

An ERM Maturity Model

Barbara Monda

Marco Giorgino

Presented at the:
2013 Enterprise Risk Management Symposium
April 22-24, 2013

Abstract

In the recent years, Enterprise Risk Management (ERM) has emerged as a new Risk management technique aimed to manage the portfolio of risks that faces an organization in a integrated, enterprise-wide manner. Unlike traditional risk management, where individual risk categories are managed from a silo-based perspective, ERM involves an holistic view of risks allowing to take into account correlations across all risk classes. The academic literature on ERM is focused on two main aspects: the analysis of the factors that influence ERM adoption and the effect of ERM adoption on the firm performance. No studies have been conducted yet to propose robust and rigorous models to evaluate the quality, or maturity, of ERM programs implemented by organizations. The aim of the research described in this paper is to fill this gap in the literature.

In order to build a rigorous ERM maturity model, we have run an e-mail Delphi procedure involving a panel of 16 worldwide experts on ERM and reached their consensus on two main issues. The first one consists in the identification of a set of 22 indicators of best practice in terms of ERM practices among a larger number of parameters suggested by the literature. The 22 parameters have then been used to develop a structured questionnaire to be administered to firms.

Another round of the Delphi method has been run and the experts have assigned a weight to each parameter and a score to all the answer options.

The output of the Delphi method is a scoring model that can be used to assess the maturity of an ERM program: a questionnaire composed of 22 closed-end questions is sent to firms, answers are collected, a score is given to each of the 22 answers and the scores of all the questions are combined in a single final score, the ERM Index (ERM_i).

The robustness of the model has finally been tested on a sample of 30 Companies.

We foresee two different uses of the ERM_i maturity model, one by scholars and one by practitioners, the latter probably being the most relevant. In fact, we believe that the ERM_i is suitable to be used by firms for a self-assessment of their ERM programs (internal use), and by consultancy firms, auditors and rating agencies (external use).

The difference with other existing maturity models is its solid scientific base, the rigour with which it has been designed and, above all, the fact that it is derived from a Delphi procedure involving leading ERM experts who reached the consensus on the model detailed design.