

Note: Reproduced in Appendix B

[________] Board retreat

Outside trends
Political/social climate
Economic climate
Technology factors
Customer needs
Donor needs
Internal trends

Business model (idea)

Food sources
Money
Governance
Operations
Information technology
People
Finance
Food distribution
Services
Advocacy
Consumers
Reputation

Risk framework - 2

Risk frameworks typically call out specific risk areas within each broad category. The listing below, for the "business model" idea noted on the prior page, reflects review of Food Bank materials as well as examples from Feeding America and general ERM materials.

INPUTS

Food sources
- Cost (esp. protein and dairy)
- Dependence on CAFM Farm to Family (produce)
- Institutional partner relationships
- Grocery rescue penetration
- Water and climate impacts
- Government programs
- Food safety
- Donor engagement

Money
- Donor demographics
- Donor motivation and experiences
- Government funding
- New fundraising platforms
- Fundraising compliance
- Fundraising competition (e.g., new entrants, root cause and policy orgs)
- Feeding America performance

INFRASTRUCTURE

Governance
- Strategy, business model, and organization design
- Integrity and ethics
- Leadership/communication
- Succession planning
- Tax, government contracts, and other compliance

Operations
- Facility capacity and scalability
- Facility use (e.g., produce in one facility)
- Business process design
- Occupational safety
- Physical security
- Food safety
- Energy costs
- Disaster recovery

IT
- Donor, client, and other data security
- Operations support and availability
- Tech obsolescence

People
- Attractiveness to talent
- Org culture/ employee morale
- Change readiness
- Employee performance
- Union activities
- Volunteer engagement

Finance
- Performance measurement alignment and accuracy
- Budgeting accuracy
- Liquidity
- Fraud
- Internal controls
- Financial reporting

OUTPUTS

Food distribution
- Partner capability and performance
- Partner dependencies
- Last mile channel capability
- Transportation costs
- Transportation safety

Services
- Consumer relevance
- Technology (virtual food banking)
- Collaboration with new partners
- Adjacent partner performance (health, housing, education)

Advocacy
- Donor reaction (e.g., mission creep)
- Collaboration/association with new partners
- Tax compliance (e.g., lobbying)

CONSUMERS

- Consumer demographics
- Consumer needs (cultural and otherwise)
- Economic conditions
- Governance safety net programs
- Immigration policy
- Links between food insecurity, obesity, and health outcomes
- Accuracy of outcome metrics

REPUTATION

- Integrity
- Food safety
- Visibility locally and nationally
- Social media impact
- Feeding America performance
- Impact of advocacy

Risk identification

The ERM literature suggests that organizations launch ERM efforts with a broad discussion about risk. This discussion begins with your senior management team and may continue with their direct reports and other employees (and possibly other stakeholders). We suggest some discussion questions below.

Global questions

What do you lose sleep over?

What concerns you most about the organization (whether it involves your business unit or not)?

What's the biggest threat you see to our brand and reputation?

What are the biggest dependencies we have?

General questions for specific units

Chief Executive Officer

What are the three factors most likely to keep Food Bank from meeting its strategic objectives?

Development
Operations – IT
Operations – Warehouse & Logistics
Operations – Food Resources
Volunteers
HR
Programs & Services
Community Engagement
Finance

What's the biggest risk facing your business unit?

Specific questions for business units

- **CEO:** Do you think you have a good grasp of all the risks across Food Bank's business units?
- **CFO:** What major "risk events" are not contemplated by Food Bank's current budgeting process?
- **Development:** What events would be most damaging to Food Bank's brand?
- **Operations – IT:** What protections are currently in place to stop people from hacking our system?
- **Operations – Warehouse & Logistics:** What contingencies are in place to account for problems at [redacted]?
- **Operations – Food Resources:** What contingencies are in place if we lose our biggest food provider?
- **Volunteers:** What contingencies do you have in place if there's a major disruption to our volunteer services at one of our warehouses?
- **HR:** Do our employees feel comfortable reporting problems with the business?
- **Programs & Services:** How does Food Bank's current planning process account for major changes in the needs of its community partners?
- **Community Engagement:** From a risk identification point of view, are we effectively evaluating what we learn from our social media and other online platforms?
- **Legal Compliance:** Do you anticipate any new federal or state regulations that could affect the way Food Bank does business?

Risk identification processes

Another aspect of the plan involves evaluation of your existing risk identification and assessment processes. This work has two components. First, you inventory your current processes, both those taking place as part of ongoing management activities and those processes, such as audits, taking place after the end of a defined time period. We call out several such processes below; this list reflects only the materials we reviewed, and is no doubt incomplete. Second, you evaluate your current processes in view of the results of the risk identification work and in view of ERM goals; some suggestive questions for the evaluation appear at the bottom of this page.

	INPUTS	INFRASTRUCTURE	OUTPUTS	CONSUMERS	REPUTATION
INTERNAL	• Finance Committee risk management and insurance review • Fundraising review	• Board retreat preparation and discussion • Strategic planning process • Annual budgeting process • Management evaluations • KPI establishment and monitoring • Whistleblower policy	• KPI establishment and monitoring	• Consumer demographics and needs review	• Whistleblower policy • Audit committee internal controls and legal compliance
EXTERNAL		• IT security test • Financial reporting/A-133 audit • Chubb property conservation review • AIB Food Safety Audit	• Chubb commercial vehicle review	• Social media interactions and feedback	• Feeding America review

ERM-related questions:

- Do we think effectively about how risks are interrelated and their collective impact?
- Do you think employees at every level are comfortable reporting risk? Are there employees we aren't hearing from?
- Do we do a good job of getting outside of our silos? Of looking at ourselves from an external point of view?
- Do we have means of identifying non-insurable, non-legal risks?
- Does our Board have sufficient oversight over risk profile?
- Are we fully taking advantage of our Board's point of view?

Near-term actions

The ERM literature suggests that, following initial fact-finding, management: (i) identify key themes, surprises, and ideas coming out of the work; (ii) identify a small number of target concerns; and (iii) make related refinements in both internal processes and, as relevant, substantive decision-making. What follows are some ideas we have about possible “levers” you could adjust in view of ERM goals and considerations.

- use risk framework as tool in developing and presenting strategic plan
- incorporate risk framework into project proposal template (i.e., require fuller assessment of risks than reflected in current “what are the risks associated with this project?” item in template)
- engage in annual senior management session devoted to big-picture risk identification and discussion
- make adjustments as appropriate in KPI measures and associated dashboard reporting
- ensure that all key findings from third party reviews (audit, food safety, insurance carrier) are reported to senior management
- consider inclusion of targeted risk management goals in annual objectives for senior managers
- carry out periodic broad-based employee survey
- engage in annual discussion with Board/Audit Committee about ERM work
- make inquiry about ERM practices in benchmarking activity with peer food banks

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Thank you for the opportunity to work with Food Bank on this matter.