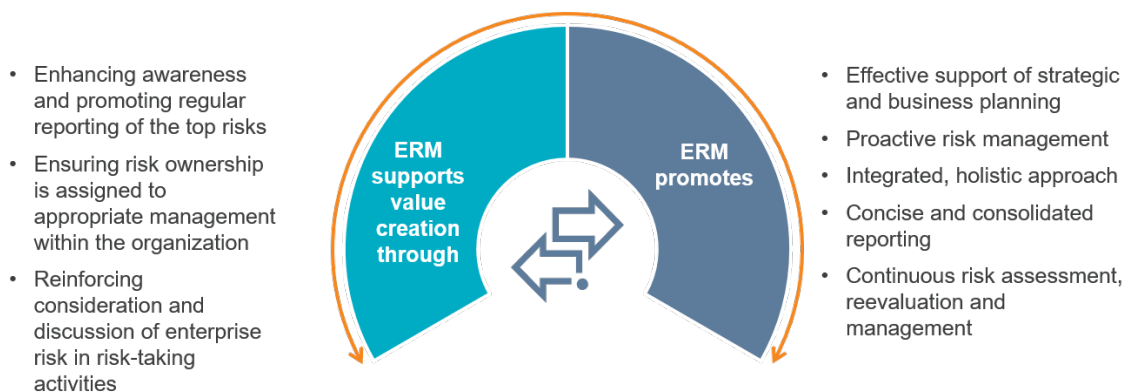


# ERM Integration with Strategy Setting and Performance Management: The Protiviti ERM Readiness Assessment Tool

*A tool to evaluate the level of integration of your ERM program into strategic planning and key decision-making processes*

## The ERM Mission in the New "Digital" Competitive Environment

The adoption of Enterprise Risk Management (ERM) programs by companies is becoming increasingly important for stakeholders. In a business context now dominated by digital transformation, several factors are contributing to this tendency, including: the extreme speed of scenario changes, the re-imagining of traditional business models, the proliferation of data and information, the contextual need to preserve the company's reputation, and the demand for more transparency in going to market; have all resulted in an increase in expectations from governing bodies and the internal control apparatus. It is therefore essential for companies to equip themselves with an ERM program geared towards anticipating and responding to changes in progress, concentrating on the choices, risks, and opportunities that affect performance. Companies are therefore looking to integrate ERM into strategic planning and key decision-making processes to foster value creation. ERM objectives vary by company, however, there are universal principles and success factors inherent to the development of risk-informed decision-making practices:



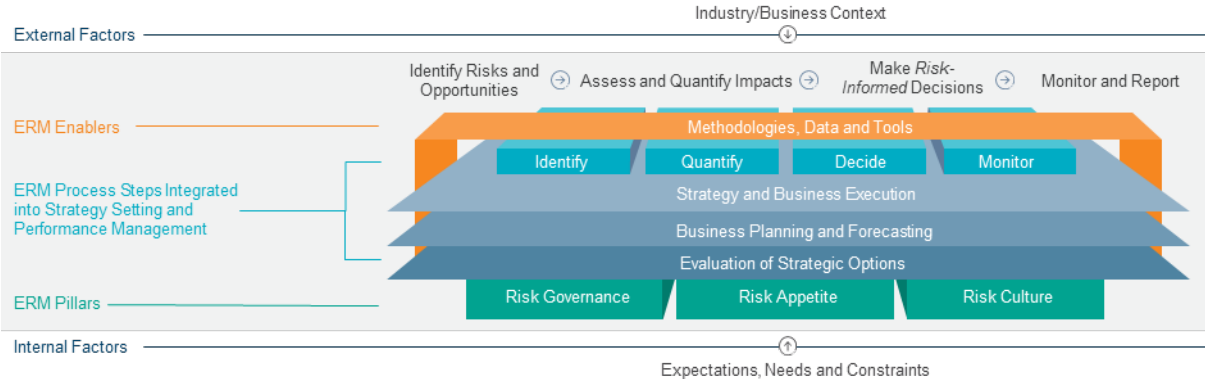
In September 2017, the Committee of Sponsoring Organizations of the Treadway Commission published the new framework for ERM, replacing the previous ERM-Integrated Framework of 2004. The new document, titled *Enterprise Risk Management – Integrating with Strategy and Performance*, brings to light the evolution of ERM over the years and suggests that companies evolve their approach to risk management in the current business environment, highlighting the importance of considering risks both in the process of defining business strategies and in managing performance on a day-by-day basis.

