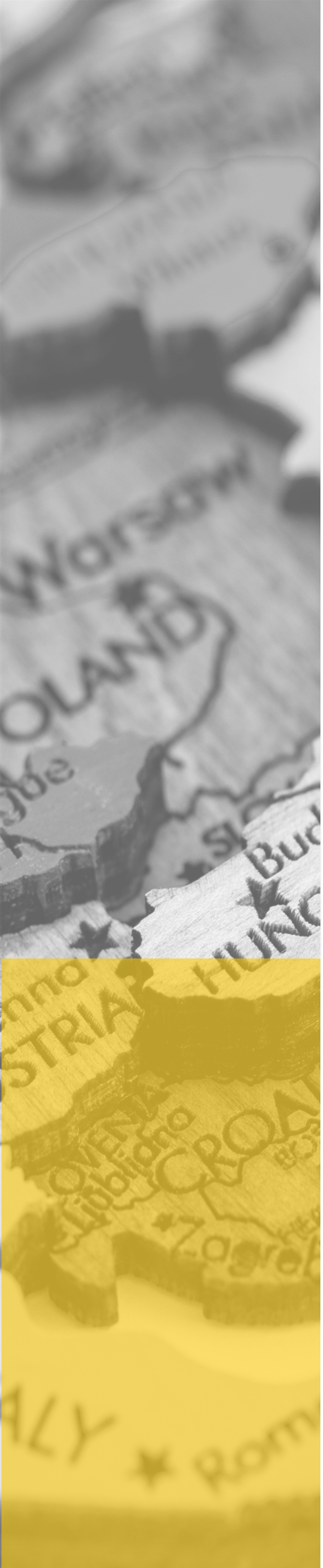
2024

GLOBAL STATE OF ENTERPRISE RISK OVERSIGHT

7TH EDITION | OCTOBER 2024



GLOBAL STATE OF ENTERPRISE RISK OVERSIGHT

Managing the Rapidly Evolving Risk Landscape

7TH EDITION | OCTOBER 2024

MARK S. BEASLEY
Alan T. Dickson Distinguished Professor and Director, ERM Initiative
NC State University

BRUCE C. BRANSON
Professor and Associate Director, ERM Initiative
NC State University

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A GLOBAL VIEW OF RISK OVERSIGHT

As leaders of organisations work diligently to fulfill their mission by providing value to a multitude of stakeholders, they face both challenges and opportunities that can emerge suddenly from all kinds of internal and external developments. To address that reality, business leaders around the world are realising the strategic value in proactively thinking about risks before they emerge and they are embracing practices to help them develop enterprise-wide views of risks in the context of their strategies and objectives.

This report provides a global perspective about the state of risk oversight practices in organisations around the world, based on survey insights from **623** executives across four separate geographic regions:

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

NUMBER OF RESPONDENTS (n=623)

The respondents to this survey are at the executive level, and thus should be knowledgeable about their organisation's overall approach to risk oversight. A majority of the respondents serve in financial, accounting or treasury roles, although other executive positions are represented, and they reflect risk management practices in organisations of all types, sizes, and industry. See **Appendix A** for more information about the methodology used.

Executives can use this report to gain insights about a number of key components of effective enterprise-wide risk management (ERM) processes in place in organisations around the world. The report highlights a number of differences in those practices across these four regions of the world. The report also provides a number of suggested discussion topics that executives and boards of directors can use to engage in conversations about the effectiveness of their organisation's approach to risk management.

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OVERARCHING REALITIES ABOUT THE STATE OF RISK OVERSIGHT

The analysis of the data provided across the **623** global respondents reveals these important insights:

1. **Uncertainties abound that can introduce highly complex risks that can interconnect to create significant, and sometimes catastrophic, events to manage.** This report confirms that this view is global with no region of the world immune to that reality. Risks are increasing in volume and complexity, suggesting that risks can appear suddenly and blindside all kinds of organisations, regardless of geography.

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

2. **Business leaders may not be sufficiently investing in their organisation's approach to risk oversight.** A majority of respondents admit that their organisations have experienced a significant unexpected operational surprise in the past five years. That suggests significant risks were not managed in ways that might have lowered the probability of the surprise's occurrence or impact once it emerged.

   Our respondents acknowledge that their organisation's risk oversight processes are lacking in robustness and maturity. Now is the time for leaders to honestly assess needed risk management improvements, given oversight of risks will only increase in difficulty.

3. **There continues to be a struggle to link risk oversight with strategic implementation.** According to a majority of our respondents, the output from enterprise-wide risk management processes is not significantly providing strategic insights that lead to competitive advantage. For some reason, risk management is not viewed as a strategic tool. The data reported in this study may contain insights to help explain that given the category of risk monitored least by risk management programs relates to emerging strategic, market, and industry risks. The focus in many risk programs tends to be on traditional risks related to IT, operations, and compliance concerns.

   If enterprise-wide risk programs are not teasing out emerging strategic risks, the output of those programs is less likely to provide valuable insights important for strategic decision-making. Finding ways to integrate risk management and strategy is an imperative if risk management systems are to be value-adding.

4. **Organisations are now pinpointing an individual to lead the organisation's risk management process in about one-half of the organisations surveyed, suggesting greater recognition that leadership is needed if risk oversight is to be value adding.** Even more organisations have created management-level risk committees relative to appointing a single individual to oversee risk management. Risk committees are an effective tool to help business leaders recognize enterprise-wide risk issues. Both are positive trends.

   However, progress may be limited until organisations recognize the importance of providing incentives that encourage effective risk management and until they provide training to help business leaders across the organisation understand risk management processes. Barriers to advancing risk management exist in most organisations, signalling the importance of incentives and training if significant changes are to occur in how risks are managed.

5. **Boards of directors are placing greater expectations on senior executives to be more engaged in risk management activities.** These growing expectations may be creating pressure on CEOs and other C-Suite executives to enhance the design and implementation of their organisation's risk management efforts. While that may lead to more robust risk management practices, boards may want to evaluate their level of engagement in risk oversight, given a majority of boards delegate risk oversight to one of its subcommittees.

   Given risk oversight is a core responsibility of the full board of directors, delegation of risk oversight to a subcommittee may need to be reconsidered. Boards should evaluate the effectiveness of their risk oversight and ensure risk issues are effectively integrated into board and committee agendas throughout the year.

