



# Enterprise risk management

**Protecting and enhancing value**  
Advisory



October 2016



[kpmg.co.za](http://kpmg.co.za)



# Enterprise risk management

## Protecting and enhancing value

**In today's markets, businesses continue to experience an escalating pace of change—disruptive technologies, innovative business models, new forms of competition, changing geopolitics. As the world forms new norms, calibrating strategy to emerging risks and opportunities is key for every company.**

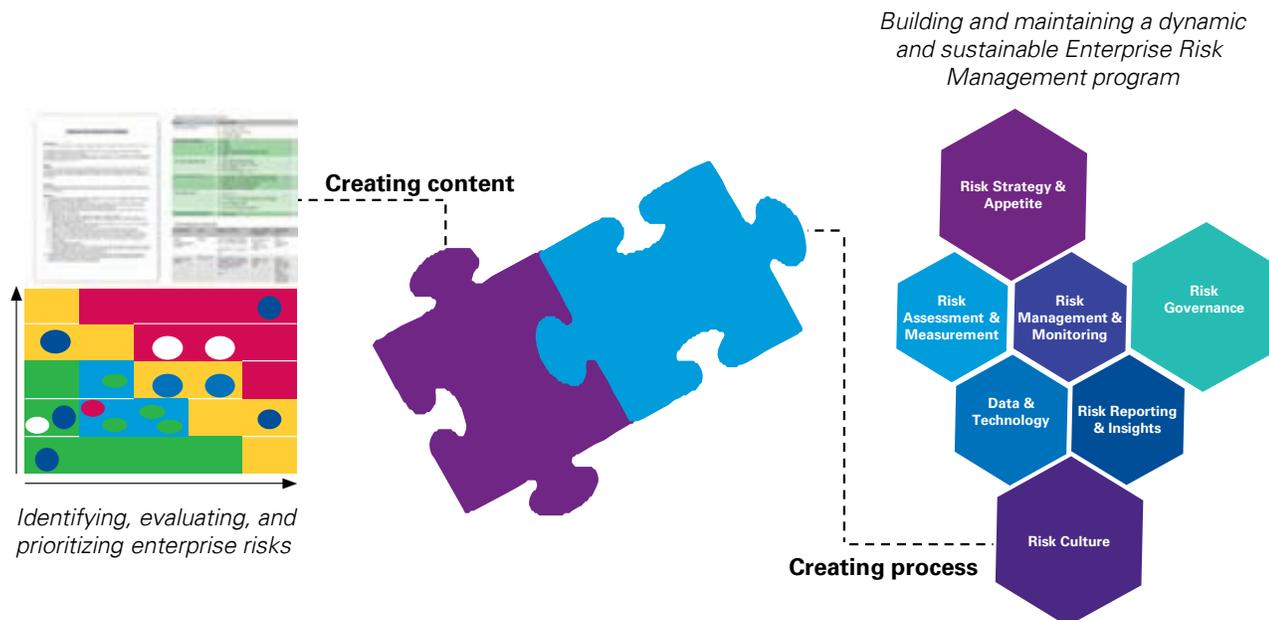
The proliferation of risks and opportunities that businesses face today is not just “noise.” Failure to recognize and respond to the very real “signals of change” in industry sectors and societal behavior may mean the difference between growth and destruction for some companies. Success requires a holistic and integrated approach to managing risk—the competitive landscape and risk environment demand it, regulators expect it, and securing value, growth, and sustainability for investors requires it.

Business imperative, regulatory requirements, and increased rating agency interest are prompting a new focus

on ERM, and business leaders are seeking to either implement ERM for the first time, or to enhance and develop their ERM processes—embedding an approach that is tailored to their company's culture and structure, aligned with their business strategy, operationalized in their business processes, and focused on their most critical risks.

On the following pages, we outline some common themes and leading practices that can provide the means of realizing ERM's potential for enabling organizations to add business value and achieve competitive advantage.

**Figure 1: ERM fundamentals**



*Implementing ERM successfully calls for doing two things well: creating content and creating process.*

Source: KPMG



## 1. Future-focused ERM content

Many companies have existing ERM content in place, but it may not yet be the right content, i.e., the risks identified and measured may not be those risks that could derail the company from achieving its strategy and ultimately result in destruction of value.

Companies need to take a critical look and ensure that they have truly identified those risks and vulnerabilities that could threaten the organization's overall business strategy, and they need to use future-focused risk assessment to reassess that strategy in the light of internal and external emerging risks. For example, if an organization is planning to buy another company, approaching the transaction with not just a "growth lens" but also an "enterprise risk lens" is vital. That risk lens shifts the analysis away from just "does this acquisition fulfill our immediate strategic growth ambition?" to "does the impact on our business model make sense in the context of our changing competitive/industry risk environments and the social and geopolitical context?"

