Global events – highlighted by business scandals, failures, information theft, and natural disasters – have shone the spotlight yet again on risk management (or the lack of it!) among investors, owners, boards, stakeholders and customers. The inability of risk systems to protect business assets at critical times has shifted attention to how risk management is embedded into the day-to-day responsibility of everyone at the organizations.

As business leaders attempt to re-invigorate their ERM programs, the need for a robust ERM framework still persists. KPMG has quickly recognized the needs of its member firm clients, the expectations of regulators, and the requirements of the market and proactively issued a fresh and updated version of its original ERM framework. The new Global ERM Framework provides consistency across global markets and applies to all industries. Moreover, the new ERM Framework helps identify risks embedded in corporate strategy, day-to-day business operations and processes and responds to board-level concerns about risk management initiatives, the ability to avoid crises through insight, and the effective evaluation of leading risk indicators.

An Elegant Approach

KPMG member firms take an elegant approach with its new Global ERM Framework and Risk Maturity Continuum. In contrast to the original framework, the new Framework illustrated in figure 1 addresses cultural needs and the maturity of current ERM programs with the addition of the Risk Culture, Risk Appetite and Data & Technology elements. The new Risk Culture element focuses on values and behaviors that shape an organization’s ability to manage risk through risk decisions and risk awareness.
The Global ERM Framework provides a clear, practical vision that adds business value and builds a competitive advantage by allowing organizations to avoid downside risks while discovering the potential upside within risks.

Emphasizing risk culture within the new Framework addresses the impact that an organization’s culture can have on the prevention of unacceptable risks and the identification of emerging risks. Building knowledge and understanding of risk at every level leads to the promotion of risk awareness throughout the organizational culture. In turn, embedded risk awareness leads to heightened commitment and a deeper belief in the convergence of business strategy and risk strategy. Individuals have a greater opportunity to think about the need for risk mitigation and the potential upside of risk. Risk management intertwines with performance management as employees work within their normal activities.

Integrating risk culture, risk appetite, and risk strategy within the new Framework redefines enterprise risk management and highlights openness, transparency, and accountability. When all parts of a business identify, elevate, and manage risk at strategic, operational, and tactical levels, the business—as a whole—can leverage ERM to create value. This increase in value may occur by decreasing the cost of risk, through controlled growth, by mitigating risk ahead of the competition, or by assuming more risk at critical decision-points.

The Global ERM Framework provides a clear, practical vision that adds business value and builds a competitive advantage by allowing organizations to avoid downside risks while discovering the potential upside within risks. This understanding nurtures the capability to recognize that new challenges may appear at any time.

Updated Elements And Components

Figure 2 demonstrates the relationship between the updated elements and components found in the new Framework. The updated grouping of the elements and components that make up the new Framework showcases KPMG’s dedication to developing sustainable enterprise risk programs and sets a new standard for ERM methodology. Within risk governance, the Framework aligns decision support, strategic objectives, and company structure. This holistic approach to ERM provides a risk operating structure that represents each functional area.
With its advantages of experience and expertise, KPMG’s network of firms works within the seven risk elements to facilitate and perform an enterprise-wide risk assessment that identifies and measures risk tolerance and risk appetite. The application of the risk elements also provides the basis for KPMG’s review and assessment of the linkage between corporate strategy and risk strategy. Through the use of the Global ERM Framework, KPMG’s network of firms can tailor a risk program to particular needs.

With the combination of the Risk Strategy and Risk Appetite elements, KPMG’s teams effectively anchors risk appetite within the organization’s strategy and guides organizational governance. A risk appetite statement identifies major risks, defines acceptable levels for major areas of risk, and articulates the motivation for taking or avoiding risk. Placing a clear and concise risk appetite statement within the organizational strategy aligns risk appetite with the organization’s values,
strategic objectives, and business decisions while recognizing the diverse interests of all stakeholders. By grouping risk strategy, risk appetite, and risk tolerance, KPMG’s network of firms establishes boundaries for the amount of risk that an organization will accept within quantitative and qualitative measures of loss at the enterprise and operating unit levels. The emphasis on risk management, monitoring, and reporting within the new Framework connects risks and controls with financial performance and strategic objectives. Management may receive requests to validate the capabilities of their organization’s processes that mitigate existing and emerging risks. In response, a board or stakeholders may use this information to assess the relationship between returns and risk.