6. **While many organisations have implemented fundamental elements of an effective risk oversight process, there are large percentages of organisations that report to be lacking some of the basic risk identification components.** U.S. organisations are 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 organised 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.

Executives can use this report to benchmark their organisation's risk management program to others around the globe. To help facilitate management's evaluation of their organisation's risk management program, this report contains a number of **Suggested Topics for Management and Board** discussion that can be used to engage in conversations among senior executives and boards of directors about what is working well and where there may be areas for improvement. Hopefully, honest and transparent dialogue may pinpoint the most value enhancing improvements to their risk management efforts.

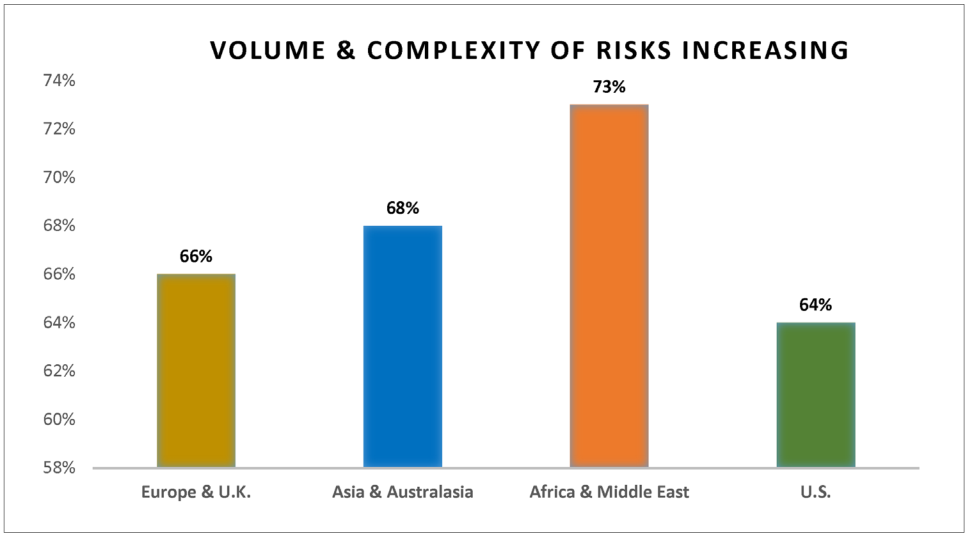
RISKS INCREASING IN COMPLEXITY

Risks are emerging on the horizon at a pace and volume that many believe is becoming more complex. Geopolitical events, economic conditions, cyber threats, new technologies and innovation, weather events, terrorism and war, demographic shifts, and new competitors each present unique and sometimes overwhelming challenges for organisations to navigate. Overseeing this risk landscape is becoming more interesting and difficult.

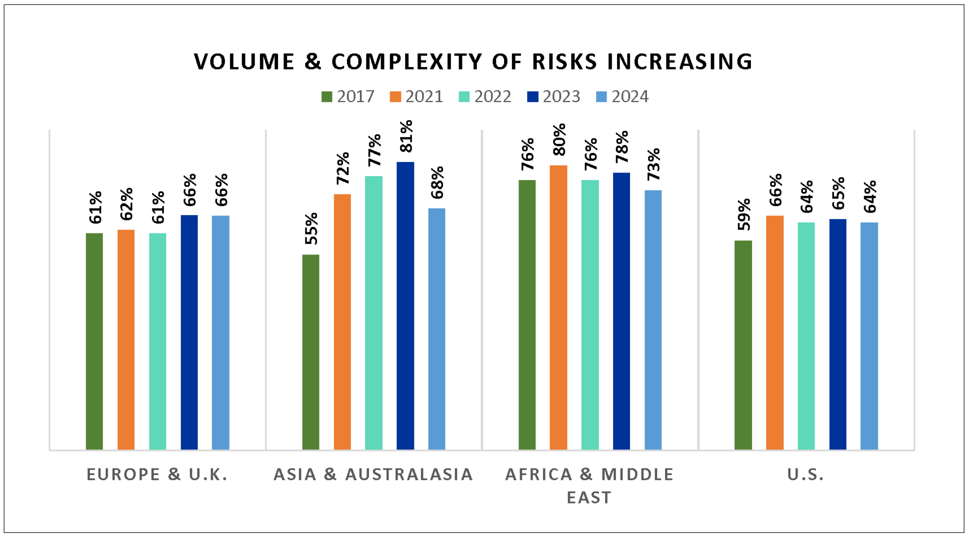
VOLUME AND COMPLEXITY OF RISKS ON THE RISE

This reality is reflected in this study's data, with over 66% of our full sample of global respondents indicating their belief that the volume and complexity of risks affecting their organisation increased "mostly" to "extensively" in the past five years.[1] When you look across the four geographic regions, respondents in Asia & Australasia and Africa & the Middle East are particularly facing an increasingly complex risk environment.

66% sense the volume & complexities of risk increasing.



This viewpoint is not an anomaly for the current year. As shown in the chart below, respondent perceptions that the risk landscape is becoming more difficult to monitor has been consistently high over the past five reports we have issued, including our 2017 report that was pre-pandemic. While respondents in Asia & Australasia and in Africa & the Middle East rate that reality as higher, the view that risks are increasing in volume and complexity is global. The message: the management of risks is not becoming easier as we move forward in time.



[1] We periodically report an aggregate score ac1ross the entire sample of 623 organisations, but do not show that result in a bar graph or table. Bar graphs and tables provide the breakdown across the four geographic regions only.

OPERATIONAL SURPRISES MAY SUGGEST RISK MANAGEMENT DEFICIENCIES

While no system of risk management is foolproof, organisations that have more robust risk oversight are more likely to anticipate risk events before they materialize into unexpected surprises. About one-half (48%) of our 623 respondents reveal that their organisation has faced a significant operational surprise in the past five years. The occurrence of an actual significant risk event suggests a potential breakdown in the organisation's risk management processes.

While there are differences in the rate of surprises across the four geographic regions, no region is uniquely different. While risk oversight practices will not predict and prevent every risk event, enhancing those processes should help to lower the likelihood or the impact 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"			
53% Europe & U.K.	**48%** Asia & Australasia	**41%** Africa & Middle East	**47%** United States (U.S.)

