# 2023 GLOBAL STATE OF ENTERPRISE RISK OVERSIGHT

## Managing the Rapidly Evolving Risk Landscape

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MARK S. BEASLEY
ALAN T. DICKSON DISTINGUISHED PROFESSOR
DIRECTOR, ERM INITIATIVE

BRUCE C. BRANSON
PROFESSOR
ASSOCIATE DIRECTOR, ERM INITIATIVE

*Jointly Commissioned by the*

NC STATE Poole College of Management
Enterprise Risk Management Initiative

NC State University
Raleigh, North Carolina

AICPA & CIMA
Together as the Association of International Certified Professional Accountants

# A GLOBAL VIEW OF RISK OVERSIGHT

No organisation is immune to uncertainties in the global economy that can trigger risks at any point. Organisations of all types, industries, sizes, and geographies face risks that can impact – both positively and negatively – an entity's mission, business model and strategies. Ignoring the importance of effective enterprise-wide risk oversight can blindside senior executives and their boards, negatively impacting an organisation's resiliency towards withstanding events that might derail strategic objectives or threaten the entity's survivability. Said differently, risk oversight makes good business sense.

To gain a global perspective about the state of risk oversight practices in organisations around the world, we surveyed executives to understand what processes they have in place to navigate the rapidly changing risk landscape. The report summarizes insights from **983** executives in organisations around the world and provides insights on the current state of enterprise-wide risk oversight across four separate geographic regions:

- Europe & the U.K.
- Asia & Australasia
- Africa & the Middle East
- United States

NUMBER OF RESPONDENTS (n=938)


The report highlights a number of elements important to effective enterprise risk oversight and shares insights about differences in those practices across these four regions of the world. The respondents to this survey are at the executive level, and thus should be knowledgeable about their organisation's overall approach to risk oversight. As summarized in the report's Appendix, a majority of the respondents serve in financial, accounting or treasury roles, although other executive positions are represented. And, organisations of all types and sizes are represented, with no industry comprising more than one-third of any geographic region's respondent base. Given the results are not concentrated in one specific type of entity or industry, the findings are generalisaable to a variety of organisations.

Readers can use this report to benchmark the state of risk oversight processes in their organisations. Hopefully, they will find the diagnostic questions provided within the report helpful in fostering discussions among executives and boards about how they might enhance the value of risk oversight for their organisations.

# KEY FINDINGS

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The analysis of the data provided across the 983 global respondents reveals these key insights:

### Risk Environment Growing in Complexity

The overall risk landscape is becoming more numerous and complex to manage. Respondents signal that the nature and extent of risks that must be managed is increasingly difficult to navigate. The riskiness of the environment is particularly an issue for organisations in Asia & Australasia and Africa & the Middle East.

Unanticipated risk events are leading to significant operational surprises, particularly for organisations in Europe & the UK. The fact that a large proportion of respondents have been blindsided by unexpected risk events may reflect a symptom of limitations in the organisation's approach to anticipating and managing risks.

### Risk Oversight Maturity Lacking

Investments in risk oversight processes are relatively immature across all regions around the globe, with only 31% of the 983 global organisations surveyed rating their risk oversight practices as mature or robust. The lowest level of maturity was noted by organisations in Africa & the Middle East, followed by those in the U.S.

Organisations based in Europe & the UK appear to have more formalized, defined, and repeatable risk management processes relative to other parts of the world, especially when compared to the U.S. However, across the full sample fewer than one-half of the respondents believe their process is mostly-to-extensively formalised, defined, and repeatable. For the other one-half of organisations, risk oversight practices are informal and *ad hoc* in nature with only about one-third of the organisations claiming to have complete ERM practices in place. This suggests significant room for improvement.

### Value of Risk Oversight in Question

Executives and boards struggle to understand and realise the strategic value that effective risk oversight practices can provide. Most do not believe their organisation's risk management process is providing significant competitive advantage.

The lack of strategic value of risk oversight may be attributable to how the organisation's risk management practices are structured to generate risk insights. Across each region of the world, the dominant focus of risk management practices is centered on information technology (IT) risks, legal/regulatory/compliance risks, and operational/supply chain/process risks. In each region, the focus of risk management practices on emerging/strategic/market/industry risks is the lowest among all risk categories we surveyed. The failure to emphasize a strategic risk focus may explain the perceived lack of value of risk oversight.

### Leadership of Risk Oversight Requires Attention

While most executive teams believe their organisations are managing risks, often that is occurring without any individual with responsibility for leading the design and implementation of specific risks management processes. About one-half of the 983 respondents indicate that their organisation has appointed a chief risk officer or equivalent, which means there is no clear risk leader in the other one-half of the organisations. It is more common that they have created a management-level risk committee. But, is a committee-only led process sufficient?

The lack of embrace of the importance of risk oversight in organisations may be attributed to the small percentages of organisations that have embedded risk management incentives in their compensation plans. Most organisations (about 80% on average) have not done so, especially those in the U.S. The lack of incentives may explain why investment in risk oversight is lacking. Most organisations are not providing any training related to risk oversight for executives.

# KEY FINDINGS

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Messaging from the organisation's leaders may be negatively impacting the "tone at the top" about the value of risk oversight. Failure to communicate the importance of risk management may lead to perceptions that there are other more important priorities and there are insufficient resources available for investing in risk oversight. Risk oversight leadership may be needed to help shift the mindset across the organisation about the need for risk management for strategic decision making.

### Uncertain Levels of Board Engagement

While the oversight of management's risk-taking actions is a critical responsibility for the full board of directors, most boards delegate risk oversight responsibilities to a subcommittee. U.S. organisations are more likely to delegate to the audit committee while organisations in Asia & Australasia and Africa and the Middle East are more likely to delegate to risk committees. What is uncertain is the extent to which the full board is robustly engaged in risk oversight activities. Are tasks delegated fully?

While strategy and risk oversight are core responsibilities of the full board of directors, less than one-half of the organisations' boards discuss information generated by the ERM process when discussing the strategic plan.

Boards in Asia & Australasia and Africa & the Middle East are much more likely to be demanding more senior executive involvement in risk oversight relative to those in Europe & the UK and the U.S. That likely explains why the CEOs in those regions are also wanting more involvement as well.

### Investment in Risk Identification Practices Warranted

While many organisations have implemented important components of an effective risk oversight process, there are large percentages of organisations that are lacking some of the basic risk identification processes.

Organisations in Asia & Australasia and in Africa & the Middle East are noticeably more likely to have formal policy statements regarding their enterprise-wide approach to risk oversight. However, about half of the organisations in other regions, especially the U.S., have not done so.