The new Framework increases risk management capabilities through three lines of defense that include the continued monitoring of internal and external risks, the integrated guidance for monitoring activities, and the active monitoring of risk exposure. Risk reporting occurs across the areas within business units and focuses on support for decision-making. With a meaningful risk culture in place, the implementation of risk assessment and risk measurement supports strategy and decision-making through the application of a well-defined risk taxonomy and identification system.

Continuous Risk Management

The Framework supports continuous risk management through the components found within the Data & Technology Element. Tools and processes within the Data & Technology element combine to reinforce a risk aware culture and the three lines of defense model. Technologies formed around the use of big data allow employees at all levels to analyze the output of predictive models and to search for patterns. The application of timely, accurate data from a variety of sources combined with data visualization tools drives advanced assessments of risks and allows board members to make informed and faster decisions. Because big data includes historical and real-time data from external and internal sources, the analysis helps inform a broad view of risk inventory and risk appetite.

The individualized approach advocated by KPMG recognizes that some risks align better with quantifiable metrics while other difficult-to-measure risks require a qualitative approach. Utilizing quantitative, numerical analyses of common, structured data allows the monitoring of the health of the business, the identification and solving of problems, and the recognition of opportunities. Qualitative analyses of an increasing amount of unstructured data provide a continual stream of critical insights into current and emerging risks as well as opportunities for capturing increased revenues.

The Risk Maturity Continuum

With the inclusion of an expanded Risk Maturity Continuum scale, KPMG separates the Global ERM Framework from other ERM models. The Continuum scale applies a consistent assessment of maturity to global clients of all levels and across various industries. Referring to figure three, the seven elements of the Framework reach across the five levels of the Risk Maturity Continuum scale.

A risk maturity assessment considers peer companies and industry best practices while identifying changes within structure, governance, policies, and tools that will close performance gaps. The assessment also includes estimates about the amount of time, effort, and financial investment needed to reach different stages of maturity. For example, an assessment may conclude that an organization has sustainable maturity because the business does the minimum to meet the expectations of internal and external stakeholders while defining some risk management strategies. Applying external benchmarking along with measurement and monitoring through the Risk Maturity Continuum identifies emerging risks and establishes continuous risk assessment.

Achieving Value

A well-designed and executed ERM serves as a crucial part of strategy-setting because of the close alignment of risk management with the achievement of objectives. The Global ERM Framework:

- aligns risk strategy with business strategy;
- recognizes the value of the risk culture;
- manages risk within the risk appetite of the organization;
- identifies potential events that affect the success of the organization; and
- utilizes advanced analytics to provide oversight and control.

These and other factors drive the continuous improvement of risk management capabilities.

In addition the application of KPMG’s Global ERM Framework reassures board members that management deploys a solid risk management strategy to achieve business results. The emphasis on risk culture, risk strategy, and risk appetite improves risk awareness and encourages transparency throughout the organization. Interrelated elements and components provide an ongoing process that flows through an organization and allows contributions at every level.

An understanding risk strategy and risk appetite drives performance, value, and brand. Principles defined within the
Global ERM Framework encourage all stakeholders to understand business strategies and related risks as they implement processes and tailor-made solutions that improve the risk maturity of the organization. The Framework aligns with strategic objectives and organizational risks while incorporating practical approaches to embedding ERM within the organization. Applying the Global ERM Framework and Risk Maturity Continuum improves risk information by consistently identifying and assessing risks through the measurement, reporting, and monitoring of processes.