



## **Thought Leadership Article for IRMSA's 2019 Risk Report on Risk Management Maturity**

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The critical importance of improving risk maturity within industry and our country has been highlighted by Minister Pravin Gordhan's foreword within this 2019 IRMSA Risk Report, and represents a key facet within IRMSA's initiative towards a year of risk activism - '#impact'. An organisation's Risk Management Maturity (RMM) is one of the most critical aspects of its overall risk management programme, because the organisation's entire risk management implementation is assessed and reported on holistically based on best practice and the critical success factors of each aspect of the programme. RMM areas assessed include the risk management framework, risk policies, risk identification, risk assessment, risk controls, risk reporting, risk governance, risk ethics and even risk culture. RMM assessments ultimately give direction to specific, tailored interventions to fine-tune and improve the organisation's risk management programme and risk culture.

One of the leading global benchmark risk management maturity models is the Risk and Insurance Management Society (RIMS) executive RMM model. Based on the strong, collaborative relationship built by Gillian, Christopher and other members of the IRMSA team with RIMS, IRMSA has offered all corporate members the opportunity to take part in the South African national risk management maturity benchmark and risk management maturity initiatives. These were first announced by IRMSA in October 2018, followed by the launch in November 2018. The assessments utilise the RIMS model and offer a spectacular opportunity for member organisations and South African industries to receive feedback on their risk management maturity - a thermometer if you will, gauging the temperature of the key risk management critical success factors.

Building on the feedback received from the RIMS RMM assessments, and given the unique risk environment that organisations in Southern Africa face, IRMSA recognises that the RIMS model in itself may not fully address our organisations' risk management maturity and culture levels holistically. For this reason, IRMSA is further developing the RMM initiative to expand on the RIMS model and include localised developments

to provide holistic and comprehensive insights into our members' risk management programmes. An organisation may be excellent at assessing risk, for example, which is very visible, but if the accountability for risk management is not embedded across all areas of the organisation, there is a gap in risk maturity and risk culture. This gap provides the weakest link of the risk management ecosystem, thereby heightening the organisation's risk exposure and rendering risk management efforts sub-optimal.

Published academic research on Enterprise Risk Management (ERM), has called for significant advancement of ERM measurement, and for applying scientific (empirical) rigour to development of ERM measurement - specifically to RMM models. Key academic articles incorporating RMMs utilised the RMM of one of the global ratings agencies in their research and tested for a relationship between RMM and organisational performance – finding a statistically significant relationship (correlation) between risk management maturity and firm performance. In addition, models from the field of Organisational Behaviour have been applied whereby culture models have been tested together with a RMM model, finding evidence of statistically-significant relationships (correlation) between the level of ERM implementation in organisations and scores on the culture model. Findings established that “organic cultures” demonstrate higher RMM scores, which speaks to organisations being good communicators and adaptable.

The articles and research methodologies of these studies, including recent examples of qualitative and quantitative studies investigating risk management implementation were considered in a new RMM model incorporating local dynamics developed by Arthur during his PhD research. IRMSA's membership provided valuable support in this empirically robust process, taking part in a survey of items that provided inputs to the measurement scale for the RMM model. This model is closely aligned with and complimentary to the RIMS model, connecting the executive perspective of those who know the organisation's risk and culture best, with the management layer that is implementing risk management. A key links the two models and references the critical success factors and best practices defined for risk management maturity and risk culture in the local South African context.

In an ongoing project with a large financial services institution, Arthur is in conjunction with a RIMS-based model, utilising the new RMM model locally to drive deep into the organisation to test the broad base of management's assessment of the organisation's risk management maturity and risk culture. Whereas the RIMS model offers an executive top-down approach, the new model engages managers throughout the organisation by asking for their feedback and ratings of the maturity of risk management best practices and critical success factors in the organisation, as well as their values towards these risk management practices. Their scores and feedback give a true reflection on risk management maturity and risk culture at the heart of where the decisions in the organisation are made. Where the 'rubber hits the road' in risk management and risk culture, so to speak.

Important findings from the ongoing risk maturity and risk culture assessments at the financial services institution, demonstrate that the overall risk management maturity of the organisation is high. There is strong alignment between the two RMM models in terms of focus areas and gaps. For example, both models highlighted the importance of driving action plans throughout the organisation that are aligned with the

organisation's existing processes and management practices. Clustering the RMM model outputs into different demographics within the organisation, such as business units, management experience, gender etc., provides valuable insights into differences in perception of risk management maturity of practices as well as values.

As an example, some recent spectacular corporate failures have highlighted that there are differences in how the different management levels in the organisation perceive how the organisation provides employees the opportunity to raise serious risk or risk management concerns in an anonymous fashion without fear of retribution (whistleblowing policy). Those at higher levels of management, who have the most to lose but are also taking the most critical risk decisions, may be much less comfortable with raising potentially controversial risk issues within the organisation. A risk-mature organisation will pick up such nuances and develop a targeted approach to raise the risk management maturity in this critical area.

In these complimentary RMM engagements, we have thus identified the key areas for the organisation to focus on as we continue to develop its risk management maturity and risk culture towards excellence and leading practice.

We are very excited about IRMSA's collaboration with RIMS and the opportunity to provide these initiatives to our membership. We trust that all IRMSA's corporate members in South Africa will participate in the RMM assessment to both play their part in the year of risk activism towards improving the risk profile of South Africa, as well as glean such valuable information towards risk management and risk culture excellence. In the year of risk activism and #impact as IRMSA's themes, it will be very interesting to discover how the risk management maturity and risk culture of South African corporates compare to global benchmarks – across all sectors and industries.

It is time for us to shift our risk profile proactively. Reviewing the IRMSA Risk Reports of the last 5 years, we have remained relatively stagnant in terms of recirculating the same Top-20 risks. We are confident that our leading companies will be well-positioned in relation to their peers, and that IRMSA's drive to continually improve South Africa's risk management maturity and risk culture across both public and private sector and all industries will continue to pay dividends to our nation as we seek to achieve our development objectives and improve performance within the framework of good corporate governance.