U.S. organisations report to be least likely to maintain risk inventories on a formal basis and are least likely (relative to the other three regions) to formally update their risk inventories. If management and the board fail to have any organized list of potential risk exposures on the horizon, they are likely to take a scatterplot view of possible risks as they digest the latest news coming into view. That may be distracting them from risks most relevant to their organisation.

Most respondents are not satisfied with the robustness of their key risk indicators regarding their entity's top risk exposures.

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### Where Do We Go From Here?

Hopefully these insights will spur conversation among executives and boards about changes needed to their organisation's risk oversight approach. Failure to rethink and redesign how the organisation is managing risks means risk management practices embraced decades ago are the ones still being used in today's incredibly complex, fast-changing environment.

Scattered throughout this report are a number of thought questions for readers to assess their organisation's risk management approach. At the end of the report, there are **10 Diagnostic Questions** that can be used to foster discussions and dialogue among executives and boards about opportunities to enhance strategic insights that can be garnered from a strategically focused and robust risk management process.

# RISKS ARE REAL AND COMPLEX

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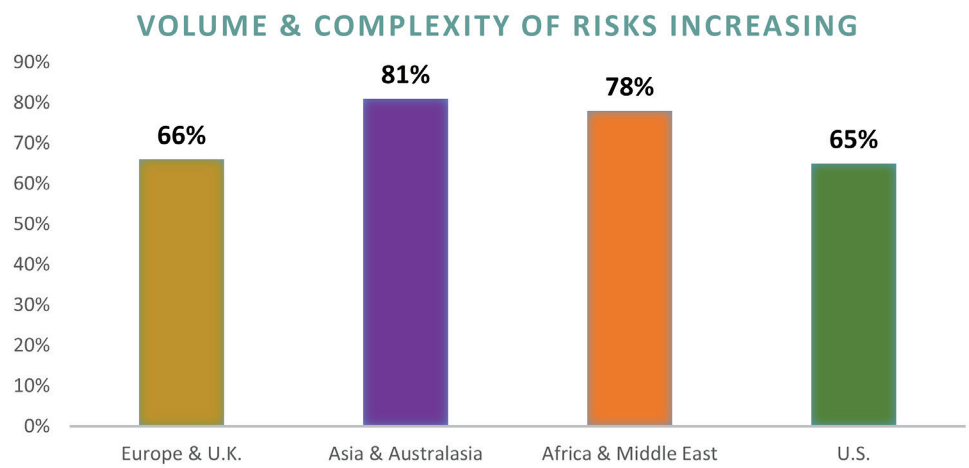
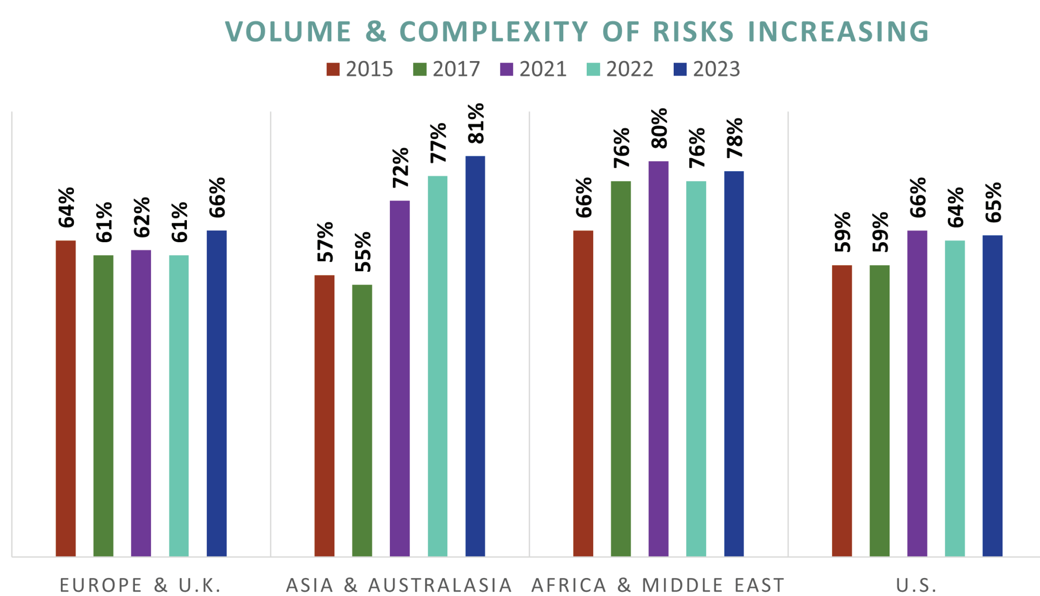
Risks are everywhere and they come in a variety of dimensions. A quick look at news headlines on a given day reveal the realities that risks are constantly evolving and they can occur at a moment's notice.

**68% sense volume & complexities of risk increasing.**

Respondents to our survey overwhelmingly perceive that the risks affecting their organisation are increasing in volume and complexity. Across the entire sample of 983 respondents, 68% believe that the volume and complexity of risks affecting their organisation increased "mostly" to "extensively" in the past five years. When you look across the four geographic regions, respondents in Asia & Australasia and in Africa & the Middle East are particularly facing an increasingly complex risk environment.




Some may argue that the above findings are attributable to a spike in risk triggered by the COVID pandemic. While that might explain some of the views about the volume and complexity of risks, perceptions about the changing nature of the risk environment have been observed in the prior four editions of this study conducted in 2015, 2017, 2021, 2022. Thus, the 2023 findings are not an outlier due to the recent pandemic.



# RISKS ARE REAL AND COMPLEX

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In addition to their perceptions about the changing nature of the overall risk environment, our respondents also reveal that their organisation has faced a significant operational surprise in the past five years. Just over one-half (55%) of the full sample of 983 respondents indicate that their organisation has experienced a major, unexpected risk event impacting the organisation. While there are some differences in the rate of surprises across the four geographic regions, no region is uniquely different in that reality as shown below. This percentage is somewhat higher than pre-pandemic years when just under 40% indicated experiences of dealing with unexpected operational challenges. So, the pandemic does not fully account for the current year result.

The occurrence of an actual significant risk event suggests a potential breakdown in the organisation's risk management processes. While risk oversight practices will not predict and prevent every risk event, enhancing those processes should help to lower the likelihood of these events in the future.

| To what extent has your organisation faced an operational surprise in the last five years? | | | |
|---|---|---|---|
| Percentages Reflecting "Mostly" and "Extensively" | | | |
| **62%** EUROPE & U.K. | **59%** ASIA & AUSTRALASIA | **52%** AFRICA & MIDDLE EAST | **48%** UNITED STATES (U.S.) |

Collectively these findings suggest that risks are prevalent, complex, and impactful.

