NC STATE Poole College of Management
Enterprise Risk Management Initiative

ERM PROFESSIONAL INSIGHTS

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2019 THE STATE OF RISK OVERSIGHT

AN OVERVIEW OF ENTERPRISE RISK MANAGEMENT PRACTICES

10TH ANNIVERSARY EDITION | SPRING 2019

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The ERM Initiative in the Poole College of Management at North Carolina State University provides thought leadership on enterprise risk management (ERM) and its integration with strategic planning and corporate governance, with a focus on helping boards of directors and senior executives gain strategic advantage by strengthening their oversight of all types of risks affecting the enterprise.

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ABOUT THE STUDY

As business leaders manage the ever-changing economic, political, and technological landscape they face a significantly magnified exposure to risk and uncertainty. This creates a highly complex portfolio of potential risks that, if managed poorly, can lead to lost opportunities that might cripple, and sometimes destroy, an organization's business model and brand. Some business leaders and other key stakeholders are investing more resources in how they proactively manage emerging risks by strengthening their organizations' processes surrounding the identification, assessment, management, and monitoring of those risks most likely to impact – both positively and negatively – the entity's strategic success. They are recognizing the increasing complexities and real-time challenges of navigating this emerging risk landscape as they seek to achieve key strategic goals and objectives.

An increasing number of organizations have embraced the concept of enterprise risk management (ERM), which is designed to provide an organization's board and senior leaders a top-down, strategic perspective of risks on the horizon so that those risks can be managed proactively to increase the likelihood the organization will achieve its core objectives. To obtain an understanding of the current state of enterprise risk oversight among entities of all types and sizes, we have partnered over the past ten years with the American Institute of Certified Public Accountants' (AICPA) Management Accounting - Business, Industry, and Government Team to survey business leaders regarding a number of characteristics related to their current enterprise-wide risk management efforts. This is the tenth report that we have published summarizing our research in partnership with the AICPA.

Data for this report was collected during the fall of 2018 through an online survey instrument electronically sent to members of the AICPA's Business and Industry group who serve in chief financial officer or equivalent senior executive positions. In total, we received 445 fully completed surveys from individuals representing different sizes and types of organizations (see **Appendix A** for details about respondents). This report summarizes our findings and provides a resource for benchmarking an organization's approach to risk oversight against current practices. In addition to highlighting key findings for the full sample of 445 respondents, we also separately report many of the key findings for the following subgroups of respondents:

- 142 large organizations (those with revenues greater than $1 billion)
- 126 publicly-traded companies
- 119 financial services entities
- 107 not-for-profit organizations

The following page highlights some of the key observations from this research. The remainder of the report provides more detailed information about other key findings and related implications for risk oversight.

KEY OBSERVATIONS

1. **Most executives perceive that uncertainties in the business environment are leading to more complex risks.** Most respondents (59%) believe the volume and complexity of risks is increasing extensively over time. They are particularly concerned about risks related to talent, innovation, the economy, and their reputation and brand. And, 68% of organizations indicate they have recently experienced an operational surprise due to a risk they did not adequately anticipate.[1]

2. **Despite concerns about a number of potential risk issues on the horizon, few executives describe their organization's approach to risk management as mature.** Twenty-three percent of respondents describe their risk management as "mature" or "robust" with the perceived level of maturity declining over the past two years. Thirty-one percent of organizations (54% of the largest organizations) report that they have complete ERM processes in place.

3. **External stakeholders expect greater senior executive involvement in risk management.** External parties (59%) are putting pressure on senior executives for more extensive information about risks, and 65% of boards are calling for "somewhat" to "extensively" increased management involvement in risk oversight. Strong risk management practices are becoming an expected best practice. These pressures are increasing for large organizations and public companies, particularly.

4. **Boards are focused on risk oversight, but they tend to delegate responsibilities to a committee rather than retain that for the full board.** Just under two-thirds (61%) of boards of the full sample (83% of public companies) have delegated risk oversight to a board committee, with most delegating to an audit committee unless they are a financial services organization with a board-level risk committee.

5. **More organizations are appointing an executive to oversee their risk management processes, with most organizations creating a management-level risk committee.** About half of the full sample have designated an individual to serve as chief risk officer (or equivalent), with 58% of large organizations and 56% of public companies doing so. Over 80% of large organizations, public companies, and financial services entities have management-level risk committees.

6. **Few organizations perceive their approaches to risk management as providing important strategic value.** Less than 20% of organizations view their risk management process as providing important strategic advantage. Only 26% of the organizations report that their board substantively review top risk exposures in a formal manner when they discuss the organization's strategic plan.

7. **About half of the organizations engage in formal risk identification and risk assessment processes.** About one-half (46%) of the organizations have a risk management policy statement, with 49% maintaining risk inventories at an enterprise level. Just over 40% have guidelines for assessing risk probabilities and impact. Most (77%) update risk inventories at least annually.

[1] Throughout this report we have rounded the reported percentages to the nearest full percent for ease of discussion.

8 **While boards receive written reports about top risk exposures, there is some question as to whether the process used to generate the reports is systematic or robust.** Most boards of large organizations (84%) or public companies (87%) discuss formal reports about top risks at least annually; however, less than 60% of those describe the underlying risk management process as systematic or repeatable. Forty-one percent of the respondents admit they are "not at all" or only "minimally" satisfied with the nature and extent of internal reporting of key risk indicators.

9 **Organizations are not building in explicit accountabilities for risk management with few organizations embedding risk oversight responsibilities as components of compensation plans.** The lack of risk management maturity may be tied to the challenges of providing sufficient incentives for them to engage in risk management activities. Most (64%) have not included explicit components of risk management activities in compensation plans.

10 **Perceived roadblocks exist that prevent organizations from strengthening their approach to risk management.** Respondents of organizations that have not yet implemented an enterprise-wide risk management process indicate that one impediment is the belief that the benefits of risk management do not exceed the costs or there are too many other pressing needs.