Among the attributes of the updated ERM Framework, aligning the current decision-making processes of the company to ERM best practices is of the utmost importance. Analyzing the risks related to the execution of strategies and business is no longer sufficient: the ultimate goal of an ERM program is to provide management with relevant information on risk factors and opportunities that can support informed decisions in both the definition of objectives and strategies, and management and monitoring of company performance.

Taking inspiration from the new directions of the September 2017 COSO ERM Framework, in line with its many years of experience in designing implementing ERM programs, Protiviti has developed the ERM Readiness Assessment Tool, designed to enhance how companies measure and monitor the maturity of their ERM program in relation to leading practices, including COSO.

**The Protiviti ERM Readiness Assessment Tool**

The Protiviti ERM Readiness Assessment Tool (“ERM Tool”) is structured into six sections, each of which invokes a component of the ERM Protiviti Framework in Figure 1. Our framework represents elements characterizing a model ERM program across various industries and is influenced by the principles and components of the COSO ERM Framework.



**Figure 1 – Protiviti ERM Framework**

Risk Culture, Risk Appetite and Risk Governance are the pillars of an ERM model and define the boundaries within which the company intends to move in its risk management path (Reference Figure 2). The tool guides the organization to assess elements related to its existing overall governance of the ERM program against peers. The tool also supports appropriate decision making during the evaluation and selection of strategic alternatives as well as business planning and its execution which is defined by an organization's risk appetite. Corporate culture must be considered for an organization to achieve desired behaviors that should characterize the entity's core values and attitudes towards risk. Establishing a culture that is embraced by all personnel is critical, being able to seize opportunities and minimize risk to achieve the strategy and business objectives.

## RISK GOVERNANCE

▶ Has the overall risk governance framework been defined and spread out across the organization? Are ERM roles and responsibilities clear enough and known by the organization?

## RISK APPETITE

▶ Has a risk appetite framework been defined and approved to address and support decision-making processes? Have clear escalation rules been defined in case of risk appetite overriding?

## RISK CULTURE

▶ Are processes, methodologies and tools in place to understand, address and monitor the organization's risk culture (both current and desired)?

**Figure 2 – ERM Pillars as components of the ERM Readiness Assessment Tool**

ERM's role in strategy and performance is defined through the Evaluation of Strategic Options, Business Planning and Forecasting, and Business and Strategy Execution (Reference Figure 3). As the organization leverages the Assessment Tool, clarity around the extent and impact of various alternatives on the organization's risk profile and to select the option that best fits the defined risk appetite is supported by the Evaluation of Strategic Options. How does our program support processes and staff to make an informed decision? Have we considered scenario analysis that provides a process of analyzing possible future events by considering alternative possible outcomes? The analysis is designed to allow improved decision-making by allowing more complete consideration of outcomes and their implications. Traditional forecasting techniques often fail to predict the significant changes in the organization's external environment, especially when change is rapid and turbulent, and information is limited.

## Evaluation of STRATEGIC OPTIONS

▶ Are processes, methodologies and tools in place to evaluate and select strategic options on a "risk-return" basis?

## BUSINESS PLANNING and FORECASTING

▶ Are there processes, methodologies and tools in place to identify and assess the risk profile related to the company's business plans?

