Achieving integrated risk management
Performance-driven risk management is a key characteristic of some of the world’s most successful companies.\(^1\) Integrated risk management is an essential step in achieving performance-driven risk management. In general, the more integrated an organization’s approach to risk management, the more tightly it will align risk management to strategic goals and high performance.

In addition, integrating risk management enables an organization to:

- Reduce its exposure to unidentified, unmeasured or unmanaged risks
- Allocate more resources to critical risks and fewer to less important ones
- Minimize inefficiencies generated by siloed, overlapping or incomplete solutions
- Control the cost of governance, risk management and compliance (GRC)
- Address emerging and evolving risks—and regulatory mandates—more effectively
- Achieve competitive advantage and generate greater value

Of course, managing compliance efficiently, preventing losses and maintaining appropriate insurance remain key risk management activities. Yet risks—and gains to be realized by navigating risks—have risen to a point where more integrated approaches are necessary.

Few organizations have gotten there. Grant Thornton’s 2017 CFO Survey found that only 14 percent of respondents completely agree that their risk management program is integrated across business functions.\(^2\) Nearly a decade after the global financial crisis exposed the interrelatedness of risks, risk management often remains fragmented.

Integrated risk management is still misunderstood. Some organizations see it as combined compliance and risk management functions. Others approach it as connecting risk-related systems and tools or as placing all risk-related activities under one executive. But those definitions are too narrow and fail to make a positive case for integrated risk management. That positive case stems from the many opportunities to drive higher performance that risks present when they’re properly managed.

So, what is integrated risk management, really? How can you gauge your organization’s level of integration? And how can you move your program to the next level?

---

Identifying the pieces
In practice, truly integrated risk management will:

• **Align risk management with the business strategy.** Integrated risk management begins at the highest levels—aligning risk management with the organization’s value proposition and business strategy. Grant Thornton research\(^3\) shows that executives rate strategic risks more important among general risks, yet rate their monitoring and mitigation of them the lowest.

• **Identify and assess all risks.** An intense focus on narrowly defined risks can obscure management’s view of the full range of risks to assets and processes. An integrated approach identifies, assesses and addresses all risks to the organization, particularly risks that could undermine performance.

• **Recognize the interrelatedness of risks.** As the financial crisis and several highly public incidents since then have shown, a single risk event can trigger or amplify other risks. An integrated approach recognizes dynamic relations among risks and potential knock-on effects of risk events.

• **Enhance cyber risk management.** Technology is integral to every business activity. This creates exposures not only from cyber crime, but also from external innovations, bad bets on technology and failure to adopt. An integrated approach coordinates management of all cyber risks across the organization.

• **Establish risk-related infrastructure.** Integration means going beyond risk-specific solutions (which have their place) to strengthen risk management and governance structures. This calls for clear roles and accountabilities for risk and well-understood risk appetite, tolerances and responses.

• **Apply advanced analytics.** Organizations generate massive internal data and can access unlimited external data. Yet most fail to capture, analyze and act upon all relevant data. An integrated approach proactively uses data to increase visibility into risks and enhance risk management.

• **Optimize resource allocations.** Companies tend to overinvest in some risk-related areas and underinvest in others, particularly when they lack data-driven approaches to risk. An integrated approach optimizes allocation of risk management resources.

The above steps support business strategies, enhance efficiency, reduce risks and accelerate responses to risk events. When implemented together, these activities drive higher performance. This is not integrating risk management for its own sake but to protect and generate value and boost performance.\(^4\)

Relatively few companies rate themselves highly on integrated risk management: Grant Thornton’s 2016 GRC survey\(^5\) found that only 7 percent of respondents rated their Governance, risk management, and compliance as “value-adding” and “integrated” while 22 percent rated theirs as “integrated” with “some value adding activities.” That 7 percent is the cutting edge, with the 22 percent close behind. However, that leaves some 70 percent racing to catch up.