While there is some indication that management efforts related to enterprise-wide risk oversight are increasing over time, there continues to be noticeable room for improving how organizations identify, manage, and keep their eyes on risks that may emerge and significantly impact their ability to achieve strategic goals. This report puts a spotlight on a number of risk management practices that organizations may want to consider as they seek to strengthen their ability to proactively and strategically navigate rapidly emerging risks.

CHALLENGING UNCERTAINTIES IN BUSINESS ENVIRONMENT

***Key Theme:** The management of risks in not getting easier.*

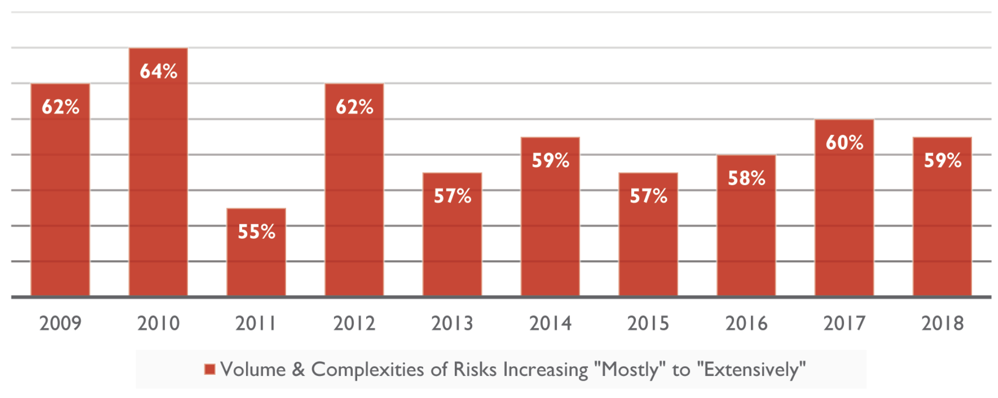
The rapid pace of innovation, the rise of social media and demands for greater transparency and accountability, government shutdowns, economic uncertainty in Europe, volatility in equity markets, record low unemployment, cyber breaches, terrorism, significant natural disasters, among numerous other issues, represent examples of challenges executives and boards face in navigating an organization's risk landscape. These developments create uncertainties that are increasing the volume and complexity of risks faced by organizations today, producing significant challenges for management and boards in their oversight of the most important risks.

The majority of respondents believe the volume and complexity of risks have increased "mostly" or "extensively" in the past five years, and that finding is consistent across various types of organizations.

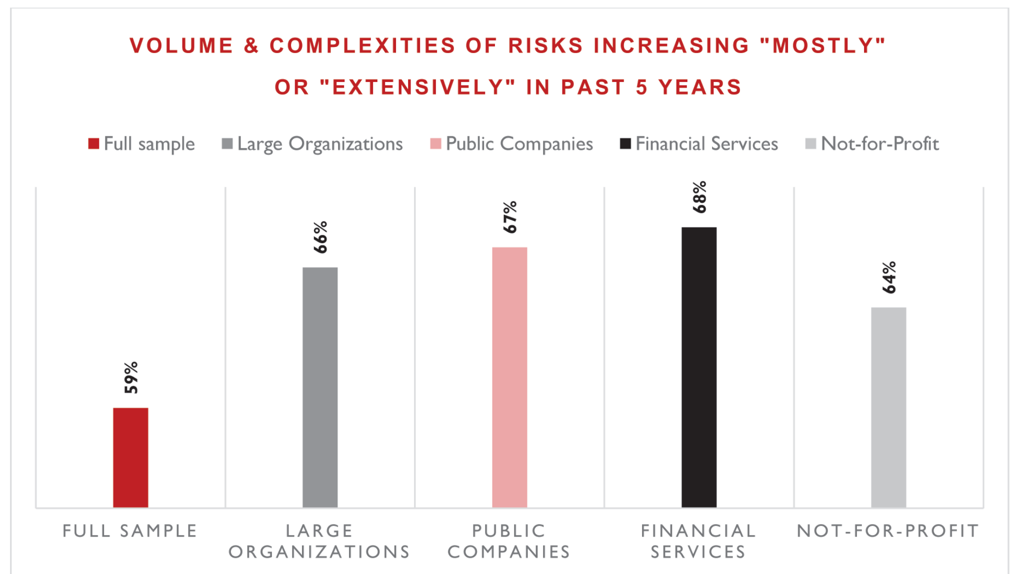
To get a sense for the extent of risks faced by organizations represented by our respondents, we asked them to describe how the volume and complexity of risks have increased in the last five years. Seventeen percent noted that the volume and complexity of risks have increased "extensively" over the past five years, with an additional 42% responding that the volume and complexity of risks have increased "mostly." Thus, on a combined basis, 59% of respondents indicate that the volume and complexity of risks have changed "mostly" or "extensively" in the last five years, which is in line with what participants noted in the most recent prior years. Only two percent responded that the volume and complexity of risks have not changed at all. The management of risks is not getting easier.

Percentage of Respondents					
QUESTION	NOT AT ALL	MINIMALLY	SOMEWHAT	MOSTLY	EXTENSIVELY
To what extent has the volume and complexity of risks increased over the past five years?	2%	7%	32%	42%	17%

We have asked this question in all ten years that we have conducted this study. The bar graph below shows the percentages responding "mostly" or "extensively" to this question for each of the past ten years. While the percentages for 2018 aren't as high as they were in 2009-2010 during the "Great Recession," they are not that far off from levels during that tumultuous time. While the nature of risk concerns may not be same in 2018 as they were ten years ago, respondents perceive them to be of high volume and complexity, suggesting a continued need for robust risk management processes.



We separately analyzed responses to this question for various subgroups of respondents. As shown below, the percentage of respondents indicating an increase in the volume and complexity of risks is even higher for financial services organizations, public companies, and large organizations. Even not-for-profit organizations are not immune to higher volumes and complexities of risks. Smaller sized organizations apparently perceive a lower volume and complexity of risks, which results in a lower overall average for the full sample. The percentages shown in the bar graph below increased over the prior year for all types of organizations shown and they have increased in each of the past two years for the larger organizations and those in financial services. That suggests the overall business environment is perceived as relatively risky across all types of entities at an increasing level.