*The question is:*

"Are your organisation's risk oversight practices keeping up with risk realities?"

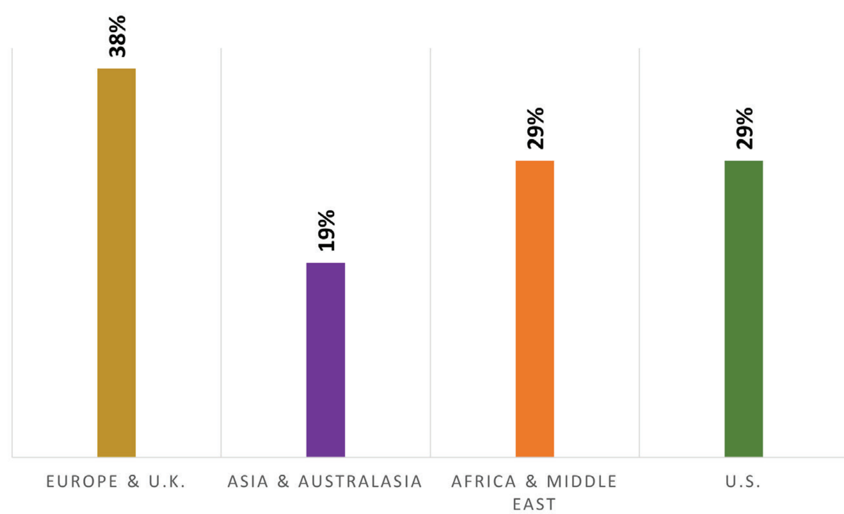
# RISK OVERSIGHT MATURITY

While our respondents indicate a perception that risks are real, active, and complex, they also admit that the level of sophistication and maturity of their organisation's approach to risk management may not be keeping pace with that reality.

Across the board, only 31% of the 983 respondents describe their organisation's risk oversight practices as "mature" or "robust." In all regions of the world, those organisations with "mature" or "robust" risk oversight are in the minority. How can that be in 2023?

**Only 31% describe their risk oversight as "mature" or "robust."**

PERCENTAGE WITH "MATURE" OR "ROBUST"RISK MANAGEMENT OVERSIGHT




We also asked a different question about whether their ERM processes are "*systematic, robust, and repeatable with regular reporting of top risk exposures to the board*." Across the full sample of 983 organisations, less than one-half (44%) of respondents describe their risk oversight in that capacity. Some differences exist in responses between U.S. respondents and respondents from all other parts of the world to that question as shown below. Organisations based in Europe & the UK appear to have more formalized, defined, and repeatable risk management processes relative to other parts of the world, especially when compared to the U.S.

| Percentage of organisations describing their ERM process as "systematic, robust, and repeatable with regular reporting of top risk exposures to the board." | | | |
|---|---|---|---|
| Percentages Reflecting "Mostly" and "Extensively" | | | |
| **51%** | **46%** | **43%** | **37%** |
| EUROPE & U.K. | ASIA & AUSTRALASIA | AFRICA & MIDDLE EAST | UNITED STATES (U.S.) |

Over the last couple of decades there has been a growing awareness of the business paradigm widely known as "enterprise risk management (ERM)." ERM is a process that strives to provide a more holistic, top-down strategic perspective of risks that may be on the horizon, with the goal of managing risks within the context of the organisation's appetite for taking different risks as it pursues strategic objectives. To get a sense for the embrace of ERM as a risk oversight practice, we asked respondents to indicate the extent to which their organisations are embracing an ERM philosophy and practice towards

# RISK OVERSIGHT MATURITY

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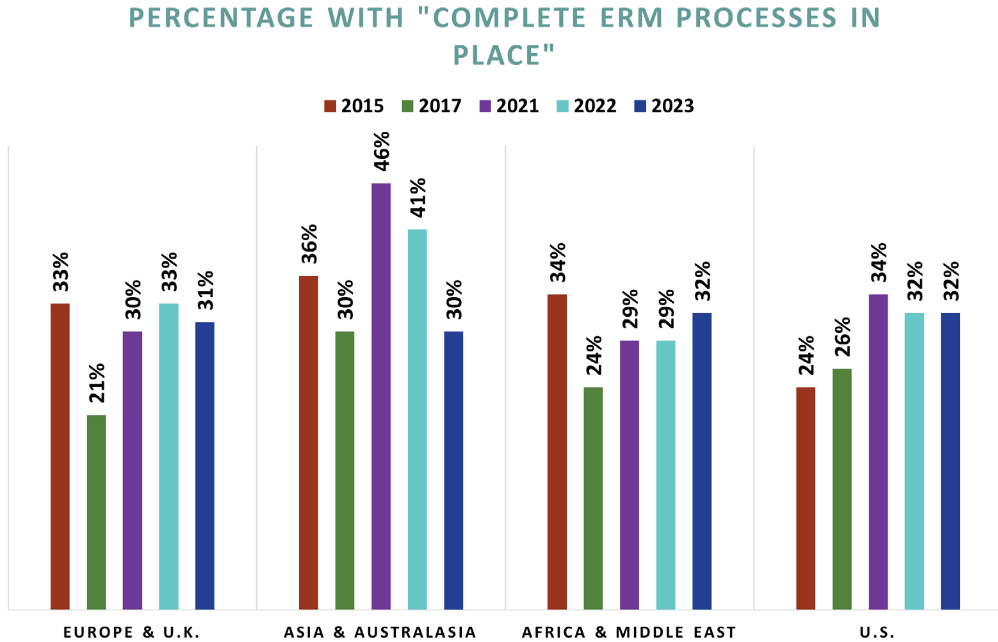
risk oversight. As illustrated by the bar graph below, the level of embrace of ERM across different regions of the world remains in the minority, with about one-third of the organisations in each of the four regions of the world examined indicating they have completely embraced ERM as a risk management practice. That trend has not shifted noticeably over the past several years.

**About 1/3 of organisations have complete "ERM" processes in place.**




Additionally, across the full sample of 983 respondents, 18% indicate that executives do not see the benefits of ERM exceeding the costs or there are too many other pressing needs.

Collectively, these findings suggest that the overall level of risk management maturity has significant room for improvement. This is especially striking given the overall views of respondents about the riskiness of the global business environment described earlier. Might this represent a gap between risk management need and capabilities?

Risk management is not getting easier. Given the speed of change, the complexity of the overall risk environment will likely escalate in the years to come. While strong risk oversight is not able to prevent all significant risks, investing in enterprise-wide risk oversight practices should lower the likelihood or impact of risk events in the future.