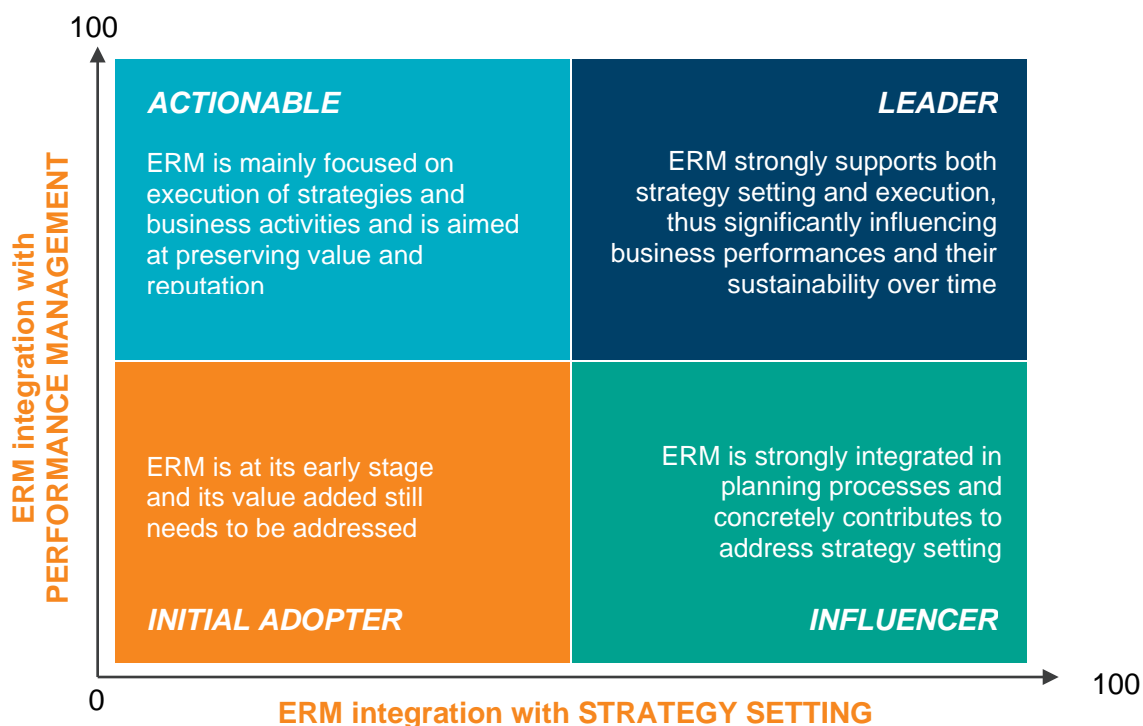
## BUSINESS and STRATEGY EXECUTION

▶ Are there processes, methodologies and tools in place to evaluate, mitigate, monitor and report main risks that can affect the capability of the organization to achieve its business goals?

**Figure 3 - Remaining components of the ERM Readiness Assessment Tool**

For each of the components previously illustrated, the ERM Tool utilizes a questionnaire to determine the level of adherence of each of the components of your ERM program in relation to the leading practices, developed either on the basis of the instructions of the COSO ERM Framework, or of best practices observed in the market.

The results from the questionnaire will position your company on the ERM Quadrant shown in Figure 4, whose two dimensions represent the level of integration of the ERM program with performance management and strategy setting initiatives.



**Figure 4-ERM Quadrant**

The outcome of an ERM readiness assessment is a platform and common approach that can guide the organizational discussion regarding ERM current and desired future state. This shared methodology can facilitate the alignment of a common platform. The assessment provides a common language of assessing ERM readiness that can be both short and long term (Reference Figure 4). The results of the assessment will enable an organization to:

- Establish as a foundation for a customized roadmap that can support ERM program evolution;
- Assess the level of maturity and robustness of the existing ERM model implemented and identify any gaps against industry leading practices.