For the first time, we asked respondents this year to provide some indication about their level of concern about a number of potential risk issues. The table on the next page summarizes the percentage of respondents indicating they are "mostly" or "extensively" concerned about each of the noted potential risk issues.

Respondents are concerned particularly about their organization's ability to manage talent needs, and they are concerned about how economic conditions, emerging innovations, and shifts in consumer and social demographics might impact their business model.

One of the top concerns across all categories of organizations relates to the organization's ability to manage leadership and talent needs. With record-low unemployment, organizations may struggle to remain competitive as they seek to attract and retain their leadership and workforce. Large organizations and public companies are also noticeably concerned about the risk that innovations may emerge that disrupt the organization's overall business model. That concern, coupled with the risk that may emerge as consumer and social demographics evolve over time, suggests that respondents perceive there to be significant uncertainty about the long-term viability of their organization's business model. Financial services organizations are most concerned about the impact of the economy, interest rates, currencies, etc. In addition to concerns associated with managing leadership and talent, not-for-profit organizations are focused on risks associated with social media harming the organization's reputation and brand.

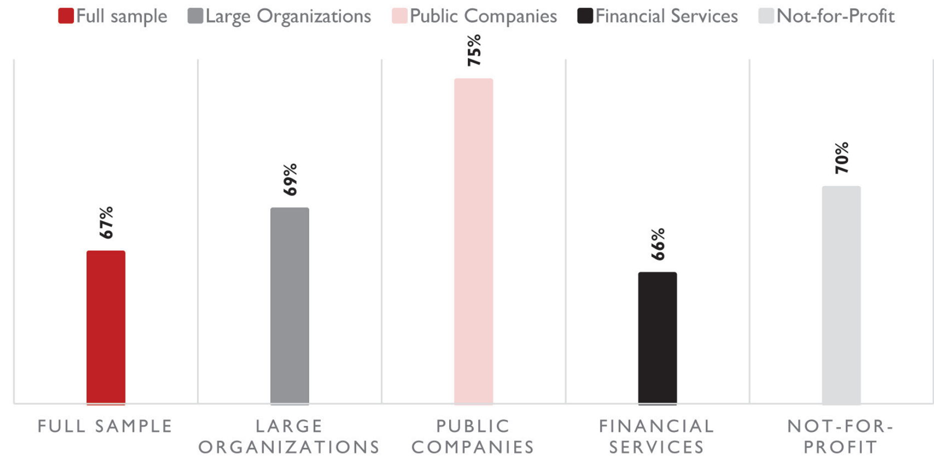
Percentage of Respondents					
PERCENTAGE OF RESPONDENTS WHO ARE "MOSTLY" TO "EXTENSIVELY" CONCERNED ABOUT…	FULL SAMPLE	LARGEST ORGANIZATIONS (REVENUES >$1B)	PUBLIC COMPANIES	FINANCIAL SERVICES	NOT-FOR-PROFIT ORGANIZATIONS
The organization's ability to manage leadership and talent needs of the organization	48%	53%	49%	46%	51%
The impact of the economy, interest rates, currencies, etc.	42%	41%	44%	53%	30%
Innovations that might disrupt the organization's core business model	40%	52%	50%	48%	31%
Shifts in consumer and social demographics	34%	43%	40%	42%	38%
Social media harming the organization's reputation and brand	30%	35%	34%	32%	42%
Geo-political instability affecting the organization's core business	27%	33%	34%	15%	30%
The impact of the environment on the core business model	19%	24%	23%	13%	18%

The data in the table above reflects the percentage of respondents perceiving each of these risks "mostly" or "extensively" impacting the organization. The fact that the percentages for several of the risks are between one-third to more than one-half of the respondents within each category of organization suggests that there are a number of complex risk issues that management and the board of directors need to be proactively navigating to ensure they are prepared to manage a given risk. That reinforces a need for effective risk management practices.

Some risks have actually translated into significant operational surprises for the organizations represented in our survey. About 9% noted that they have been affected by an operational surprise "extensively" within the last five years and an additional 24% of respondents noted that they have been affected "mostly" in that same time period. An additional 35% responded "somewhat" to this question. Collectively, this data indicates that the majority of organizations (68%) are being affected by real risk events (e.g., a competitor disruption, an IT systems breach, loss of key talent, among numerous others possible events) in their organizations that have affected how they do business, consistent with what we have found in prior years.

Percentage of Respondents					
QUESTION	NOT AT ALL	MINIMALLY	SOMEWHAT	MOSTLY	EXTENSIVELY
To what extent has your organization faced an operational surprise in the last five years?	6%	26%	35%	24%	9%

The rate of operational surprises is highest for public companies, followed by not-for-profits, and large organizations as shown on the next page. The reality is that all organizations are dealing with unexpected risks.



These percentages increased from the prior year's percentage for all categories of organizations noted above, except for large organizations where 69% noted that they had experienced an operational surprise "somewhat," "mostly", or "extensively" in the past five years as compared to 72% responding at that level last year. The percentages increased from 59% last year to 66% this year for financial services organizations and from 60% to 70% for not-for-profit organizations. The percentages for the current year continue to reveal that an overwhelming majority of respondents across different types of organizations have experienced a significant operational surprise in the past five years.

The presence of operational surprises suggest that risk management processes need to be improved.

The responses to these questions about the nature and extent of risks organizations face indicate that executives are experiencing a noticeably high volume of risks that are also growing in complexity, which ultimately results in significant unanticipated operational issues. The reality that unexpected risks and uncertainties occur and continue to "surprise" organizational leaders suggests that opportunities to improve risk management techniques still exist for most organizations. This suggests that the need for effective risk management remains an important imperative for most organizations as a technique to hopefully better anticipate events that may lead to unexpected operational surprises.