*The question is:*

"Are your organisation's risk oversight practices sufficient to keep pace with the escalating risk reality?"

# LINKAGE OF RISK AND STRATEGY

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One explanation for the perceived under-investment in risk oversight practices may be attributable to a lack value provided by risk management for strategic decision making. While most executives understand the interconnectivity of "risk and return," many organisations struggle to integrate their risk management practices with strategy. Risk management is often disjointed with risks managed in pockets or silos across the organisation (e.g., regulatory risk, operational risk, IT risk, insurance risk, etc. all separately managed) with little, if any, interaction between those functions. Risks are often not linked to specific strategies or tactics. And, risk leaders infrequently (if at all) interact with those in the C-suite about how risks might impact strategic success. Furthermore, this siloed approach to risk management tends to heavily focus on internal, operational, compliance, or other "already-known" risks, with less focus on broader emerging, strategic, and frequently, externally-triggered risks.

**A large majority of respondents do not view their organisation's risk oversight as providing competitive advantage.**

Senior leaders and boards often fail to see the strategic value of investing in more robust and enhanced risk oversight, given a perceived lack of strategic value being provided by the risk management process. That may explain the results reported in the prior pages. If risk and return are truly interconnected realities, then it is important for the output of any organisation's risk oversight processes to be an important input to strategy planning and oversight.

To get a sense of the perceived value of risk oversight in the 983 organisations we surveyed, we asked respondents several questions to obtain a sense of the perceived value of their organisation's overall risk oversight.

Across the globe, only 16% of the 983 respondents believe their organisation's risk management process is "mostly" to "extensively" providing a competitive advantage. This overwhelmingly suggests that risk management is not viewed as providing significant strategic value. The table below reveals that respondents in each of the four geographic regions do not believe their organisation's risk management process is providing unique competitive advantage, with those in Africa & Middle East reporting higher benefits. This finding convincingly suggests that insights coming from risk management activities are not providing sufficient insights that are helping executives and boards design and implement strategies in the competitive global marketplace.

| Respondents stating that the risk management process "Mostly" or "Extensively" provides unique competitive advantage | | | |
|---|---|---|---|
| Percentages Reflecting "Mostly" and "Extensively" | | | |
| **15%** EUROPE & U.K. | **23%** ASIA & AUSTRALASIA | **40%** AFRICA & MIDDLE EAST | **11%** UNITED STATES (U.S.) |

While respondents in Asia & Australasia and in Africa & the Middle East are a bit more confident in the value of their risk oversight practices relative to other parts of the world, the percentages of organisations with value-adding risk oversight is in the minority.

Part of the reason why risk oversight practices may not be providing important strategic value may be due to the fact that the focus of the organisation's risk identification processes may not be explicitly prompting executives to consider external, strategic risk issues.

We asked respondents to indicate the extent to which their risk oversight processes formally identifies, assesses, and responds to different types of potential risks. The table on the next page highlights that the focus of risk oversight processes on emerging strategic/market/industry risks is lowest relative to the focus on other types of risk areas, including IT, operational, financial, legal risks and political/reputational risks. That lack of focus on strategic issues may be contributing to the view that risk oversight is not providing strategic value.

# LINKAGE OF RISK & STRATEGY

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**Extent the risk management process identifies, assesses and responds to the following risk areas:**

**Percentages Reflecting "Mostly" and "Extensively"**

| | Europe & U.K. | Asia & Australasia | Africa & Middle East | U.S. |
|---|---|---|---|---|
| Information Technology Risks | 66% | 55% | 61% | 61% |
| Legal/Regulatory/Compliance Risks | 65% | 58% | 72% | 59% |
| Operational/Supply Chain/Process Risks | 58% | 49% | 62% | 48% |
| Financing/Investing/Financial Reporting | 58% | 55% | 68% | 52% |
| Reputation/Political Risks | 57% | 49% | 69% | 44% |
| Emerging Strategic/Market/Industry Risks | 46% | 48% | 54% | 39% |

Interestingly, when asked whether risk exposures are considered when evaluating possible new strategic initiatives, a majority of organisations, except those in the U.S., indicate that risks are an important factor considered. While that is encouraging, it is striking that the finding is not 100%. Shouldn't risks related to a strategic initiative be a factor in all strategic initiative considerations?

**Extent risk exposures are considered when evaluating possible new strategic initiatives**

**Percentages Reflecting "Mostly" and "Extensively"**

| EUROPE & U.K. | ASIA & AUSTRALASIA | AFRICA & MIDDLE EAST | UNITED STATES (U.S.) |
|---|---|---|---|
| **57%** | **48%** | **76%** | **45%** |

The collective findings are rather telling: Risk oversight is not consistently viewed as providing important strategic value for business decision making.

*The question is:*

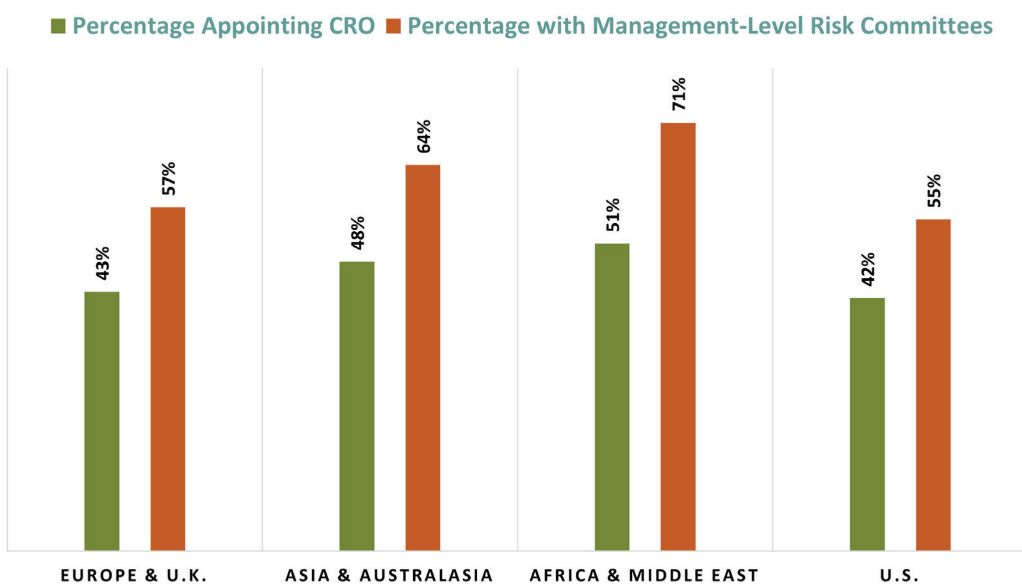
"What changes need to be made to your organisation's risk oversight practices to increase their strategic value for making important business decisions?"

