Risk maturity.

Find out how far along the risk maturity path your business is, and how much further your investment will take you.
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The journey of personal risk management maturity is at an advanced stage. The human race has been practicing risk management for centuries, as a necessity for survival on this risky planet. Humans have a well developed risk appetite that they apply to every decision and can decide very quickly whether they would entertain the thought of doing something or not, based on the assessment of risk against their personal risk appetite.

If you were asked to consider “base jumping” most people would be able to give a resounding no or a cautious yes very quickly based on their risk appetite. One mark of mature risk management is a well developed and understood risk appetite that is used in decision making.

Secondly, humans, for most day to day activities, manage the related risk without even consciously thinking about risk separate from the activity itself. How many people formally consider risk before driving a car? How many people separate the risk management of their car as opposed to seeing it is an integral part of the car’s ownership and operation?

A mark of mature risk management is embedding risk management in day to day operations to the point it is not considered as a separate concept from just “good management”.

In contrast, the journey of organizational “enterprise” risk management maturity is in its early stages. As humans work for enterprises, they have applied their personal risk management thinking to the workplace but this led to ad hoc, “hero” risk management that is inconsistent. This is level 1 enterprise risk maturity.
Evolution of the maturity process.
We will go through these questions:

1. What are the benefits of growing up?
2. What does growing up look like?
3. How mature are we as an organization right now and where do we want to get to?
What are the benefits of growing up?
Maturing your ERM needs to add value to the organization otherwise, what is the point? Remaining a child can sometimes sound attractive if we do not mature well!! The key value creators that a well matured ERM framework should achieve include:

**Productivity gains.**

This should come from streamlining your risk processes by moving your risk processes from an administrative burden to an outcome focussed activity. This requires a fit for purpose and focussed ERM methodology supported by a tailored, fast, simple and user friendly ERM system. Make sure all ERM procedures and policies have a value add focus. Less is often more in risk management.

**Better decision making.**

The best decisions are made by understanding the expected reward and the related risks of each decision and weighing these up. Acceptance of only decisions where the reward outweighs the risk must by default add value to the organization. A mature ERM process is where risk management is simply part of management and specifically where risk is given as equal focus as reward in any decision making.

**Improved and stronger culture.**

As ERM matures and is decentralized fully out to the business it affects the behaviors of staff (through enhanced decision making). Culture changes where staff know what the right thing to do is and will choose to do the “right thing”. The right culture is the foundation of a successful organization.

**Enhanced quality and flow of data.**

In many organizations, the quality of data is suspect. In addition, a lot of communication occurs through the human brain on a needs to know basis. May employees believe their manager does not need to know?

Mature risk management captures a wide range of quality data, turns it into risk intelligence and reports it to management objectively, regularly and real time. This allows management to make more informed decisions and make decisions earlier.
Enhanced reputation and third party confidence.

An organization’s value is dramatically enhanced when third parties (customers, suppliers, employees, regulators etc.) have confidence in the organization and trusts its performance and behavior. Mature risk management provides the vehicle to deliver this through consistent “right” behavior.

Optimization of reward to risk.

The ultimate value add is moving towards an optimized reward to risk business model and the ability to measure risk based performance.

This requires furnishing decision makers with the best available knowledge of expected reward and related risk of all decisions and then the ability to measure the actual performance based on both reward and risk.
What does growing up look like?
There are many variations of maturity models used and promoted by the consulting and advisory firms. The Protecht preferred model recognizes the following **five discrete levels of maturity**:

<table>
<thead>
<tr>
<th>Level</th>
<th>Description</th>
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| Inconsistent | • Reactive fire fighting  
               • Ad hoc actions and processes  
               • Based on the individual         |
| Defined  | • Some processes defined and institutionalized  
               • Processes repeatable            |
| Integrated | • Processes standardized and documented  
               • Processes integrated          |
| Measured | • Performance of processes measures  
               • Processes analysed and controlled |
| Optimised | • Proactive risk management  
               • Continuous improvement  
               • Fully embedded in all businesses and decision making  
               • Part of every day processes  |
5 discrete levels of maturity.
1. Inconsistent.