Keeping risk content "fresh" and "dynamic" needs to be a priority—this means that Enterprise Risk Assessment (ERA) can no longer be just an annual exercise. Leading organizations are developing robust and iterative risk assessment processes, using structured and unstructured data to identify the impact of new/emerging risks arising from both the company's own strategic efforts and the accelerating pace of change around them.

## 2. A single view of "risk appetite"

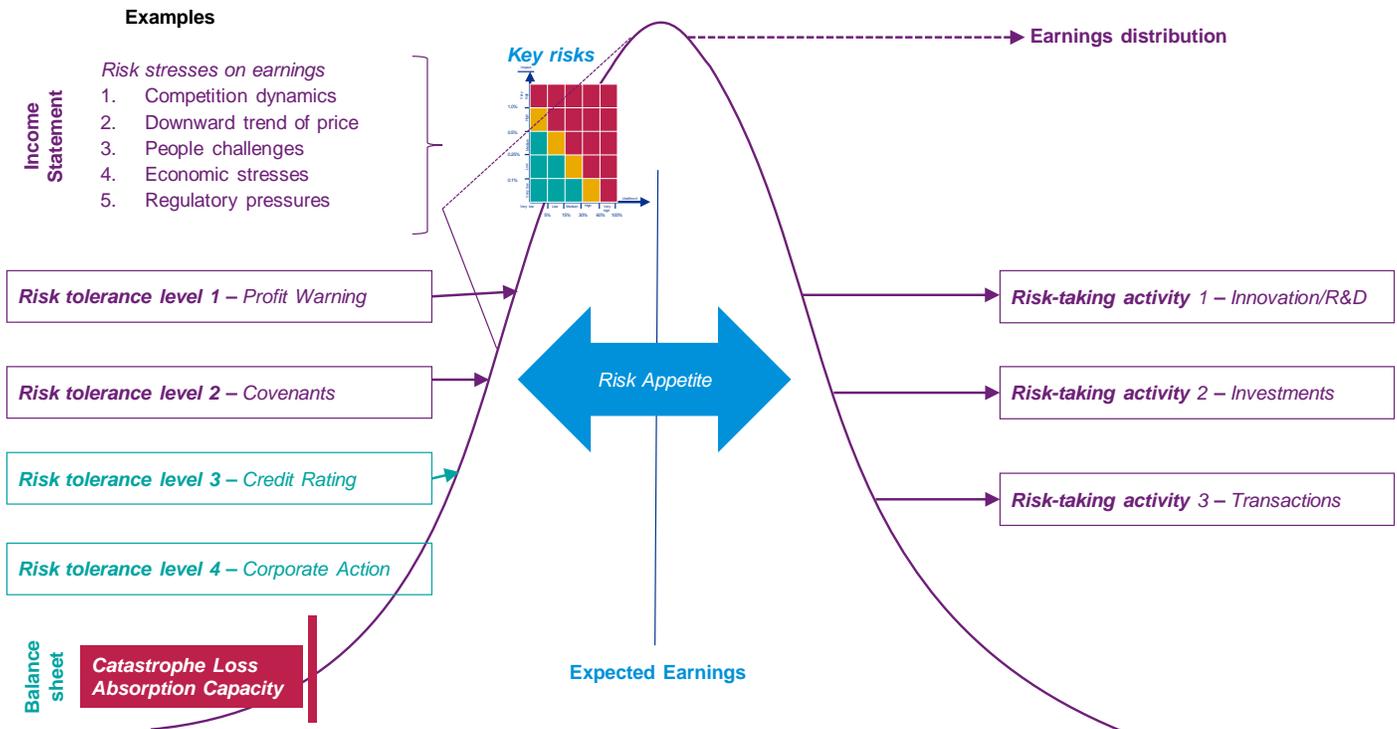
Establishing a clear risk appetite—the overall level of risk that an entity is willing to take—supports companies in achieving both strategic and financial objectives. Many companies still view risk appetite solely as a line not to cross, but leading organizations use it to determine whether they can and should be taking more risk. Developing a more clearly defined, board-endorsed risk appetite, and using this to both promote the right risk culture and take a harder look at the "upside" of risk-taking, are front and center of leading edge ERM practices.

Because risk appetite helps drive a successful outcome in terms of achieving both strategic objectives and financial returns, there is a strong correlation between risk appetite, capital management, and related business planning activities. Risk tolerance limits can be set for risk categories, risk types, or specific risks.