# LEADERSHIP OF RISK OVERSIGHT

Effective risk management does not happen without leadership and a tone from the top that embraces the importance of risk oversight for the organisation. Over the past decade or so, there has been a growing trend for organisations to pinpoint an individual to serve as the chief risk officer (CRO) or senior risk executive equivalent. In addition, organisations are also creating management-level risk committees to help facilitate risk oversight at an enterprise level.

Just under one-half of the organisations globally have appointed a single individual to lead the risk management function, as shown below. Organisations are more likely to have a management-level risk committee in place relative to having a CRO or equivalent. While risk committees can be an effective tool for ensuring there is a holistic view of risks across an organisation, without a specific leader in charge of the risk oversight process, organisations may not be advancing risk oversight at a pace that may be warranted.

**The presence of a management level risk committee is more common than appointing a CRO or equivalent risk officer.**




Incentives matter. The current state of risk oversight practices may be limited by the fact that executives are not held formally accountable for risk management activities. We asked respondents whether risk management activities are an important component of management performance compensation/ remuneration plans. Most do not as shown below, given only 19% of the full sample include a significant risk management component in their compensation plans.

| Extent that risk management activities are an explicit component in determining management compensation. | | | |
|---|---|---|---|
| Percentages Reflecting "Mostly" and "Extensively" | | | |
| **20%** EUROPE & U.K. | **24%** ASIA & AUSTRALASIA | **33%** AFRICA & MIDDLE EAST | **14%** UNITED STATES (U.S.) |

Without incentives to engage in risk oversight, executives are likely to underinvest in thinking about and managing risks. Furthermore, most organisations are not investing in training and other guidance for senior executives and key business unit leaders on risk management best practices.

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# LEADERSHIP OF RISK OVERSIGHT

| Extent senior executives and key business unit leaders have received formal training and guidance on risk management in the past 2 years. | | | |
|---|---|---|---|
| Percentages Reflecting "Mostly" and "Extensively" | | | |
| **24%** EUROPE & U.K. | **27%** ASIA & AUSTRALASIA | **32%** AFRICA & MIDDLE EAST | **21%** UNITED STATES (U.S.) |

The relative level of immaturity and robustness of enterprise risk oversight in organisations around the world is likely attributable to the presence of several perceived barriers to enterprise risk oversight. These barriers may be restricting progress in strengthening an organisation's overall approach to risk oversight. Several barriers are noted as being a "Barrier" or a "Significant Barrier." Organisations in the U.S. particularly view risk oversight as impeding more important competing priorities (38% of full sample cite this barrier). They apparently do not see risk management as complimenting its efforts towards strategic success.

| | Percentages Reflecting "Barrier" or "Significant Barrier" | | | |
|---|---|---|---|---|
| Perceived Barriers to Effective ERM | Europe & U.K. | Asia & Australasia | Africa & Middle East | U.S. |
| Competing priorities | 30% | 33% | 32% | 47% |
| Insufficient resources | 37% | 44% | 40% | 47% |
| ERM perceived as unneeded bureaucracy | 21% | 30% | 22% | 27% |
| Lack of perceived value | 19% | 39% | 22% | 30% |

*The question is:*

"What changes need to be made to your organisation's risk oversight practices to increase their strategic value for making important business decisions?"

# BOARD ENGAGEMENT

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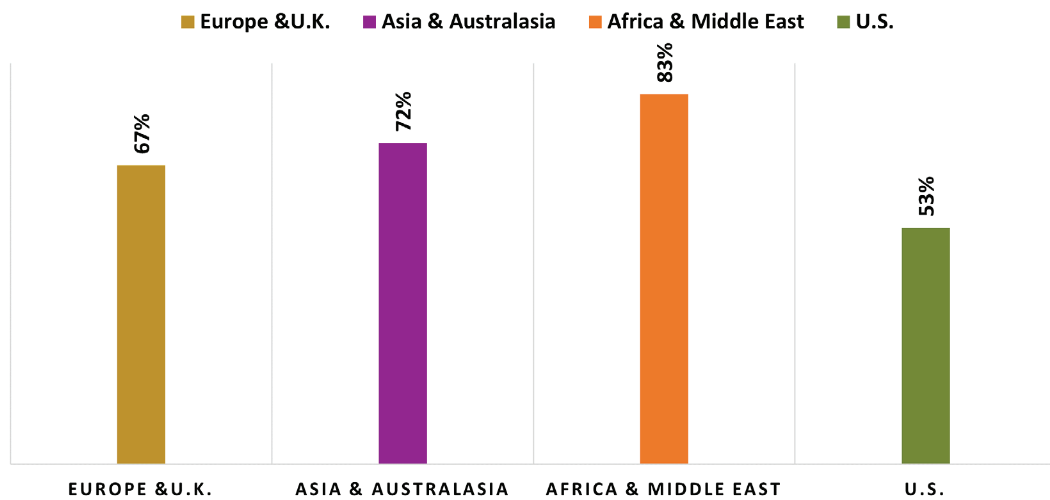
A critical role of the board of directors is to monitor management's risk taking to ensure those actions are in line with key stakeholder appetites for taking risk. As a result, oversight of management's risk management activities is a key responsibility for any board.

We asked survey respondents about the level of board engagement in the risk oversight processes. Interestingly we found that a majority of the boards represented by organisations in our survey delegate risk oversight to one of its subcommittees, as shown by the bar graph below.

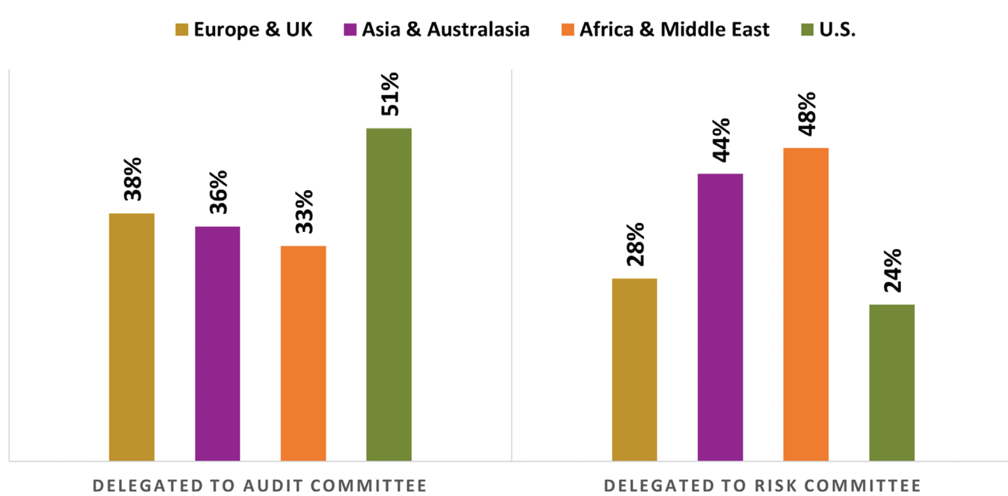
**A majority of boards delegate their risk oversight to a subcommittee, which is often the audit committee or risk committee.**

**PERCENTAGE OF BOARDS FORMALLY DELEGATING RISK OVERSIGHT**




If the full board delegates risk oversight to one of its subcommittees, the audit committee is most likely responsible for organisations in the U.S. while it is the risk committee for organisations in Asia & Australasia and in Africa & the Middle East.