### Importance of the Tool

There are several benefits for companies that want to leverage" the Protiviti ERM Tool, the results of which would include:

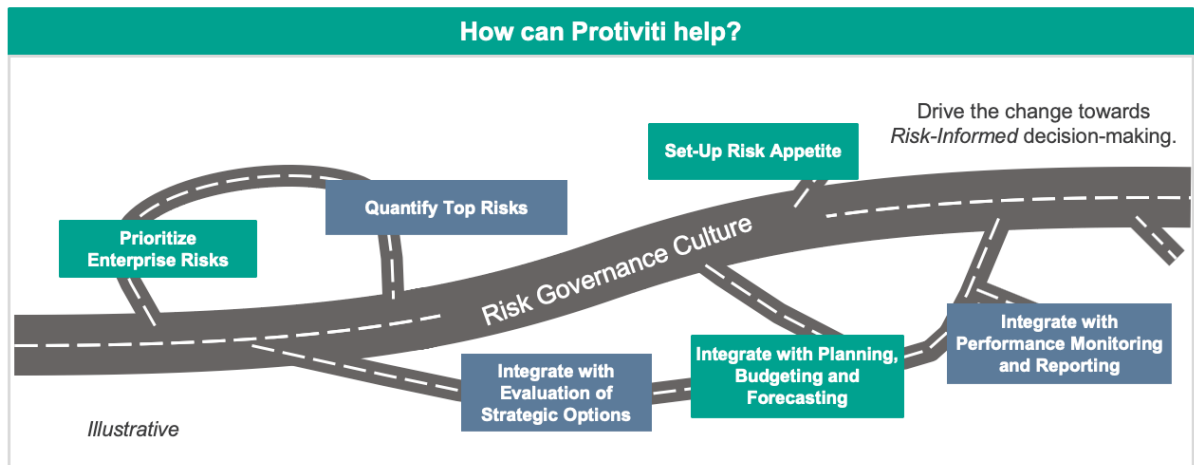
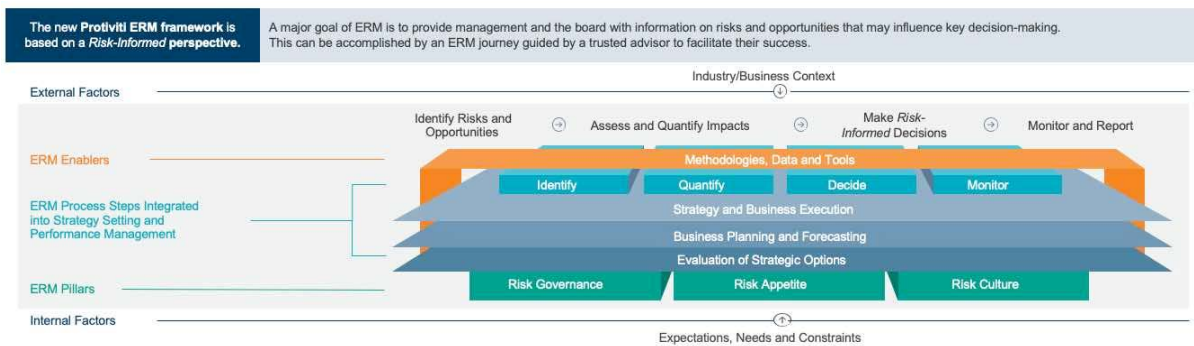
- A gap assessment of the level of maturity and robustness of your ERM program and identified gaps between the existing ERM and industry best practices;
- Utilizing the results from the gap analysis, a personalized roadmap for evolving the ERM program and considering the specific needs and expectations of your company; and

- A benchmark comparison of your “as is” ERM practices to companies globally.

Following the publication of the COSO ERM Framework in 2017, Protiviti will publish the results of its ERM Maturity Survey. This survey focuses mainly on European entities but also includes selected companies of the United States. The goal is to assess the level of integration of the ERM program in strategy-defining and performance management processes, as well as comparing ERM practices implemented by the companies involved in the survey. In the coming months we will be excited to share the results obtained through this analysis that includes over 100 companies operating in different industrial sectors.

### How Protiviti Can Help

The Protiviti Enterprise Risk Management Methodology Framework is based on a risk-informed perspective to assist companies that want to construct ERM programs that help them anticipate, adapt and respond to change, focusing resources on risks and opportunities that can impact their strategy and performance.



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