---

\(^3\) Balancing risk with opportunity in challenging times: Governance, Risk and Compliance Survey 2016, Grant Thornton <https://www.grantthornton.com/-/media/content-page-files/advisory/pdfs/2016/BAS-GRC-report.ashx>


\(^5\) Balancing risk with opportunity in challenging times: Governance, Risk and Compliance Survey 2016, Grant Thornton <https://www.grantthornton.com/-/media/content-page-files/advisory/pdfs/2016/BAS-GRC-report.ashx>
Achieving integrated risk management

Linking integrated risk management and performance
(sample characteristics of linkage)

<table>
<thead>
<tr>
<th></th>
<th>Little linkage</th>
<th>Some linkage</th>
<th>Tight linkage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Align risk management (RM) business strategy</td>
<td>Fragmented, compliance-based RM not aligned with strategy</td>
<td>Identifies &amp; manages risks to the business strategy</td>
<td>Aligns RM with strategy &amp; identifies opportunities as well as threats</td>
</tr>
<tr>
<td>Identify &amp; assess all risks to the organization</td>
<td>Rudimentary or informal annual risk assessment</td>
<td>Formally identifies &amp; assesses all risks periodically</td>
<td>Formally identifies &amp; assesses all risks continually</td>
</tr>
<tr>
<td>Recognize the interrelatedness of risks</td>
<td>Generally does not treat risks as interrelated</td>
<td>Develops plans that address some effects of interrelated risks</td>
<td>Monitors risks &amp; deploys responses to address interrelatedness of all risks</td>
</tr>
<tr>
<td>Enhance cyber risk management</td>
<td>Outdated wall &amp; fortress approach and patching &amp; incident response</td>
<td>Integrated cyber, technology, digital, operational, and financial RM</td>
<td>Proactive, value-driven, integrated digital and operations risk management</td>
</tr>
<tr>
<td>Establish risk-related infrastructure</td>
<td>Some formal risk-related roles &amp; responsibilities</td>
<td>Defined RM function, roles, responsibilities, risk appetite/tolerances</td>
<td>Dedicated RM function &amp; applies three lines of defense model⁴</td>
</tr>
<tr>
<td>Apply advanced analytics to risk management</td>
<td>Little or some use of analytics in RM</td>
<td>Uses analytical tools to analyze &amp; report on full range of risks</td>
<td>Uses advanced analytical &amp; visualization tools to monitor real-time risks</td>
</tr>
<tr>
<td>Optimize resource allocations</td>
<td>Some risk-based planning/budgeting</td>
<td>Risk-based allocation of RM and assurance resources</td>
<td>Extensive risk-based allocation of all resources</td>
</tr>
</tbody>
</table>

Linking risk management to performance
To further clarify the relationship between integrated risk management and higher performance, we illustrate—for each of the above-identified activities—three levels of linkage between integrated risk management and performance, with each level of linkage characterized in summary.

These sample characteristics are offered as illustrations of ways to consider current capabilities and their levels of integration and linkage to performance. Other activities and characteristics of linkage may apply to your organization depending on its business, industry, size and other factors.

⁴ The three lines of defense is a widely recognized organizational risk management model in which business units are the first line; quality control, compliance and the risk management function are the second line; and internal audit is the third line. Each plays a specific role—the first line owns and manages risk, the second line provides monitoring of the first line and internal audit provides assurance to management and the board and advisory services to the other two lines.
Here are a few ideas on how to use this illustration:

- Discuss these characteristics with leaders in operations, finance, treasury, compliance, legal, risk management, IT and internal audit—and key committees and board members—to develop consensus views around current practices.
- Recognize that a company need not achieve tight linkage or high integration in every area of risk management and should prioritize needs and actions. Every organization faces unique risks arising from its business model, strategy and competitors and should prioritize accordingly.
- Avoid equating high levels of spending or activity with high levels of maturity. For example, spending on ERM systems will not necessarily facilitate integrated risk management.