MATURITY OF RISK MANAGEMENT PROCESSES

***Key Theme:** The approach to risk management is not mature or robust for most organizations, despite a perception that the volume and complexity of risks are increasing.*

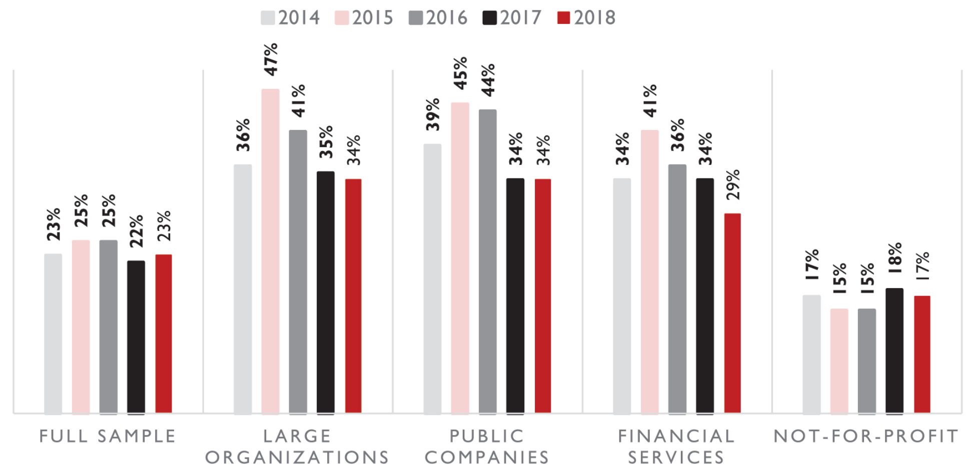
Most organizations describe the level of ERM maturity as very immature to evolving. Very few describe their processes as robust.

To get a sense for the overall sophistication of risk management practices, we asked a series of questions to tease out the state of risk management practices in organizations today. In particular, we asked respondents to provide their assessment of the overall level of their organization's risk management maturity using a scale that ranges from "very immature" to "robust." We found that the level of sophistication of underlying risk management processes still remains fairly immature for just over one-third of those responding to our survey. When asked to describe the level of maturity of their organization's approach to risk oversight, we found that 14% described their organization's level of functioning ERM processes as "very immature" and an additional 24% described their risk oversight as "developing." So, on a combined basis, 38% self-describe the sophistication of their risk oversight as immature to developing (this is mostly unchanged from the 39% reported in our prior year study). Only 3% responded that their organization's risk oversight was "robust," consistent with responses noted in prior reports.

Percentage of Respondents					
WHAT IS THE LEVEL OF MATURITY OF YOUR ORGANIZATION'S RISK MANAGEMENT OVERSIGHT?	VERY IMMATURE	DEVELOPING	EVOLVING	MATURE	ROBUST
Full Sample	14%	24%	39%	20%	3%
Largest Organizations	5%	17%	44%	28%	6%
Public Companies	7%	18%	41%	28%	6%
Financial Services	7%	19%	45%	24%	5%
Not-for-Profit Organizations	14%	27%	42%	17%	0%

In general, the largest organizations, public companies, and financial services entities believe their approach to ERM is more mature relative to the full sample. As shown in the table above and the bar graph on the next page, respondents in larger organizations, public companies, and financial services organizations are more likely to describe their organization's approach to ERM as either "mature" or "robust" relative to the full sample and to not-for-profit organizations. That has been the case for the past few years. But, it is important to point out that the highest percentage for any type of organization having a "mature" or "robust" risk management process is 34%. That means risk management is not mature or robust for 66% of organizations, in a time period when respondents believe the risks are increasing in volume and complexity. Is there a disconnect in how executives are thinking about their risk management needs?

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



The level of risk management maturity is not increasing over time.

While the level of risk oversight maturity is higher for subsets of organizations than the full sample, it is important to note that a significant percentage of large organizations, public companies, financial services organizations, and not-for-profits organizations still do not describe their approaches to ERM as being “mature” or “robust.” More importantly, the perceptions of the level of maturity have dropped in the last two years for large organizations and public companies, and they dropped somewhat from last year for financial services. Perhaps, the publicity of recent high profile risk events affecting well-known organizations related to cyber breaches, leadership scandals, and bankruptcies are causing some executives to conclude that their organization’s approach to risk management may not be as strong as they once perceived it to be. When you consider the results concerning the changing complexity and volume of risks facing most organizations, along with growing expectations for improved risk oversight, opportunities remain for all types of organizations to increase the level of their enterprise-wide risk management maturity.

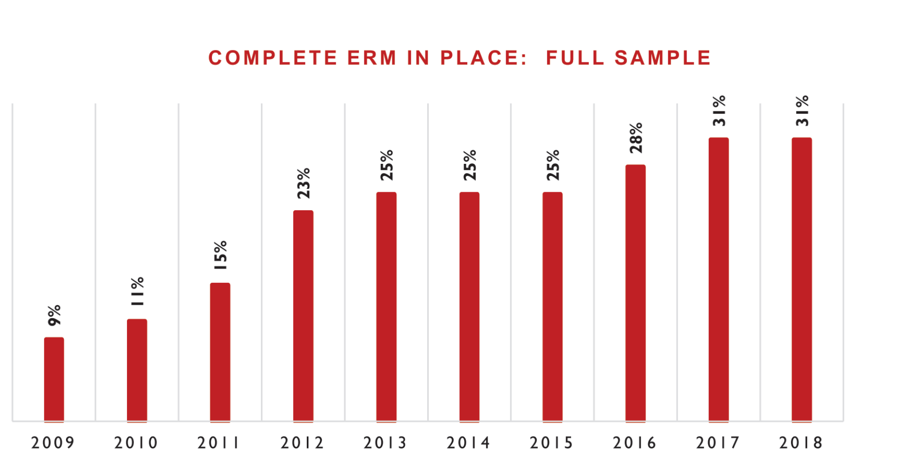
This is especially intriguing given a majority of the respondents in the full sample indicated that their organization’s risk culture is one that is either “strongly risk averse” (8%) or “risk averse” (42%). Similarly, just over one-half of the largest organizations, public companies, and financial services companies indicated their risk culture is “strongly risk averse” or “risk averse.” The overall lack of ERM maturity for the full sample is somewhat surprising, when the majority of organizations are in organizations with notable aversion to significant risk-taking. The level of risk management maturity may not clearly reconcile to the organization’s risk-averse culture.