**BOARD'S DELEGATION OF RISK OVERSIGHT**



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# BOARD ENGAGEMENT

What is uncertain is exactly what risk oversight responsibilities are delegated to a subcommittee. Given oversight of risk is a full board responsibility, some organisations may be delegating most of the risk oversight to a subcommittee, leaving little, if any, time or attention invested in risk oversight by the full board.

In addition to overseeing risk taking on the part of management, the full board is also responsible for overseeing management's strategic decision making. We asked respondents about the extent to which risk information generated by the risk oversight processes is formally discussed when the board of directors discusses the organisation's strategic plan. Interestingly, that is only occurring in about one-half of the organisations around the world, except for those in the U.S. where the percentage is much lower.

**To what extent is the risk information generated by your organisation's ERM process formally discussed when the board of directors discusses the organisation's strategic plan?**

**Percentages Reflecting "Mostly" and "Extensively"**

| EUROPE & U.K. | ASIA & AUSTRALASIA | AFRICA & MIDDLE EAST | UNITED STATES (U.S.) |
|---|---|---|---|
| **42%** | **42%** | **56%** | **26%** |

As stakeholder expectations for greater board engagement in risk oversight increase, boards are likely to pressure management to enhance the approach to risk oversight. Data reported in the table below suggests that boards and their audit committees may be increasing demands for greater management engagement and investment in risk oversight processes, especially for organisations in Asia & Australasia and in Africa & the Middle East. That is, in turn, leading to more requests from the CEO/President for increased senior management engagement in risk oversight in those regions. Organisations in the Europe & UK are experiencing similar trends, except at somewhat lower levels, while those in the U.S. are much lower.

| | Percentages Reflecting "Mostly" and "Extensively" | | | |
|---|---|---|---|---|
| Extent each of the following parties is asking for increased senior executive involvement in risk oversight? | Europe & U.K. | Asia & Australasia | Africa & Middle East | U.S. |
| Board of Directors | 43% | 62% | 73% | 33% |
| Audit Committee | 42% | 54% | 72% | 34% |
| CEO/President | 43% | 55% | 77% | 38% |
| Regulators | 29% | 36% | 57% | 22% |

***The question is:***

"What changes need to occur to ensure your full board is dedicating sufficient time and attention to its risk oversight responsibilities?"

# RISK IDENTIFICATION PRACTICES

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To obtain a sense for the key components of an organisation's risk oversight practices, we asked respondents to provide insights about some of the specific components of those practices.

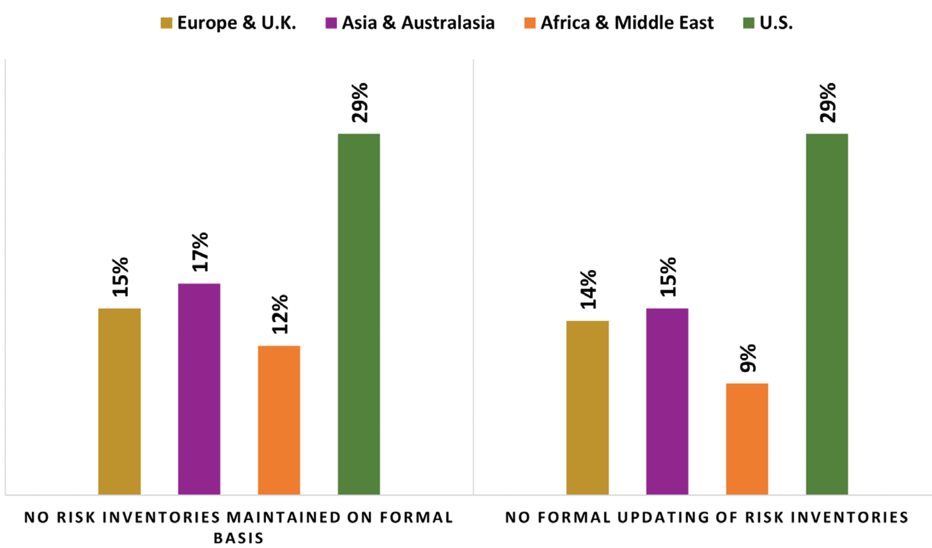
Some organisations have established formal policies and definitions to guide their risk ovesight processes.

**There is noticeable variation in different elements of the risk management infrastructure.**

| | Percentages Reflecting "Mostly" and "Extensively" | | | |
|---|---|---|---|---|
| | Europe & U.K. | Asia & Australasia | Africa & Middle East | U.S. |
| **Organisation has a formal policy statement regarding its enterprise-wide approach to risk management** | 51% | 49% | 61% | 38% |
| **Organisation has formally defined the meaning of the term "risk" for employees to use when identifying and assessing key risks** | 52% | 64% | 62% | 44% |

Approximately one-fifth or fewer of organisations in all regions of the world do not maintain risk inventories/registers of their top risk exposures, with closer to 30% of U.S. organisations indicating they do not maintain a risk inventory. Similar results are observed when respondents were asked if their organisations have formal processes to update key risk inventories/registers. U.S. organisations answered "no" to those questions more often than respondents in other regions of the world.