There is no or minimal awareness of the importance of risk management and there are no formal processes in place across the entity. Risk management is usually left to the individual and performed an ad hoc basis. Risk management is more reactive than proactive.

2. Defined.

There is some awareness of the importance of risk management and there are some formal processes in place for a few risks (e.g. WHS). There are some defined risk management roles and responsibilities within the entity. There is limited standardization of risk management processes and risk management is conducted inconsistently across each risk and across different business units.

3. Integrated.

An enterprise wide risk management framework exists covering all major risk types. Risk management is linked directly to strategy and business objectives. Standardized risk management principles are defined and documented, basic risk training is conducted. Consistent risk management processes with communication and accountability exist but not all processes have been fully implemented across the business. There is evidence of risk management becoming more proactive.


Enterprise risk management is fully implemented across the business and is used in decision making and day to day management. Risk management processes are measured and evaluated and fed back into continuous improvement. There is strong recognition of risk management at Board level and aggregated risk reports are prepared and reported to executive and management. Risk management is proactive. Key risk indicators are collected and monitored consistently.

5. Optimized.

This is the nirvana of ERM where risk management is fully embedded into day to day management. Sophisticated and advanced risk management processes are used for all major risk types. Risk management is used as a key value driver supporting decision making and supporting the pursuit of opportunity. Risk, including emerging risks are proactively identified and monitored through key risk indicators and predictive risk analytics.
The steps in using a maturity model approach to developing your ERM.
The steps in using a maturity model approach to developing your ERM, are:

1. Understand your current level of maturity.

The best way to understand where you are at the moment is to carry out a maturity assessment. This can best be achieved by using a maturity assessment tool, either applied as a self-assessment tool and / or using a trusted advisor to assist in the assessment.

There are many tools available. Choose one that is practical and not vague and one that resonates with you.

2. Develop a blueprint for where you wish to mature to, and by what timeframes.

The maturity model you use should also allow you to determine what level of maturity you wish to achieve and by what date. You should then develop your blueprint for ERM which will then drive your strategic plan for ERM. Everything you then do and invest in for ERM should be towards the end goal. This will ensure you take a strategic view of ERM investment rather than a tactical view which may achieve perceived short term gain (e.g. choose the cheapest ERM system) but that means you will never achieve your blueprint.
David Tattam is the Chief Research and Content Officer and co-founder of the Protecht Group. David’s vision is to redefine the way the world thinks about risk and to pioneer the development of risk management to its rightful place as a key driver of value creation in each of Protecht’s clients. David is the driving force behind Protecht’s risk thinking, pushing risk management to the frontiers of what is possible. He is also focused on driving the uplift of people risk capability through training and content.

David is passionate about risk and risk management and in reaping the value that risk and good risk management can create for any organization willing to embrace it. He is particularly passionate about risk management research and is prolific in creating a wide range of content delivered in blogs, eBooks, webinars and training courses. He has developed Protecht’s comprehensive suite of risk management training courses and has, and continues, to train many thousands of risk practitioners across the globe. David also manages Protecht’s consulting business offering a range of risk consulting capabilities from Risk Management Framework to Risk Appetite Statement development.

He is also the author of “A Short Guide to Operational Risk”.

Prior to co-founding Protecht, David was the Chief Risk Officer and Head of Operations for the Australian operations of two global banks. He started his career as a Chartered Accountant and Auditor with Grant Thornton and PwC. David is an Associate of the Institute of Chartered Accountants in Australia and New Zealand and a Senior Fellow of the Financial Services Institute of Australia.
ABOUT PROTECHT

Redefining the way the world thinks about risk.

For over 20 years, Protecht has redefined the way people think about risk management. We help companies increase performance and achieve strategic objectives through better understanding, monitoring and management of risk.

We provide a complete solution comprised of world class risk management, compliance, training and advisory services to businesses, regulators and governments across the world.

With our flagship SaaS platform you can dynamically manage all your risks in a single place: risks, compliance, incidents, KRI, vendor risk, IT and cyber risk, internal audit, operational resilience, BCP, health and safety, and more.

We're with you for your full risk journey. Let's transform the way you understand and manage your risk to create exciting opportunities for growth.

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