There have been growing calls for more effective enterprise risk oversight at the board and senior management levels in recent years. Many corporate governance reform experts have called for the adoption of a holistic approach to risk management widely known as “enterprise risk management” or “ERM.” ERM is different from traditional approaches that focus on risk oversight by managing silos or distinct pockets of risks. ERM emphasizes a top-down, enterprise-wide view of the inventory of key risk exposures potentially affecting an entity’s ability to achieve its objectives.

To obtain a sense for the current state of ERM maturity, we asked survey participants to respond to a number of questions to help us get a sense for the current level of risk oversight in organizations surveyed. One of the questions asked them to select the best description of the state of their ERM currently in place using the following statements:

- No enterprise-wide process in place
- Currently investigating concept of enterprise-wide risk management, but have made no decisions yet
- No formal enterprise-wide risk management process in place, but have plans to implement one
- Partial enterprise-wide risk management process in place (i.e., some, but not all, risk areas addressed)
- Complete formal enterprise-wide risk management process in place

Over the past two years, there has been a slight uptick in the percentage of organizations in the full sample that believe they have a "complete formal enterprise-wide risk management process in place." As illustrated by the bar graph below, we saw consistency in the number of organizations at that level of maturity for 2017 and 2018.



The percentage of entities with complete "ERM" processes in place is slowly improving over time.

In 2009, only 9% of organizations claimed to have complete ERM processes in place; however, in 2018 the percentage increased to 31% for the full sample. So, greater adoption of ERM has occurred. However, there continues to be significant opportunity for improvement in most organizations, given that more than two-thirds of organizations surveyed in 2018 still cannot yet claim they have "complete ERM in place."

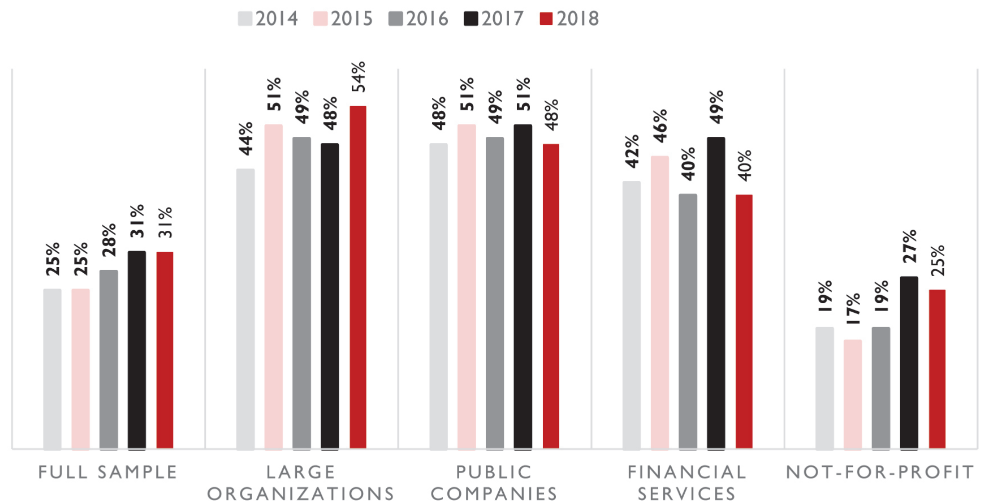
For the full sample, we found that 12% of the respondents have no enterprise-wide risk management process in place. An additional 9% of respondents without ERM processes in place indicated that they are currently investigating the concept, but have made no decisions to implement an ERM approach to risk oversight at this time. Thus, on a combined basis, about one-fifth of respondents have no formal enterprise-wide approach to risk oversight and are currently making no plans to consider this form of risk oversight. That is a bit surprising as you consider the growing level of uncertainty in today's marketplace.

The adoption of ERM is greatest for larger companies, public companies, and financial services as summarized in the table on the next page.

Percentage of Respondents					
DESCRIPTION OF THE STATE OF ERM CURRENTLY IN PLACE	FULL SAMPLE	LARGEST ORGANIZATIONS (REVENUES >$1B)	PUBLIC COMPANIES	FINANCIAL SERVICES	NOT-FOR-PROFIT ORGANIZATIONS
No enterprise-wide management process in place	12%	1%	2%	6%	7%
Currently investigating concept of enterprise-wide risk management, but have made no decisions yet	9%	2%	5%	4%	8%
No formal enterprise-wide risk management process in place, but have plans to implement one	8%	3%	6%	6%	12%
Partial enterprise-wide risk management process in place (i.e., some, but not all, risk areas addressed)	40%	40%	39%	44%	48%
Complete formal enterprise-wide risk management process in place	31%	54%	48%	40%	25%

The adoption of ERM is generally further along for large organizations, public companies, and financial institutions.

The chart above and the bar graph below show that larger organizations, public companies, and financial services organizations are more likely to have complete ERM processes in place and that has been the case for the past few years. The variation in results highlights that the level of ERM maturity can differ greatly across organizations of various sizes and types. While variations exist, the results also reveal that there are a substantial number of firms in all categories that have no ERM processes or are just beginning to investigate the need for those processes.



CALLS FOR IMPROVED ENTERPRISE-WIDE RISK OVERSIGHT

***Key Theme:** External stakeholders are placing greater expectations on senior executives for more engagement in risk management.*

We asked respondents to describe to what extent external factors (e.g., investors, ratings agencies, emerging best practices) are creating pressures on senior executives to provide more information about risks affecting their organizations. As illustrated in the table below, while a small percentage (10%) of respondents described external pressures as "extensive," an additional 21% indicated that external pressures were "mostly" and another 28% described that pressure as "somewhat." Thus, on a combined basis 59% of our respondents believe the external pressure to be more transparent about risk exposures is "somewhat" to "extensive." That result is slightly lower than the 62% reported last year, but still indicates strong pressure from external parties for more information about risks affecting the organization.

Most executives note there is "somewhat" to "extensive" external pressure to provide more information about risks.

