

How ADP incorporates

# LEADING PRACTICES

to manage business risk

## ADP vital statistics

- Serves more than 630,000 clients in 100 countries
- Approximately 55,000 employees worldwide
- Pays 24 million workers in the U.S. and 12 million elsewhere
- Total revenues of \$10.9 billion for the fiscal year to end-June 2014
- Net earnings of \$1.4 billion for the period

Source: [www.adp.com](http://www.adp.com)

**A**utomated Data Processing, Inc. (ADP) is a human capital management company based in Roseland, New Jersey, that provides payroll and other HR solutions to thousands of companies globally. Founded in 1949, ADP has long understood the importance of managing its risk. Given the evolving competitive landscape and the emergence of disruptive technologies ADP's ERM program elevates the company's risk awareness, without being seen purely as a 'risk mitigation' program.

## Process

Creating a risk aware culture together with common risk language and framework is a leading ERM practice that ADP embraced. To do this, ADP evolved their ERM program based on

the foundation that was previously established by management and the Board. This foundation included a 'risk wheel' that incorporated a high-level view of where risk could occur. To evolve the risk management program and not add a bureaucratic layer, senior leadership appointed a vice president, a director and a manager on a full time basis reporting to the Chief Audit Executive.

The ERM team described its vision in terms that indicated it was a business enabler, not a hindrance. When gathering risk information, the team was careful to speak the same business language as the stakeholders they were interviewing as well as explore opportunities where taking measured risks might be beneficial.

The aim of the ERM program is ongoing reinforcement and enablement so that associates think and behave more intelligently about risks, thereby improving business results and strengthening the protection of ADP's reputation. To achieve this, risk management has been embedded in the company's processes and the culture, so that there's a continuous focus on key risks, threats and opportunities.

## Governance

Clearly defining accountability is an ERM leading practice and is critical to ensuring that there is a positive adoption of the risk management framework. ADP chose the model of the three lines of defense, with the

business clearly understanding that they are the first line of defense, or the risk owners. The second line is composed of corporate functions that have oversight of risk management and control, such as those responsible for data privacy and security, anti-bribery and overall compliance. Internal Audit is the third line of defense.

The ERM team is governed by an ERM Steering Committee that includes Chief Executive Officer and selected other members of Executive Management. The Steering Committee meetings aim to take full advantage of executives' time; they can deeply explore a critical risk or seek to improve ways of using risk metrics to gain a better understanding of leading indicators. Day-to-day risk management resides firmly in the business units. The ERM team provides periodic updates to the Audit Committee or the Board of Directors.

## Risk profile lenses

Another leading practice is to ensure the ERM program is aligned with strategic and business objectives and is focused on the threats to them. From the outset of the ERM program, the risk team has worked closely with ADP executives and the Board of Directors to develop the risk profile, including both primary and secondary risks facing the company. In addition, the ERM/Internal Audit team has found it useful to categorize the risks into three main areas, each of which requires a different approach to manage, monitor and audit the risks.

**Strategic Risks:** These emanate from the major strategic initiatives the company is undertaking or is planning to take. The initiatives often involve investment, changes to the business model, changes to products and services, etc. These initiatives can create new risks that need to be considered in a more strategic way. The role of ERM is to help management to establish good governance and embed the relevant components of the ERM framework into the initiative.

**Operational Risks:** These include areas such as compliance and data security, where the risks are well-known and the processes long-established. In this category, the risk management practices tend to be more mature and focused on such things as the mechanisms used to monitor operations. ERM can help the business owners improve the ways to monitor their risks by using advanced analytics. It can also help create a more consistent risk process, among other things.

**External Risks:** These tend to be factors external to the organization that could affect the business, such as new regulations or a disruptive new technology. ERM can help management develop mechanisms to monitor the external risks or facilitate deep dives to define actions that could be taken if the risk materializes at an enterprise level.

Once categorized in these three ways, the identified risks under each heading become the basis for a discussion with senior executives and the Board about corporate strategy and the array of possible threats to the fulfilment of the company's goals.

## Measuring and monitoring

Leading companies use data & analytics to enhance the understanding of risk and to improve business decision making. At ADP, the ERM department is evolving its efforts

to collect and analyze data in new and powerful ways. There are few things that get more attention from senior executives and the Board than good, useful data. And ADP's risk department's goal is to be adept at data & analytics. They are continually looking for new ways to gain keener insights into the risks, in some cases combining data from various parts of the organization to create a three-dimensional view of risk.

## Fitting the culture

The key to ADP's approach to ERM is the way it has adapted risk management to the culture of the company—a “one size fits one” approach. Risk management could have been viewed as a brake on innovation. But the ERM team recognized the importance of understanding the culture and adapted the speed of implementing the ERM program accordingly. If it tried to take a “one size fits all” approach, the ERM program would have failed.

Another leading practice to improve adoption is to develop a common risk framework and language that is used across the enterprise. ADP has created an integrated approach to ERM, by embedding the risk-and-control oversight function into a unified framework that is used by those responsible for data privacy and security, anti-bribery and overall compliance. This allows the second and third lines of defense to view enterprise risks in the same manner and communicate cohesively to the Audit Committee and the Board. But the process is not finished, because ADP is continuously aiming to build a more integrated risk assurance. To enhance consistency, the risk framework created by the ERM team is being communicated to other parts of the company in the form of a risk-management toolkit intended for operating areas and businesses to use to improve their own processes and oversight.

## Critical success factors in ADP's risk program

1. Integrate ERM practices into the daily activities of business managers.
2. Aim to be viewed by the business as a facilitator of business value and innovation.
3. Integrate the ERM framework with the other risk-and-control oversight functions to create a unified view of risk.
4. Focus the ERM program on the threats to strategic and business objectives, including missed opportunities.
5. Use data & analytics to enhance the understanding of risk and to improve business decision making.
6. Understand the organization's culture and build an ERM program that evolves along with it.

## For more information:

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