ISSUES FOR BOARD AND MANAGEMENT CONSIDERATION

The table below includes five suggested discussion questions intended to help foster discussion and dialogue among leaders in your organisation.

SUGGESTED TOPICS FOR BOARD AND MANAGEMENT DISCUSSION
1. How would your leadership team describe the nature and extent of risks facing the organisation and its industry today relative to five years ago?
2. What events over the past year surprised your organisation's leaders the most, and why were the events not anticipated?
3. To what extent is your leadership team in "fire-fighting mode" because it is blindsided by sudden events that must be immediately managed?
4. How might emerging world events suddenly disrupt your organisation's business model and what is your plan if disruption occurs?
5. Is your organisation's leadership team being realistic when evaluating the effectiveness of its approach to risk oversight?

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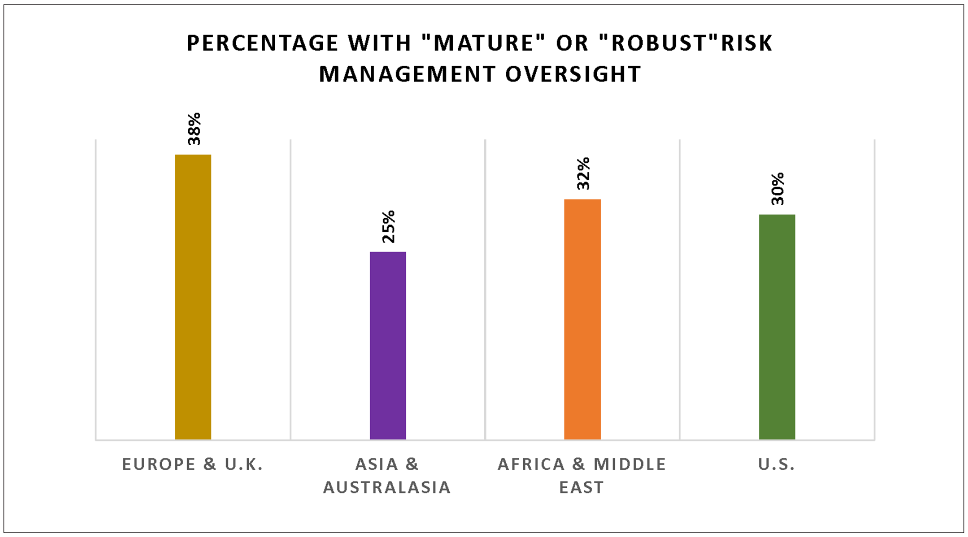
RISK OVERSIGHT LACKS MATURITY

Less than 40% describe their risk oversight as "mature" or "robust."

Despite the perception that risks are increasing in volume and complexity, the level of enterprise-wide risk oversight maturity is low. Only 32% of the 623 respondents describe their organisation's risk oversight practices as "mature" or "robust." The chart below shows the breakdown across all regions of the world, revealing that organisations with "mature" or "robust" risk oversight are in the minority.

Is risk oversight maturity keeping pace with the complexities of today's business environment?



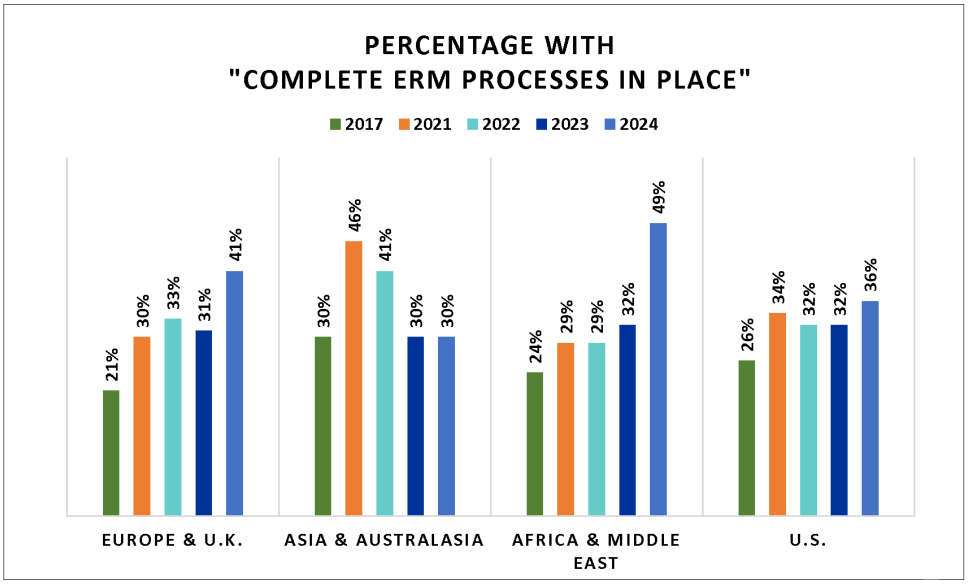
SYSTEMATIC, REPEATABLE PROCESSES

Less than one-half (47%) of the full sample describe their risk oversight processes as "systematic, robust, and repeatable with regular reporting of top risk exposures to the board." The table below shows some differences exist in responses across the four geographic regions of the world we examined.

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"			
52% Europe & U.K.	**45%** Asia & Australasia	**59%** Africa & Middle East	**44%** United States (U.S.)

More organisations are embracing the business paradigm widely known as "enterprise-wide risk management (ERM)," which strives to provide a more holistic, top-down strategic perspective of risks that may be on the horizon. The bar chart on the next page suggests that the level of embrace of ERM is higher in Europe & the UK and in Africa & the Middle East, compared to Asia & Australasia and the US.

The implementation of complete enterprise risk management (ERM) practices is occurring but not for a majority of organisations.



Risk management practices may not be keeping pace with risk realities. Respondents indicate that robust and mature risk oversight practices may be lacking in many organisations around the world, suggesting there is significant room for improvement.

ISSUES FOR BOARD AND MANAGEMENT CONSIDERATION

The table below includes five suggested discussion questions intended to help foster discussion and dialogue among leaders in your organisation.