Pressures from external parties such as investors, rating agencies, and regulators apparently exists for all types of organizations, especially larger organizations, public companies, and financial services organizations. While for the full sample, the percentage responding "somewhat," "mostly," or "extensively" to our question about external pressures for more information about risks decreased from 62% last year to 59% this year, the percentage increased from 67% last year to 75% this year for large organizations and from 69% to 75% for public companies. This suggests that there is a growing interest from those outside the organization for more extensive information about risks on the horizons for those organizations. Interestingly, the 57% reported for not-for-profit organizations is up from the 55% reported last year, suggesting that not-for-profit organizations are also under greater pressure to strengthen senior management's engagement in risk management.

Percentage of Respondents					
EXTENT THAT EXTERNAL PARTIES ARE APPLYING PRESSURE ON SENIOR EXECUTIVES TO PROVIDE MORE INFORMATION ABOUT RISKS AFFECTING THE ORGANIZATION	FULL SAMPLE	LARGEST ORGANIZATIONS (REVENUES >$1B)	PUBLIC COMPANIES	FINANCIAL SERVICES	NOT-FOR-PROFIT ORGANIZATIONS
"Extensively"	10%	15%	14%	18%	8%
"Mostly"	21%	25%	32%	29%	16%
"Somewhat"	28%	35%	29%	26%	33%
Combined	59%	75%	75%	73%	57%

Several other factors are prompting senior executives to consider changes in how they identify, assess, and manage risks. For the overall sample, respondents noted that emerging best practice expectations, unanticipated risk events, and board of director requests are the three most frequently cited factors for increasing senior executive involvement. Regulator pressure is especially having a significant impact on senior executive focus on risk management activities for financial services organizations and public companies. Not-for-profits are sensing that emerging best practice expectations are placing greater demands on senior executives to be more involved in risk management activities.

Percentage of Respondents					
FACTORS "MOSTLY" OR "EXTENSIVELY" LEADING TO INCREASED SENIOR EXECUTIVE FOCUS ON RISK MANAGEMENT ACTIVITIES	FULL SAMPLE	LARGEST ORGANIZATIONS (REVENUES >$1B)	PUBLIC COMPANIES	FINANCIAL SERVICES	NOT-FOR-PROFIT ORGANIZATIONS
Regulator demands	31%	34%	44%	55%	17%
Unanticipated risk events affecting organization	32%	36%	40%	32%	32%
Emerging best practice expectations	38%	33%	37%	41%	41%
Emerging corporate governance requirements	29%	32%	37%	39%	19%
Board of director requests	32%	43%	44%	32%	39%
Unanticipated risk events affecting competitors	15%	18%	18%	13%	10%

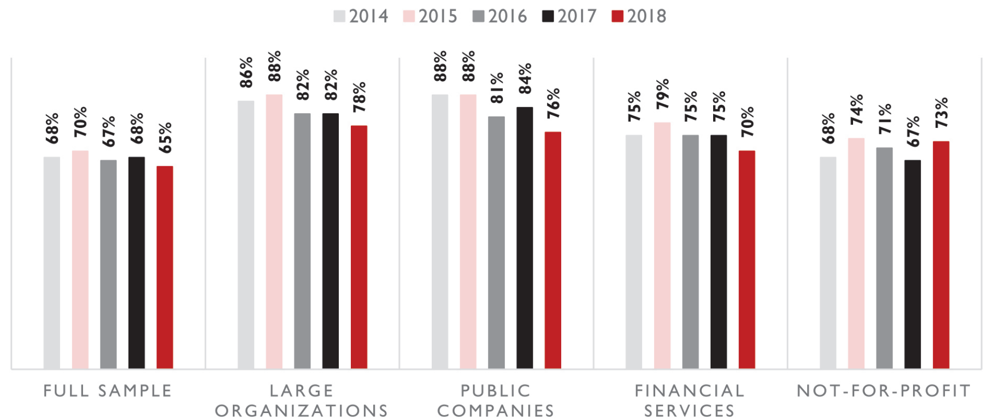
Corporate governance trends, regulatory demands, and board of directors are all placing pressure on executives to engage more in risk oversight.

We did note, however, an increase in some of these percentages for the current year. For example, regulatory demands for financial services of 55% in the current year is slightly higher than the 50% reported last year (not shown in the above table). A similar increase related to regulatory demands occurred for public companies, as indicated by 44% in the current year as compared to 37% in the prior year. That suggests that expectations for increased executive focus on risk management are on the rise.

Our survey results indicate that board of director expectations for improving risk oversight in these organizations is strong, especially for the largest organizations, public companies, and financial services entities. Respondents noted that for 10% of the organizations surveyed, the board of directors is asking senior executives to increase their involvement in risk oversight "extensively," another 28% of the organizations report "mostly," and an additional 27% have boards that are asking for increased oversight "somewhat."

Percentage of Respondents					
EXTENT TO WHICH THE BOARD OF DIRECTORS IS ASKING FOR INCREASED SENIOR EXECUTIVE INVOLVEMENT IN RISK OVERSIGHT	FULL SAMPLE	LARGEST ORGANIZATIONS (REVENUES >$1B)	PUBLIC COMPANIES	FINANCIAL SERVICES	NOT-FOR-PROFIT ORGANIZATIONS
"Extensively"	10%	12%	11%	10%	13%
"Mostly"	28%	34%	36%	30%	30%
"Somewhat"	27%	32%	29%	30%	30%
Combined	65%	78%	76%	70%	73%

Board expectations for increased senior executive involvement in risk oversight is strong across all types of organizations, but appears to be most dramatic for the largest organizations and public companies. The desire for more engagement by management in identifying, assessing, managing, and monitoring risks on the horizon continues to be on the minds of boards of directors as they seek to fulfill their risk governance responsibilities. These expectations are possibly being prompted by increasing external pressures that continue to be placed on boards. In response to these expectations, boards and audit committees may be challenging senior executives about existing approaches to risk oversight and demanding more information about the organization's top risk exposures.



Boards of directors continue to call for increased engagement of senior executives in risk management activities.