This illustration aims to prompt thinking about ways to link risk management with performance. Note too that while an organization can pursue integrated risk management mainly to reduce costs, the more motivating and sustainable goal would be to pursue higher performance.

Key ways to accelerate integrated risk management

Consider these elements when looking for ways to promote or accelerate integration of risk management:

1. Develop a common company-wide risk language and taxonomy that defines and documents all risk types, enables a clear risk framework, and facilitates training of critical employees.

2. Ensure that all areas, including the businesses, compliance, risk management, legal, and internal audit employ the same risk governance and risk management framework.

3. Apply a common company-wide risk assessment methodology (incorporating likelihood and potential impact) for all risks.

4. Enhance management and board reporting of risks by focusing on key risks and emerging trends by applying a consistent framework.

5. Bear in mind that the business owns the risks they are responsible for managing.

These steps generally enable an organization to focus more attention and resources on critical risks and less on noncritical risks while improving business decisions by making them more risk-based.
Achieving integrated risk management

Putting it together
Risks are becoming even more pervasive, multifaceted and dynamic. This partly explains why risk management has become so fragmented. In trying to address myriad risks, many companies purchase tools and implement solutions without proper coordination and governance. In addition, focusing mainly on loss prevention can cause an organization to miss opportunities to drive performance by understanding which risks to take and how to mitigate them.

Problems arise whenever management has been scrambling to respond to rapid change. Yet the pace of change is not about to slow down, which is why integrating risk management has become so important. It’s a proven method of consolidating gains, rationalizing solutions and pursuing growth. Given the risk landscape, now would be a good time to integrate risk management across your organization.

Steps toward a more integrated and performance-driven approach may include the following:

• **Start with goals and strategy.** Begin by articulating management’s goals and the strategy for achieving them. Then identify the full range of risks—financial, operational, economic, political, technological, cyber, cultural, regulatory and reputational—that could undermine implementation of the strategy and achievement of the goals.

• **Adopt company-wide practices:** Adopting a common risk governance and management framework and risk assessment methodology will rapidly accelerate integration of risk management. So will fostering a common risk language and taxonomy. A common risk framework, methodology and language generates a clear understanding of risks, optimizes allocation of resources, enhances management and board reporting on risks, and facilitates risk-related training.

• **Conduct a comprehensive risk assessment.** A comprehensive risk assessment considers all risks to the organization and interrelationships among risks, and assesses their likelihood and potential impact. It then identifies ways of lessening their likelihood and mitigating their impact. The result should be a deep understanding of the risks to address to protect and create value and a clear picture of mitigated and unmitigated exposures. The results then inform the risk appetite, tolerances and profile.

• **Look to the three lines of defense.** The three lines of defense model can be valuable in defining and coordinating risk-related roles and responsibilities. At every level of every business and function, people need to understand the risks within their area and which ones they own and are accountable for managing. Internal audit and external resources can be particularly valuable for their objective advice regarding risk management infrastructure.

• **Use cyber risk management to foster integration.** The pervasiveness of digital technologies makes cyber a lever for integrating risk management. New technologies regularly disrupt (or enable) strategies and business models. Meanwhile, every person in the organization—as well as third parties—can expose the organization to cyber risk. An integrated approach to cyber risk can serve as an entry point to integrating risk management and as a laboratory for such efforts.

• **Get the help you need.** External expertise can help your organization to assess its compliance and risk management maturity, conduct a risk assessment, rationalize and optimize controls and compliance processes and integrate risk management.

To learn more about how Grant Thornton works with clients to help them navigate their risks, visit [gt.com/risk](http://gt.com/risk).

---

Contacts

Vishal Chawla
National Managing Principal
Risk Advisory Services
T +1 703 847 7580
E vishal.chawla@us.gt.com

Jose Molina
Principal
T +1 312 602 8330
E jose.molina@us.gt.com

Shawn Stewart
Partner
T +1 949 608 5220
E shawn.stewart@us.gt.com