SUGGESTED TOPICS FOR BOARD AND MANAGEMENT DISCUSSION
1. How would different executives describe the organisation's approach to risk management and would their individual explanations be consistent?
2. What is the process and cadence for updating management's understanding of emerging risks and is that process formal or *ad hoc* in nature?
3. What are the biggest vulnerabilities in the organisation's approach to risk oversight?
4. Is the organisation's approach to risk oversight focusing mostly on individual silos of risk versus examining the interconnected nature of risks at the enterprise level?
5. How might the organisation's process be improved to move more "unknown risks" to a known state?

LINKAGE OF RISK & STRATEGY

An effective enterprise-risk management process provides insights about emerging issues on the horizon that may impact the organisation's strategic success. Outputs of an ERM process ought to be an important input to strategic decision-making, given risk and return are interconnected realities.

Risk management is not viewed as a strategic tool in the majority of organisations.

STRATEGIC VALUE OF RISK OVERSIGHT

We asked executives several questions to pinpoint the extent that their organisation's risk management process is integrated with strategic planning and business decision-making. Surprisingly, other than respondents in Africa & the Middle East, a relatively small percentage of respondents believe their organisation's risk management process is providing unique competitive advantage. On an aggregate basis across the entire sample, only 17% of respondents indicate that their risk management process "mostly" to "extensively" provides unique competitive advantage, with ranges from 10% in the United States to 51% in Africa & the Middle East, as shown below. Ideally, advance knowledge of potential risks ought to provide strategic value in 100% of organisations. This finding may surprise some who may believe that organisations have more advanced risk management processes in place than years earlier. However, despite those advancements, many of those processes may be more focused on known operational, compliance, or financial risks with less focus on emerging, strategic, market risks that may be more insightful for strategic decision-making.

Respondents stating that the risk management process "Mostly" or "Extensively" provides unique competitive advantage			
Percentages Reflecting "Mostly" and "Extensively"			
17% Europe & U.K.	**25%** Asia & Australasia	**51%** Africa & Middle East	**10%** United States (U.S.)

CONSIDERING RISK EXPOSURES WHEN EVALUATING STRATEGIC ALTERNATIVES

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 risk be a factor in all strategic initiative considerations? And, while risk exposures are being considered when evaluating possible new strategic initiatives, for some reason, as indicated above, the insights provided by the risk management process are not providing unique competitive advantage. Why?

To what extent are existing risk exposures considered when evaluating possible new strategic initiative?			
Percentages Reflecting "Mostly" and "Extensively"			
58% Europe & U.K.	**59%** Asia & Australasia	**68%** Africa & Middle East	**46%** United States (U.S.)

TYPES OF RISKS CONSIDERED

The findings noted on the previous page may be attributed to the kinds of risks issues that their organisation's ERM process emphasizes. The table below highlights the extent to which their organisation's risk management processes focus on specific categories of risks. Notice that the category receiving the least amount of focus is emerging strategic, market, industry risks. Emphasis on IT, legal/compliance, and operational risks seems to be the primary risk focus for a majority of organisations.

Extent the risk management process identifies, assesses and responds to the following risk areas:				
Percentages Reflecting "Mostly" and "Extensively"				
	Europe & UK	**Asia & Australasia**	**Africa & Middle East**	**U.S.**
Information Technology Risks	61%	59%	80%	75%
Legal/Regulatory/Compliance Risks	61%	58%	82%	68%
Operational/Supply Chain/Process Risks	53%	56%	73%	52%
Financing/Investing/Financial Reporting	55%	55%	80%	58%
Reputation/Political Risks	55%	52%	71%	47%
Emerging Strategic/Market/Industry Risks	47%	48%	66%	42%

If ERM is to be helpful in informing management and boards about emerging strategic issues, then the risk management processes need to explicitly foster a focus on identifying, assessing, and monitoring strategic risks on the horizon, particularly developments that are external to the organisation, such as market and industry risks.

The collective findings are that risk oversight is not consistently viewed as providing important strategic value for business decision-making.

ISSUES FOR BOARD AND MANAGEMENT CONSIDERATION

The table below includes five suggested discussion questions intended to help foster discussion and dialogue among leaders in your organisation.

SUGGESTED TOPICS FOR BOARD AND MANAGEMENT DISCUSSION
1. To what extent is our organisation's risk management process providing helpful insights for making important strategic decision?
2. What types of risks (financial, operational, compliance, strategic, other) dominate C-Suite and Board of Director risk discussions? Is sufficient time given to external issues related to strategic issues, such as emerging technologies, competitor moves, unexpected entrants to the industry and other market issues?
3. To what extent does our organisation's approach to strategic planning, business plan development, and budgeting explicitly request insights about risks addressed or potentially created by those plans and requests?
4. When senior executives and the Board of Directors engage in strategic planning discussions, what kinds of risk insights, if any, are they requesting the ERM function to share?
5. How are differences in risk conditions considered when senior executives make budgeting and capital allocation decisions?

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RISK CHAMPIONS

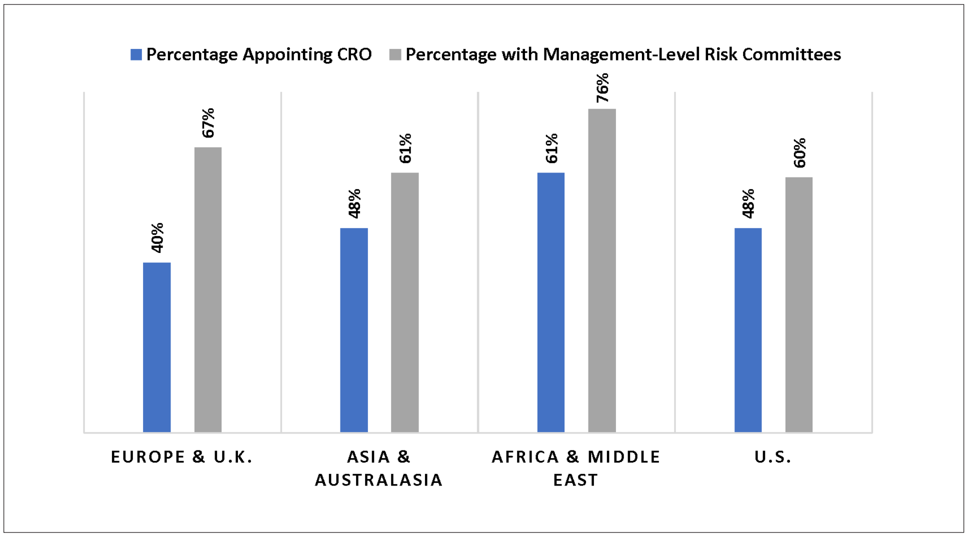
While organisations have pockets of risk management scattered across the entity, such as legal, compliance, credit review, etc., many of them do not have someone at the enterprise level who coordinates risk management processes and aggregates risk insights to understand the enterprise-wide effect. Without a risk management champion, an ERM process is likely to flounder due to a lack of explicit structure, coordination and advising.