“If you aren't constantly assessing strategy and risk, and adjusting as you go, there's no way you're keeping pace as a business”

- Public Company Director,  
KPMG's 12th Annual Audit Committee Issues Conference

The tolerance limits can be aligned to the company's earnings thresholds and should consider the company's aggregated risk portfolio:

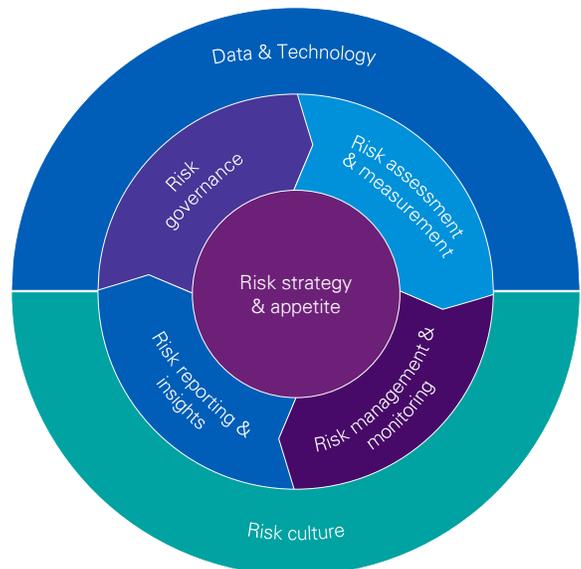


Put simply, unless you know what your risk appetite is, there's no way to gauge whether you're taking too much risk or not enough in pursuit of strategic value.

### 3. Tailored, proportionate ERM processes

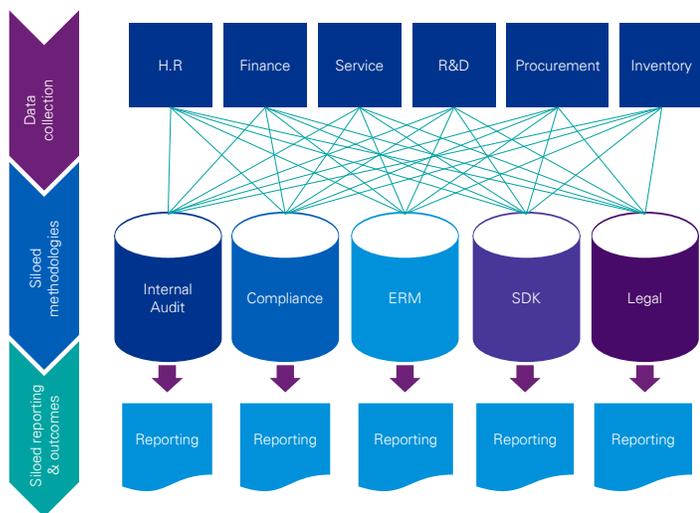
Many organizations have already invested in a variety of risk processes and functions, but these mechanisms often lack a unifying vision and clear objectives—processes have been built without a clear view of what the “desired state” is for ERM in the company. Consequently, the potential benefits of ERM as a strategic value tool remain unrealized.

Leaders take varying approaches to ERM, depending on the size and needs of the organization and its risk profile. As outlined in Figure 2, ERM approaches can be plotted along a “maturity continuum.” An organization's approach, and the choices it reflects, impact the extent to which it makes ERM part of its governance and business operations and the investment it makes in individual ERM framework component areas. An assessment of ERM maturity supports leaders in gaining an appreciation of the gaps in their current efforts and agreeing a way forward that ensures that the ERM program delivers value for the company.



**Figure 2: A risk continuum**

		Basic	Mature	Advanced
	<b>Risk strategy and appetite</b>	Some formal consideration of risk in strategic planning and basic definition of the overall corporate risk appetite	Risk is a key aspect of strategic planning and used to support business decisions. Risk appetite is clearly defined and understood across the organization	Risk integrated with strategic planning and risk strategy includes use of sophisticated tools such as scenarios, KRIs, KPIs and advanced measurement of risk appetite elements
	<b>Risk governance</b>	A central risk management policy to support external requirements	Formally documented organizational model for risk governance supported by defined responsibilities, including all three lines of defense (Business, Risk/Compliance, and Internal Audit)	Enterprise risk governance is endorsed by senior management and by the board. Risk management integrated into risk owners' business activities and performance management
	<b>Risk culture</b>	The business culture and operating philosophy and their relationship with risk management is loosely understood	Employees can describe the organization's risk culture, influenced by leadership tone and communications	Senior management leads by example by making risk management a clear priority and encouraging appropriate risk management behavior.
	<b>Risk assessment and measurement</b>	Annual risk assessment with limited analysis, interpretation, and reporting	Established risk assessment cadence, methodologies, and tools, and systematic approach to analysis and reporting	Risks are identified on a continuous basis, with real-time escalation, leveraging use of data, risk metrics, and employee inputs
	<b>Risk management and monitoring</b>	Basic definition of major risks, and limited or ad hoc processes to monitor risks	Business-as-usual management and monitoring of major identified risks	Monitoring responsibilities are seamlessly applied across the three lines of defense, with integrated reporting of risk and assurance activities to the board
	<b>Risk Reporting and Insights</b>	Business risk reporting is ad hoc and designed primarily to support external requirements	Regular and robust risk reporting to the board, audit committee and senior management, including on emerging risks	Single comprehensive view of risk on a real-time basis across all risk classes to all internal and external stakeholders
	<b>Data and Technology</b>	Data is nonstandard, with varying levels of quality, and key risk tools exist in silos across the organization	Automated technology solutions are used to store and analyze risk data. Risk data standards and data quality policy is established	Automated and integrated technology is used to store, manage, and report real-time risk data. Risk flags are programmed and data integrity checks are embedded in business processes