And, as illustrated by the bar graph above, the board's level of interest in more senior executive engagement in risk management has been holding strong for the past five years. This suggests that effective risk management is a priority among boards for management to consider. Interestingly, the percentages for the current year are slightly lower than those in the prior year for the full sample (last year the full sample was 68%) and for all categories of organizations except for not-for-profit organizations which increased from 67% in the prior year to 73% in the current year. These findings suggests that the level of board interest in risk management is strong across most types of organizations, but it is especially increasing for not-for-profit organizations.

The board's interest in strengthened risk oversight may explain why the chief executive officer (CEO) is also calling for increased senior executive involvement in risk oversight. Just under half (44%) of the respondents indicated that the CEO has asked "mostly" or "extensively" for increased management involvement in risk oversight, which is a slight decrease from the 46% we saw in 2017. An additional 25% of our respondents indicated that the CEO has expressed "somewhat" of a request for increased senior management oversight of risks.

BOARD RISK OVERSIGHT

***Key Theme:** Most boards delegate risk oversight to the audit committee, except when a risk committee exists.*

Regulators and other corporate governance proponents have placed a number of expectations on boards for effective risk oversight. The New York Stock Exchange (NYSE) Corporate Governance Rules place responsibility for risk oversight on the audit committee, while credit rating agencies, such as Standard & Poor's, evaluate the engagement of the board in risk oversight as part of their credit rating assessments. The SEC requires boards of public companies to disclose in proxy statements to shareholders the board's role in risk oversight, and the Dodd-Frank legislation imposes requirements for boards of the largest financial institutions to create board-level risk committees. While many of these are targeted explicitly to public companies, these expectations are gradually being recognized as best practices for board governance causing a trickle-down effect on all types of organizations, including not-for-profits.

For over 60% of the organizations, the board has delegated risk oversight to a committee. Most delegate to the audit committee, except for financial services organizations that are more likely to have a risk committee.

To shed some insight into current practices, we asked respondents to provide information about how their organization's board of directors has delegated risk oversight to board level committees. We found that 61% of the respondents in the full sample and 54% of not-for-profit organizations indicated that their boards have formally assigned risk oversight responsibility to a board committee. This is noticeably different from the largest organizations, public companies, and financial services organizations where 81%, 83%, and 76% respectively, of those organizations' boards have assigned to a board committee formal responsibility for overseeing management's risk assessment and risk management processes.

For those boards that have assigned formal risk oversight to a committee, just under half (48%) are assigning that task to the audit committee, while 27% assign oversight to a risk committee. The largest organizations and not-for-profit organizations are most likely to assign formal risk oversight to the audit committee. Financial services organizations are more likely to assign risk oversight to a risk committee than the audit committee.

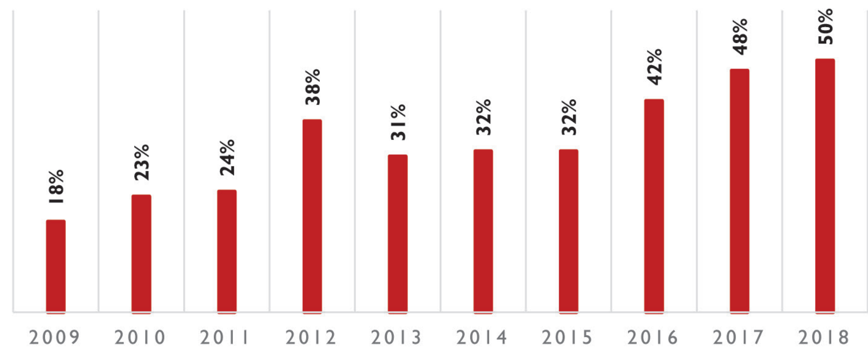
Percentage of Respondents					
IF BOARD DELEGATES FORMAL RESPONSIBILITY OF RISK OVERSIGHT TO A SUBCOMMITTEE, WHICH COMMITTEE IS RESPONSIBLE?	FULL SAMPLE	LARGEST ORGANIZATIONS (REVENUES >$1B)	PUBLIC COMPANIES	FINANCIAL SERVICES	NOT-FOR-PROFIT ORGANIZATIONS
Audit committee	48%	56%	47%	38%	64%
Risk committee	27%	19%	34%	44%	12%
Executive committee	10%	11%	9%	7%	5%

RISK MANAGEMENT LEADERSHIP

***Key Theme:** Pinpointing an executive to lead the risk management process is becoming more common, and organizations are increasingly creating management-level risk committees to help oversee enterprise risks.*

The percentage of organizations formally designating an individual to serve as the Chief Risk Officer (CRO) or equivalent senior risk executive continues to increase, with half of the organizations surveyed now appointing individuals to lead the risk management role. Even over the past two years, the percentage of organizations with CROs or equivalent has grown from 42% to 50%, as illustrated by the bar graph below.

PERCENTAGE DESIGNATING INDIVIDUAL TO SERVE AS CRO OR EQUIVALENT



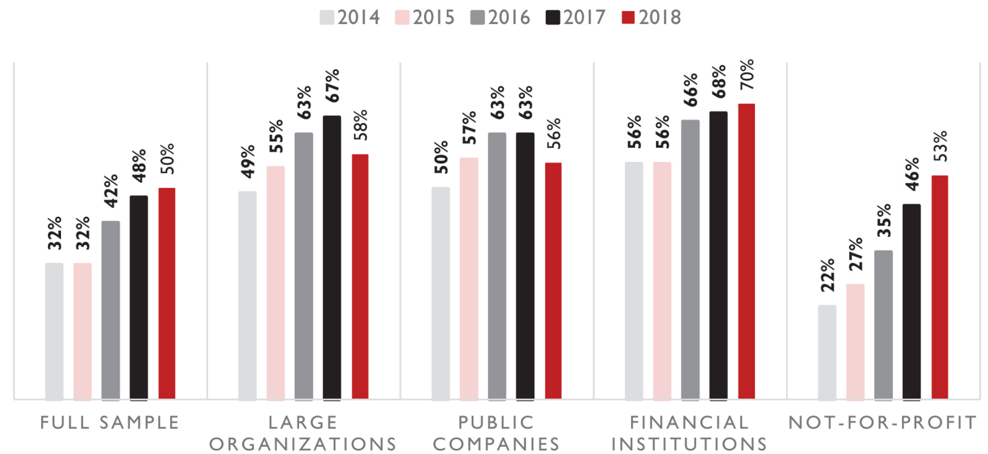
Large organizations, public companies, and financial services entities are similarly likely to appoint individuals to serve as Chief Risk Officer (CRO) or equivalent than other organizations.