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

PINPOINTING RISK LEADERS

More organisations are recognizing the need to identify a risk management leader. 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.

Across the entire sample, just under one-half (47%) of the organisations globally have appointed a single individual to lead the risk management function. As shown in the geographic breakdown below, only in Africa & the Middle East are a majority of organisations appointing a CRO or equivalent. Organisations are more likely to have a management-level risk committee in place relative to having a CRO or equivalent (64% of the entire sample has a management level risk committee). 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.



INCENTIVISING RISK MANAGEMENT

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 are not, as shown on the next page.

Extent that risk management activities are an explicit component in determining management's compensation?			
Percentages Reflecting "Mostly" and "Extensively"			
22% Europe & U.K.	**34%** Asia & Australasia	**49%** Africa & Middle East	**12%** United States (U.S.)

Another factor that may explain the lack of risk oversight maturity and strategic advantage may be attributable to the fact that few organisations provide any kind of formal training and guidance on risk management. That lack of coaching and advising leaves risk management to the eyes of the beholder, resulting in inconsistent and incomplete risk oversight across the entire organisation.

Extent senior executives and key business leaders have received formal training and guidance on risk management in the past 2 years?			
Percentages Reflecting "Mostly" and "Extensively"			
24% Europe & U.K.	**32%** Asia & Australasia	**41%** Africa & Middle East	**22%** United States (U.S.)

CULTURAL BARRIERS THAT LIMIT RISK OVERSIGHT MATURITY

Improvements in risk oversight processes are unlikely to occur without effective leadership. There are a number of cultural challenges that may be impeding advancements in risk oversight processes. How risk is perceived among business leaders 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 Africa & the Middle East and in the U.S. particularly view risk oversight as competing with other more important priorities. They apparently do not see risk management as complimenting its efforts towards strategic success. Organisations in Asia & Australasia believe the lack of sufficient resources is a noticeable constraint to risk management advancements, as shown below.

	PERCENTAGES REFLECTING "BARRIER" OR "SIGNIFICANT BARRIER"			
PERCEIVED BARRIERS TO EFFECTIVE ERM	**Europe & UK**	**Asia & Australasia**	**Africa & Middle East**	**U.S.**
Competing priorities	31%	35%	41%	46%
Insufficient resources	36%	48%	41%	46%
ERM perceived as unneeded bureaucracy	25%	35%	22%	23%
Lack of perceived value	23%	41%	20%	27%

ISSUES FOR BOARD AND MANAGEMENT CONSIDERATION

The table below includes five suggested discussion questions intended to help foster discussion and dialogue among leaders in your organisation.

SUGGESTED TOPICS FOR BOARD AND MANAGEMENT DISCUSSION
1. Has our organisation pinpointed a high-level executive to lead our enterprise-wide risk process? If so, is that individual widely respected across the organisation and does that individual have clear lines of reporting to the C-Suite and Board of Directors?
2. For those organisations with a management-level risk committee, what is working well and what opportunities exist to improve the insight generated by the committee?
3. Is our organisation's risk oversight process well defined and understood across the entity and to what extent is that process likely to encourage the timely escalation of risk issues to senior management and the board?
4. How does our organisation's current compensation system incentivise leaders to engage in risk management processes?
5. How might risk management training help our organisation's executives integrate risk insights into important strategic decisions?

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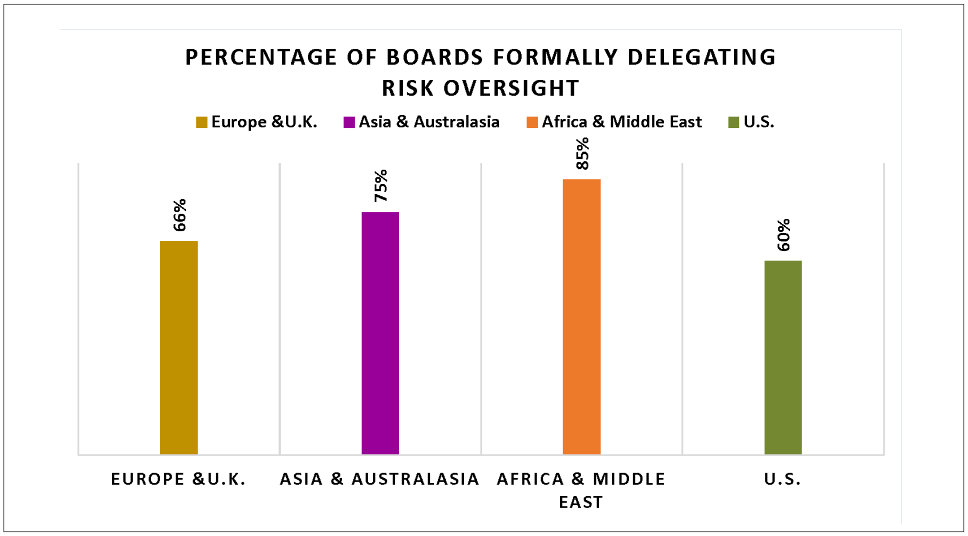
THE ROLE OF THE BOARD IN RISK OVERSIGHT

Overseeing management's risk-taking activities is a key responsibility of the board of directors. Boards are expected to understand and approve management's approach to managing risks and they should understand and approve the types of risks identified by that process.