#### 4. Efficient and aligned Governance, Risk, and Compliance activities.

Increasingly complex operating environments mean that ERM is only one of a growing multiplicity of governance, risk and compliance activities that companies undertake. Leading organizations are recognizing the opportunity to coordinate often fragmented risk assessment and assurance work streams, simplifying reporting, and streamlining oversight to provide better risk coverage across their activities – allowing them to reduce disruption to the business from administrative activities and using scarce compliance, risk and audit resources more efficiently.

#### The way forward

ERM approaches help organizations with the critical challenges: (1) how to link risk and strategy to drive business performance and enhance the organization's brand, and (2) how to derive tangible value from governance, risk, and compliance efforts.

Organizations that embrace ERM and build it into the core of their enterprises can anticipate the benefits that are possible when:

- Risks (ERM "content") are assessed, evaluated, and correlated across the enterprise
- A common understanding is established of how much risk employees can and should take, as well as when to "raise their hand" when a risk or opportunity is outside of those thresholds
- A common risk framework (ERM "process") is in place, with accountability established for measuring, managing, and monitoring risk
- Risk quantification and aggregation is enabled throughout the organization via common methodologies and tools
- Risk reporting to management and the board is effective (that is, it captures risk trends and emerging risks)
  - The ERM program supports strategic decision making and brand protection, and has *predictive* value
  - There is risk culture in place that fosters the right "risk discussions" throughout the organization
  - Corporate governance processes are strengthened.

The most successful and sustainable companies in the future are going to be those that make the right risk-based strategic decisions now. ERM is a critical tool for understanding and responding to a changing world—and therefore for gaining competitive advantage.

#### ERM Helps Enhance Performance and Protect Value

Using ERM, organizations can:

- Allocate and evaluate capital based on risk-based performance
- Integrate risk and strategic planning, investment, and M&A
- Reduce costs through risk consolidation and cross-functional efficiencies
- Reduce cash flow volatility using derivatives, insurance, or improved controls
- Reduce losses and identify opportunity through coordinated enterprise risk monitoring and reporting

# Contact us

## National – Johannesburg

### Granville Smith

**Managing Director, Internal Audit, Risk & Compliance Services**

**T:** +27 82 374 5234

**E:** [granville.smith@kpmg.co.za](mailto:granville.smith@kpmg.co.za)

**Twitter:** @granvillecsmith

## National – Pretoria

### Thomas Gouws

**Director, ERM**

**T:** +27 82 718 8432

**E:** [thomas.gouws@kpmg.co.za](mailto:thomas.gouws@kpmg.co.za)

**Twitter:** @thomasGouws

## Cape Town

### Glenn Ho

**Director, ERM**

**T:** +27 71 203 6644

**E:** [glenn.ho@kpmg.co.za](mailto:glenn.ho@kpmg.co.za)

**Twitter:** @GlennHo\_LCP

## Johannesburg

### Muhammed Karolia

**Director, ERM**

**T:** +27 82 719 3170

**E:** [muhammed.karolia@kpmg.co.za](mailto:muhammed.karolia@kpmg.co.za)

**Twitter:** @MuhammadKarolia

## Durban

### Ugen Moodley

**Director, ERM**

**T:** +27 83 452 3145

**E:** [ugen.moodley@kpmg.co.za](mailto:ugen.moodley@kpmg.co.za)

**Twitter:** @UgenMoodley

## [kpmg.com/socialmedia](http://kpmg.com/socialmedia)



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

2016 KPMG Services (Pty) Ltd, a South African company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. The KPMG name and logo are registered trademarks or trademarks of KPMG International.