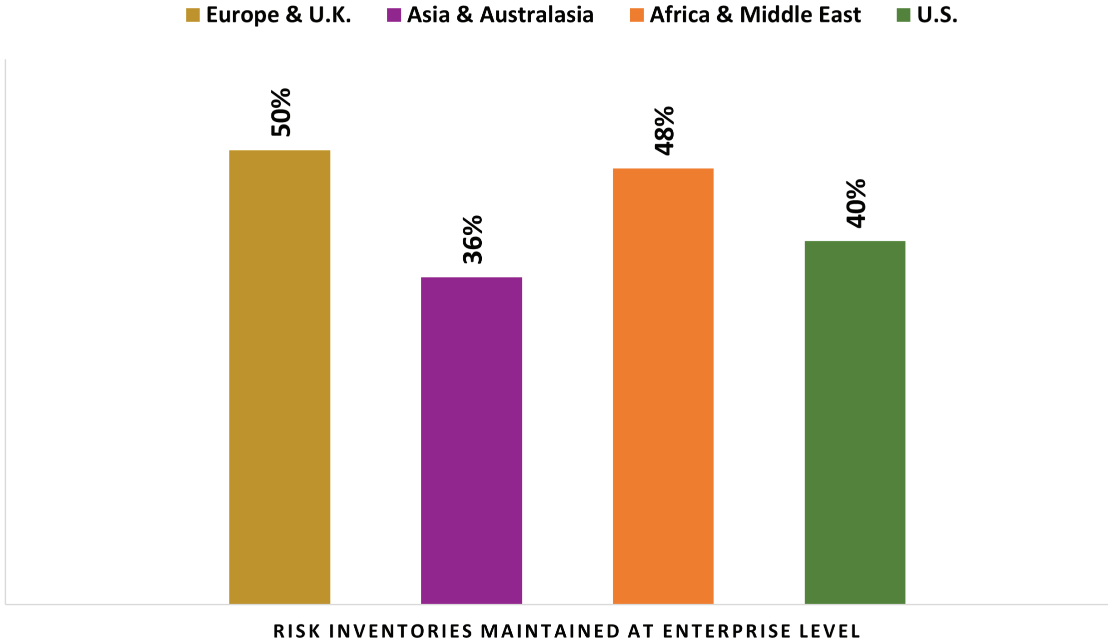
ESTABLISHING A RISK UNIVERSE




No more than one-half of organisations across all regions of the world maintain risk inventories at the enterprise level (as shown on the next page). That finding may help explain why risk management is failing to provide significant strategic value. If management lacks awareness of what risks are on the horizon, they are less likely to be able to proactively navigate risks that may emerge. The lack of insights about potential risks that may occur means they are forced into a defensive, reactive stance to manage risks as risks occur. In contrast, an advance awareness of the inventory of top risks may provide helpful insights that management can use to proactively make risk-informed strategic decisions.

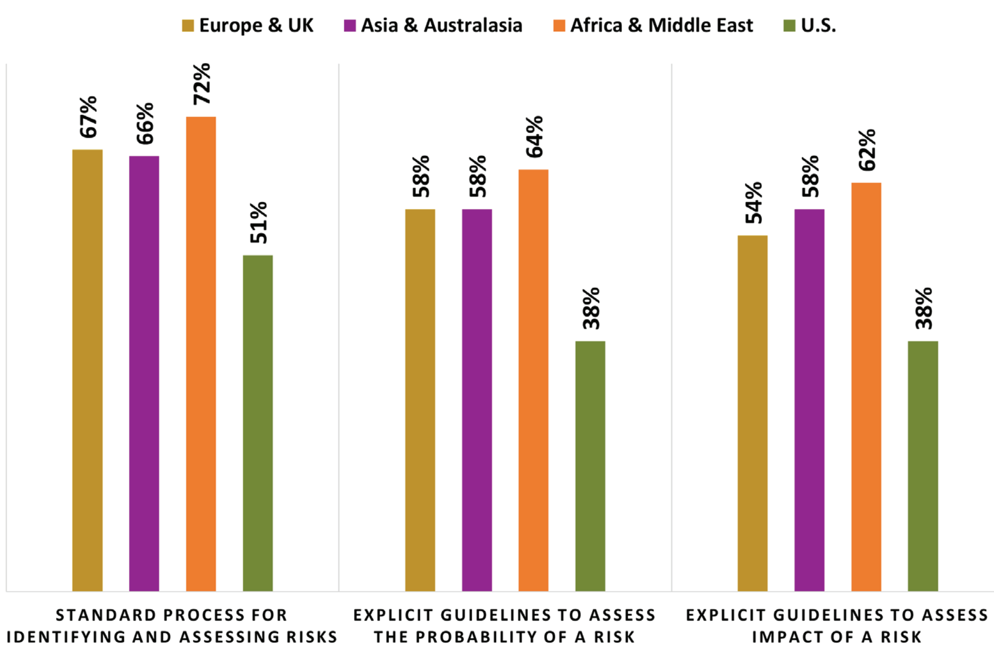
# RISK IDENTIFICATION PRACTICES

## ENTERPRISE LEVEL VIEW OF RISKS




A noticeable majority of organisations claim to have a standardised process or template for identifying and assessing risks, except for those in the U.S. where only 51% do so. Organisations in Africa & the Middle East are more likely compared to other regions of the world to provide management with explicit guidelines to help them assess the probability and impact of a risk event.

## GUIDELINES TO IDENTIFY & ASSESS RISKS




Keeping an eye on metrics that can signal shifts in risk trends is critical component for an effective risk oversight process. Without metrics, such as key risk indicators (KRIs) to monitor risks, management is more likely to be blindsided by risks when they occur. Unfortunately, the majority of organisations do not have robust metrics in place to help them oversee the top risk exposures. Effective KRIs are especially lacking in U.S. organisations.

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# RISK IDENTIFICATION PRACTICES

| How robust is the nature and extent of reporting of key risk indicators to senior executives regarding the entity's top risk exposures? | | | |
|---|---|---|---|
| Percentages Reflecting "Mostly" and "Extensively" | | | |
| **46%** EUROPE & U.K. | **37%** ASIA & AUSTRALASIA | **48%** AFRICA & MIDDLE EAST | **28%** UNITED STATES (U.S.) |

Among the 983 respondents in this global survey, fewer than 40% say that key risks are communicated to senior executives as part *of ad hoc* discussions, with only 26% doing so as part of scheduled agenda discussions about risks.

Investing more in an organisation's risk management core infrastructure is needed in many organisations around the world, based on the data provided about core risk management practices.

*The question is:*

"Where are the biggest gaps in our risk management infrastructure?"