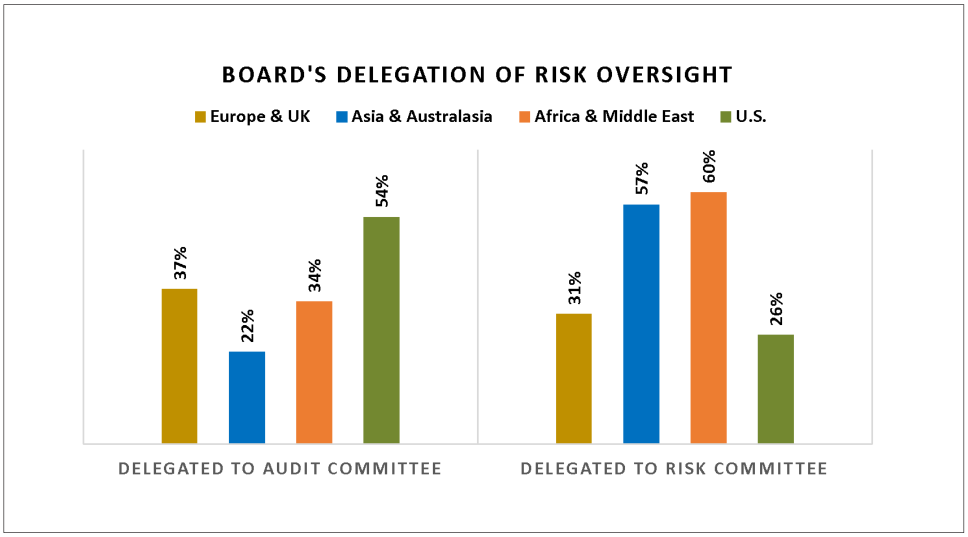
DELEGATION OF BOARD RISK OVERSIGHT

While the full board is ultimately accountable for overseeing the risk management activities, the chart below reveals that a significant majority of boards formally delegate risk oversight to one of its subcommittees. Delegation of responsibility is especially prevalent in organisations in Africa & the Middle East.

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



The audit committee is most often the recipient of these delegated risk oversight responsibilities for organisations in Europe & the UK and in the US. Delegation to the board's risk committee is more prevalent for organisations in Asia & Australasia and in Africa & the Middle East.



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While delegation of primary oversight may be an effective and efficient approach for many boards, boards need to ensure that the full board is engaged in discussions about the top risks facing the enterprise. Delegating that kind of discussion without full board engagement may lead to less effective and appropriate risk governance by the board as a whole.

BOARD DIALOGUE ABOUT RISKS AND STRATEGIES

In addition to responsibilities for overseeing major risks facing the organisation, the board is also responsible for understanding and approving the organisation's strategic plan. Given those two key responsibilities, it seems appropriate that boards would be discussing both risk and strategy. 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 only occurs 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 discusses the organisation's strategic plan?			
Percentages Reflecting "Mostly" and "Extensively"			
43% Europe & U.K.	**46%** Asia & Australasia	**66%** Africa & Middle East	**24%** United States (U.S.)

CHANGING BOARD EXPECTATIONS ABOUT RISK GOVERNANCE

As corporate governance and risk oversight expectations continue to evolve, greater pressure is likely to be placed on C-Suite executives to enhance their organisation's risk governance processes. Information 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 Europe & UK are experiencing similar trends, except at somewhat lower levels, while those in the U.S. are much lower.

	PERCENTAGES REFLECTING "BARRIER" OR "SIGNIFICANT BARRIER"			
Extent each of the following parties is asking for increased senior executive involvement in risk oversight?	**Europe & UK**	**Asia & Australasia**	**Africa & Middle East**	**U.S.**
Board of Directors	51%	62%	59%	35%
Audit Committee	45%	56%	61%	40%
CEO/President	42%	59%	59%	40%
Regulators	33%	52%	59%	24%

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ISSUES FOR BOARD AND MANAGEMENT CONSIDERATION

The table below includes five suggested discussion questions intended to help foster discussion and dialogue among leaders in your organisation.

SUGGESTED TOPICS FOR BOARD AND MANAGEMENT DISCUSSION
1. Does our organisation's full Board of Directors have a sufficient understanding of our risk management processes? Would they be able to consistently articulate the key elements of that process?
2. How satisfied is the board with our organisation's approach to risk governance? What improvements in the process may they desire?
3. To what extent does our board engage in risk discussions? Are they passive listeners to management reports about top risks or are they fully engaged in asking probing questions about risks issues?
4. How are risk insights communicated to the Board of Directors and what changes might be needed to enhance the format of risk insights shared with the board?
5. To what extent does the board have a robust understanding of our most significant risks on the horizon and are they integrating those risk insights into their discussions about strategic alternatives under consideration?

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RISK MANAGEMENT FUNDAMENTALS

Insights provided in earlier sections of this report highlight a number of high-level aspects of overall risk governance, with an emphasis on how it informs strategic decision-making and overall governance. In addition to these overarching insights, we also asked questions about some of the typical fundamental components of an organisation's risk management process.

Many of the fundamental components of an effective risk management process are lacking in organisations.

This section of the report highlights key findings related to specific process components of an organisation's risk oversight practices.

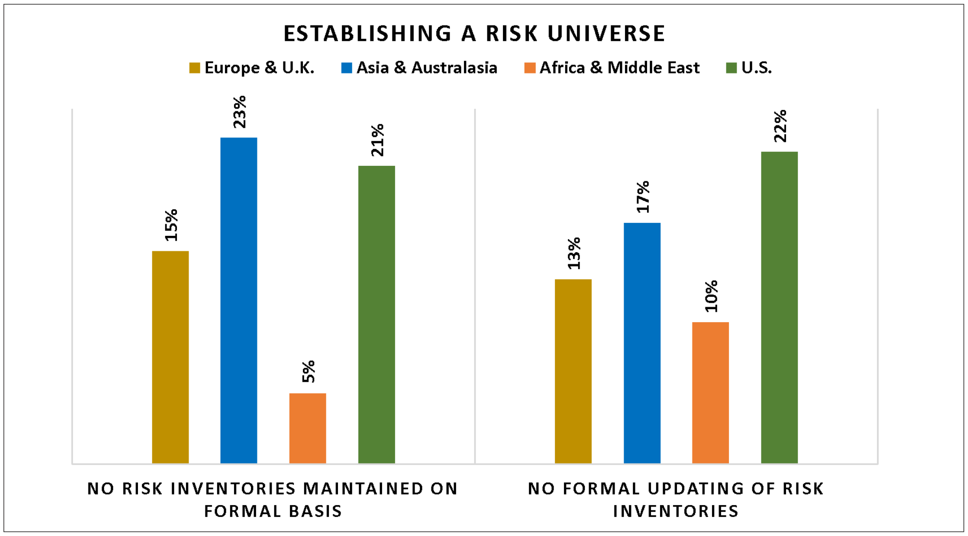
FORMAL POLICIES REGARDING RISK MANAGEMENT

Some organisations have established formal policies and definitions to guide their risk oversight processes. Formalised risk management policy statements are particularly common for organisations in Africa & the Middle East and least common in the U.S., as shown below.

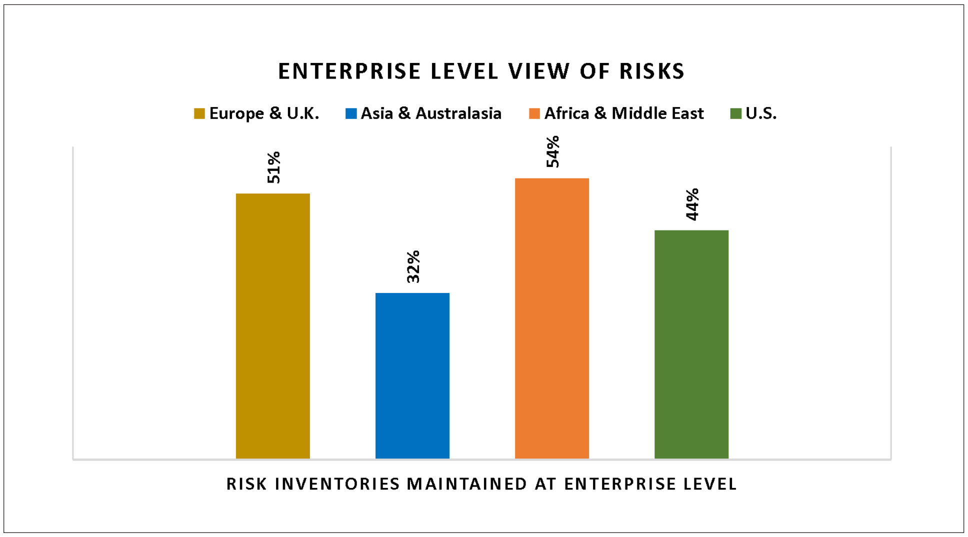
	PERCENTAGES REFLECTING "BARRIER" OR "SIGNIFICANT BARRIER"			
	Europe & UK	Asia & Australasia	Africa & Middle East	U.S.
Organisation has a formal policy statement regarding its enterprise-wide approach to risk management	53%	59%	78%	44%
Organisation has formally defined the meaning of the term "risk" for employees to use when identifying and assessing key risks	57%	56%	78%	51%

RISK INVENTORIES

Surprisingly, a noticeable percentage (around 20%) of organisations in all regions of the world do not maintain risk inventories/registers of their top risk exposures. Similar results are observed when respondents were asked if their organisations have formal processes to update key risk inventories/registers. U.S. organisations are least likely to have processes to update risk inventories.



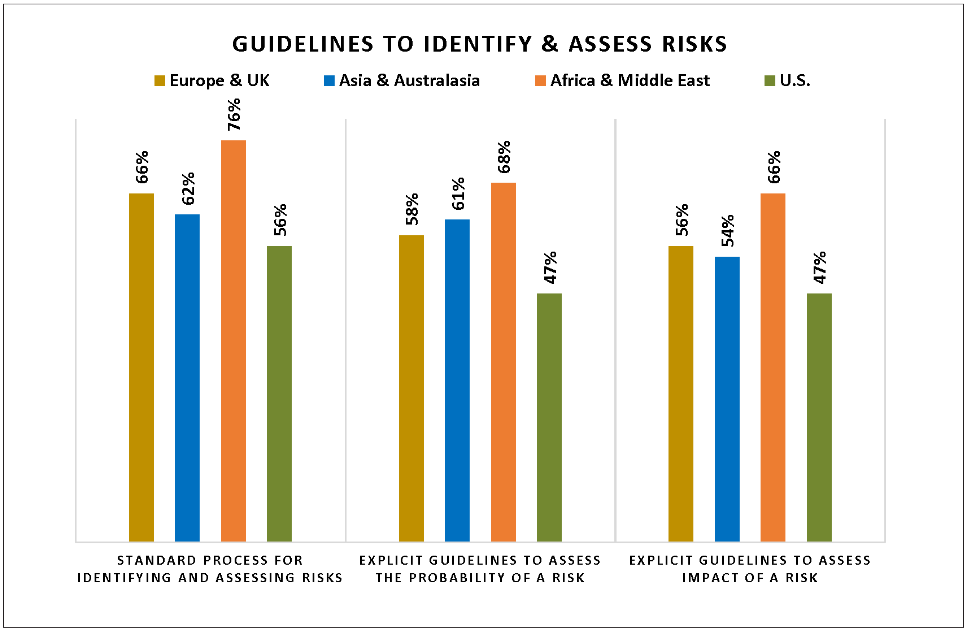
About one-half of organisations across all regions of the world maintain risk inventories at the enterprise level. That finding may help explain why risk management is failing to provide significant strategic value. If management lacks awareness of what risks are on the horizon, they are less likely 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 after they already occur. In contrast, an awareness of the inventory of top risks may provide helpful insights that management can use to proactively make risk-informed strategic decisions.



STRUCTURED RISK IDENTIFICATION AND ASSESSMENT PROCESSES

While most leaders of organisations would claim they are managing risks to the organisation, often the underlying processes used are unstructured and *ad hoc*. As a result, risks may be identified in haphazard ways, which may lead to incorrect and incomplete identification of the most significant risks.

We asked respondents to indicate the extent to which their organisation has defined and structured processes to help business leaders identify and assess risks on the horizon. As shown in the charts below, most organisations (around two-thirds) claim to have a standardised process or template for identifying and assessing risks, except for those in the U.S. where only 56% 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.



KEY RISK INDICATORS

Most organisations have a plethora of key performance metrics (KPIs) that provide insights about how the organisation has performed. While KPIs can shed insights about emerging risks, they provide lagging insights about emerging issues given performance metrics by nature are historical. Additional forward-looking metrics that pinpoint signals of risks emerging on the horizon can compliment KPIs. Without metrics, such as key risk indicators (KRIs) to monitor emerging risk trends, 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.