# 10 DIAGNOSTIC QUESTIONS TO ASK

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Business leaders may find it helpful to consider these diagntostic questions as an evaluation of their organisation's overall risk oversight effectiveness. Engaging senior management and the board in discussions about answers to these questions may help pinpoint needed enhancements to the organisation's risk oversight:

1. How rapidly are uncertainties in the global business environment changing in complexity and volume and is your organisation's approach to risk management at a level of robustness necessary to manage that changing reality?
2. To what extent is your organisation's risk management process providing valuable insights for board and senior management strategic decision making? Are risk insights from the risk management process a valued input to strategic planning?
3. What types of risks dominate the board and management's discussions? Is the focus mostly on "already known" operational, compliance, and financial risk challenges or are those discussions prompting management to consider new and emerging risk challenges on the horizon, particularly those that may emerge from outside the organisation?
4. To what extent are risks identified by the risk management process mapped to how they might impact the organisation's core business model and strategic plan on both a short-term and long-term perspective?
5. How is the organisation's culture affecting risk-taking and risk-management across the organisation? Is risk management perceived to be an important, value-added management tool or is it viewed from a "check-the-box" or compliance activity?
6. To what extent is there clarity among the board and senior management about the top risks for the organisation?
7. Has management explicitly identified a "owner" for each of the organisation's top risks and what accountabilities are in place to ensure risk owners are sufficiently overseeing their assigned risk areas?
8. To what extent do all of the members of the executive team and board have a rich understanding of the root cause drivers of the organisation's top risks and how the entity is responding to those risks to prevent the root cause from occurring and minimize the impact should the risk occur?
9. To what extent does management's dashboard of key performance metrics also include relevant key risk indictors to help them keep an eye on emerging risk trends?
10. What risk information does the board and senior management need but currently not have? What improvements to the organisation's risk management process are in greatest demand?

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# SUMMARY

The global business environment is loaded with uncertainties that can generate risks at any point and in a variety of forms. Organisations that fail to invest in risk oversight are left to being blindsided by risks as they occur, putting them in reactive versus proactive positions. Competitors who anticipate risks and manage them proactively will win in the marketplace. Robust, strategically focused risk management makes good business sense.

This report provides data about a number of risk oversight dimensions from four regions of the world. Readers can use the insights from this data to benchmark the state of their organisation's risk oversight practices. Hopefully that will motivate executives and boards to assess opportunities for improvement. We encourage organisational leaders to engage in substantive conversations about what is working well and what's not in regards to their organisation's risk oversight approach. The **10 Diagnostic Questions** can be used to start those conversations.

The time to invest in risk management is before the risk event occurs. Take advantage of thinking about that now to better prepare your organisation for the future.

# APPENDIX: DEMOGRAPHICS OF SURVEY RESPONDENTS

Here is an overview of the demographics of the 983 respondents to the survey that provides the basis for this report.

## NUMBER OF RESPONDENTS BY REGION

| | Number of Respondents by Region | | | |
|---|---|---|---|---|
| | Europe & U.K. | Asia & Australasia | Africa & Middle East | U.S. |
| Number of Survey Respondents | 356 | 118 | 90 | 419 |

## SIZE OF ORGANISATIONS REPRESENTED

| | Percentages | | | |
|---|---|---|---|---|
| **Range of Revenues in Most Recent Fiscal Year (Reported in USD)** | Europe & U.K. | Asia & Australasia | Africa & Middle East | U.S. |
| $0 < x < $10 million | 24% | 30% | 30% | 25% |
| $10 million < x < $100 million | 37% | 29% | 38% | 20% |
| $100 million < x < $500 million | 18% | 22% | 12% | 15% |
| $500 million < x < $1 billion | 7% | 6% | 8% | 9% |
| $1 billion < x < $2 billion | 3% | 6% | 5% | 7% |
| $2 billion < x < $10 billion | 8% | 4% | 2% | 14% |
| x > $10 billion | 3% | 3% | 5% | 10% |

## MANAGEMENT TITLES FOR RESPONDENTS

| | Percentages | | | |
|---|---|---|---|---|
| **Titles** | Europe & U.K. | Asia & Australasia | Africa & Middle East | U.S. |
| Chief Financial Officer or Finance Director | 45% | 42% | 40% | 22% |
| Controller | 12% | 14% | 9% | 7% |
| Treasurer | 2% | 0% | 1% | 4% |
| Chief Risk Officer | 3% | 8% | 7% | 10% |
| Head of Internal Audit | 3% | 3% | 2% | 10% |
| Other | 35% | 33% | 41% | 47% |

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# APPENDIX: DEMOGRAPHICS OF SURVEY RESPONDENTS

## INDUSTRIES REPRESENTED

| | Percentages | | | |
|---|---|---|---|---|
| **Industries** | Europe & U.K. | Asia & Australasia | Africa & Middle East | U.S. |
| **FOR-PROFIT ENTITIES** | | | | |
| Services | 20% | 22% | 21% | 26% |
| Manufacturing | 19% | 16% | 8% | 11% |
| Finance, Insurance, Real Estate | 12% | 18% | 31% | 26% |
| Wholesale Distribution | 7% | 5% | 3% | 1% |
| Construction | 6% | 7% | 2% | 2% |
| Retail | 5% | 7% | 6% | 4% |
| Transportation | 2% | 6% | 3% | 2% |
| Mining | 1% | 1% | 4% | 1% |
| Agriculture, Forestry, Fishing | 1% | 6% | 4% | 1% |
| | | | | |
| **NON-PROFIT ENTITIES** | 27% | 12% | 18% | 26% |

# ABOUT THE AUTHORS

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Mark S. Beasley, CPA, Ph.D., is the Alan T. Dickson Distinguished Professor and Director of the ERM Initiative at NC State University. He specialises in the study of enterprise risk management, corporate governance, financial statement fraud, and the financial reporting process. He completed over seven years of service as a board member of the Committee of Sponsoring Organisations of the Treadway Commission (COSO) and has served on other national-level task forces related to risk management issues. Currently, he is a member of the United Nation's Internal Control Advisory Group. He consults with boards and senior executive teams on risk governance issues, is a frequent speaker at national and international levels, and has published over 100 articles, research monographs, books, and other thought-related publications. He earned his Ph.D. at Michigan State University.

Bruce C. Branson, Ph.D., is an Alumni Distinguished Professor of Accounting and Associate Director of the ERM Initiative in the Poole College of Management at NC State University. His teaching and research is focused on enterprise risk management and financial reporting, and includes an interest in the use of derivative securities and other hedging strategies for risk reduction/risk sharing. He also has examined the use of various forecasting and simulation tools to form expectations used in financial statement audits and in earnings forecasting research. He earned his Ph.D. at Florida State University.

**www.erm.ncsu.edu**

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The ERM Initiative at NC State University is pioneering thought-leadership about the emergent discipline of enterprise risk management, with a particular focus on the integration of ERM in strategy planning and governance. The ERM Initiative conducts outreach to business professionals through executive education and its internet portal (www.erm.ncsu.edu); research, advancing knowledge and understanding of ERM issues; and undergraduate and graduate business education for the next generation of business executives.