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"			
45% Europe & U.K.	**45%** Asia & Australasia	**54%** Africa & Middle East	**25%** United States (U.S.)

ISSUES FOR BOARD AND MANAGEMENT CONSIDERATION

The table below includes five suggested discussion questions intended to help foster discussion and dialogue among leaders in your organisation.

SUGGESTED TOPICS FOR BOARD AND MANAGEMENT DISCUSSION
1. What processes are in place to help the C-Suite and Board of Directors understand the inventory of risks facing our organisation?
2. To what extent is our approach to identifying risks and prioritizing the most important ones too informal and *ad hoc*?
3. How often does our management team go through a structured process to identify and prioritize the top risks facing our organisation? Should that frequency be increased?
4. How are risks prioritized by management and what improvements could be made to ensure they are focused on the most important risk issues?
5. How satisfied is our C-Suite and Board of Directors with the robustness of key risk indicators that help them monitor changing trends in risk conditions? Are we too dependent on KPIs vs. KRIs to monitor changes in risk trends?

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FIVE NEXT STEPS

When business leaders consider whether there is a need to improve their risk management processes, they may be overwhelmed about next steps they should take. Business leaders may find it helpful to consider these next steps as an approach to conduct a diagnostic evaluation of their organisation's overall risk oversight effectiveness.

1. **Engage in Conversations about Risk Management:** Engage senior executives and the board in robust, honest dialogue about the organisation's approach to risk oversight and determine whether there is a consensus understanding about that approach. Ask them to pinpoint frustrations and limitations about that approach. Be specific about needed improvements.

2. **Identify Opportunities to Integrate with Strategy:** Consider the focus of existing risk management processes in your organisation and determine what changes might be needed to enhance the focus on emerging, strategic risk issues. Review the organisation's strategic planning, budgeting, and capital allocation processes to determine how risk insights might be formally discussed when evaluating key strategic decisions. How might the risk management process be modified to enhance its focus on strategic risk issues, in addition to operational, compliance, and financial risks?

3. **Pinpoint Enterprise-Level Leaders:** Ensure that there is a risk leader at the enterprise level to serve as the risk champion providing leadership, direction and coordination of risk management processes across the organisation. Evaluate whether the right person has the skills needed to advise and coach other business leaders in their risk management activities, and determine whether they are at the right level of the organisation to increase buy-in and C-Suite and Board of Director support. If a management-level risk committee is not in place, consider how existing executive committees might be able to assume risk committee ownership and responsibilities.

4. **Enhance Fundamental Risk Management Infrastructure:** Given the complexities of today's risk environment, *ad hoc*, unstructured approaches to identifying, assessing, managing, and monitoring risks are no longer sufficient. Fundamental risk management elements must be in place to ensure the risk management process is effectively helping management and the board move unknown risks into a known state of awareness.

5. **Dialogue with the Board about Emerging Risks:** Look for ways to improve board reporting about emerging risks to capture their perspectives about risks on the horizon for the organisation. Help the board understand the linkage between emerging risks and the organisation's strategy and present risk information in a way that helps facilitate ongoing risk discussions between management and the board.

The suggested issues for management and board consideration included throughout this report can be used to help facilitate discussion around a number of important topics.

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SUMMARY

Risk management will not become easier over time. Given the rapid speed of change in the global business environment, complex risk issues will continue to emerge at rapid-fire pace. Now is the time for many organisations to give their approach to risk governance an honest assessment.

Effective enterprise-wide risk management should be one of the organisation's most important strategic tools. Unfortunately, many organisations view risk management as a distraction from more important strategic tasks, even though proactive understanding of risks can help business leaders keep strategic priorities on track for success. Insights about risks before they emerge allows C-Suite executives and Boards of Directors to navigate emerging issues with agility. In many cases, those risk insights can be used for strategic advantage.

We hope that the data in this report highlights areas where risk oversight might be improved. Readers can use the insights from this data from four regions of the world 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 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 **Suggested Topics for Management and Board Discussion** included throughout this report 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.

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APPENDIX: DEMOGRAPHICS OF SURVEY RESPONDENTS

Here is an overview of the demographics of the 623 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.	TOTAL
Number of Survey Respondents	172	71	41	339	623

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.	Full Sample Combined
$0 < x < $10 million	26%	18%	25%	23%	23%
$10 million < x < $100 million	30%	28%	19%	13%	20%
$100 million < x < $500 million	18%	31%	22%	15%	18%
$500 million < x < $1 billion	9%	6%	14%	7%	8%
$1 billion < x < $2 billion	6%	6%	6%	8%	7%
$2 billion < x < $10 billion	5%	8%	6%	20%	14%
x > $10 billion	6%	3%	8%	14%	10%

MANAGEMENT TITLES FOR RESPONDENTS

	PERCENTAGES				
TITLES	Europe & U.K.	Asia & Australasia	Africa & Middle East	U.S.	Full Sample Combined
Chief Financial Officer or Finance Director	38%	27%	24%	15%	23%
Controller	13%	13%	10%	3%	8%
Treasurer	1%	1%	5%	2%	2%
Chief Risk Officer	2%	7%	5%	20%	13%
Head of Internal Audit	2%	6%	7%	10%	7%
General Counsel	0%	0%	0%	1%	0%
Other Titles	44%	46%	49%	49%	47%

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INDUSTRIES REPRESENTED

	PERCENTAGES				
INDUSTRIES	**Europe & U.K.**	**Asia & Australasia**	**Africa & Middle East**	**U.S.**	**Full Sample Combined**
FOR-PROFIT ENTITIES					
Services	22%	18%	29%	25%	24%
Manufacturing	18%	20%	25%	7%	23%
Finance, Insurance, Real Estate	10%	21%	25%	30%	13%
Wholesale Distribution	7%	9%	2%	2%	5%
Construction	6%	0%	0%	1%	4%
Retail	4%	9%	2%	4%	2%
Transportation	2%	1%	0%	3%	2%
Mining	2%	1%	2%	1%	1%
Agriculture, Forestry, Fishing	1%	3%	0%	1%	1%
NON-PROFIT ENTITIES	28%	18%	15%	26%	25%

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ABOUT THE AUTHORS

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

NC STATE Poole College of Management
Enterprise Risk Management Initiative

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.