Financial services organizations are the most likely to designate an individual to serve as CRO or equivalent, with almost three-fourths of them doing so as shown in the table below. But, designation of a CRO or equivalent is also fairly common for large organizations and public companies. What is especially interesting is to see a strong percentage of not-for-profit organizations now appointing someone to serve as CRO.

Percentage of Respondents					
	FULL SAMPLE	LARGEST ORGANIZATIONS (REVENUES >$1B)	PUBLIC COMPANIES	FINANCIAL SERVICES	NOT-FOR-PROFIT ORGANIZATIONS
Percentage designating individual to serve as CRO or equivalent	50%	58%	56%	70%	53%

The increase in the percentage of organizations designating an individual to serve as CRO or equivalent occurred across all types of organizations as shown in the bar graph on the next page. The percentage of organizations appointing a CRO or equivalent is increased from the prior year for the full sample, financial services organizations, and not-for-profit organizations. Perhaps this is in response to the growing reality that the volume and complexities of risks are not getting easier to manage and require more focused risk management efforts. But, the drop in the percentages of large organizations and public companies appointing a risk leader at the executive level for 2018 is surprising, especially in the light growing demands for more senior executive engagement in risk oversight from external parties and the board of directors.

PERCENTAGE OF ORGANIZATIONS DESIGNATING INDIVIDUAL AS CRO OR EQUIVALENT



The CRO most often reports to the CEO or president of the organization.

For firms with a chief risk officer position, the individual to whom the CRO most often reports is the CEO or President (48% of the instances for the full sample) followed by 18% that directly report to the CFO (see chart below). Interestingly, in the prior year, 42% reported to the CEO or President while 20% reported to the CFO. Thus, there appears to be some realignment in reporting structures with more CROs reporting to the CEO in the current year than in prior years. For 20% of the organizations with a CRO position, the individual reports formally to the board of directors or its audit committee. Last year 23% reported to the board or one of its committees.

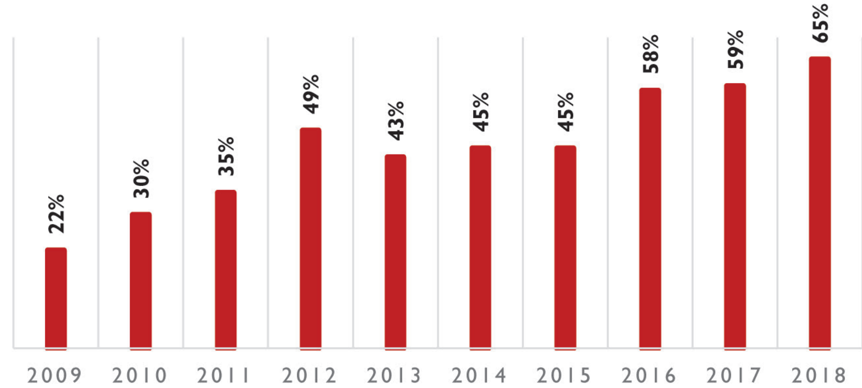
When you examine the largest organizations, public companies, financial services entities, and not-for-profit organizations direct reporting to the CEO or President is most common. But, the CRO is also much more likely to report to the board of directors or one of its committees if in a public company or a financial services organization. CROs are more likely to report to the CFO for the very largest organizations as compared to other organizations.

Percentage of Respondents					
TO WHOM DOES THE CRO FORMALLY REPORT?	FULL SAMPLE	LARGEST ORGANIZATIONS (REVENUES >$1B)	PUBLIC COMPANIES	FINANCIAL SERVICES	NOT-FOR-PROFIT ORGANIZATIONS
Board of Directors or Committee of the Board	20%	11%	26%	24%	12%
Chief Executive Officer or President	48%	42%	43%	53%	44%
Chief Financial Officer	18%	29%	19%	14%	23%

Management-level risk committees are becoming increasingly common.

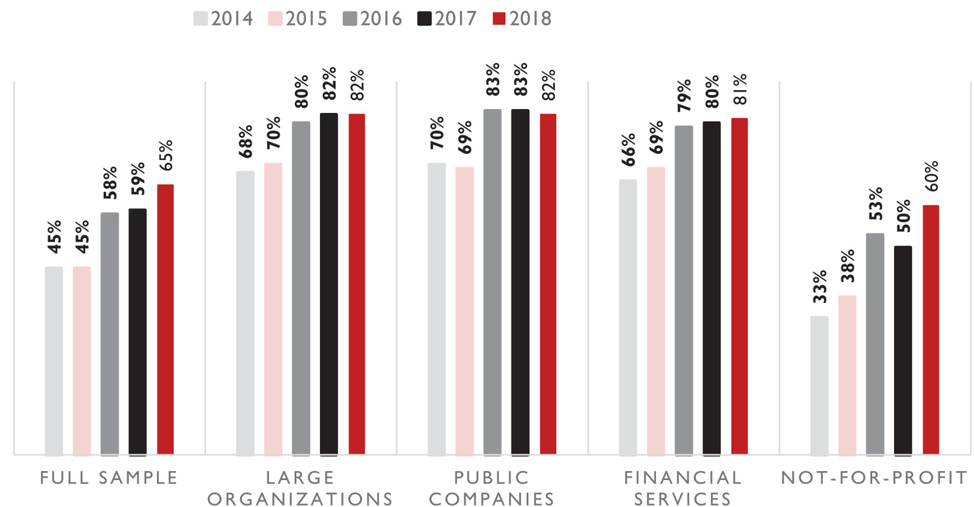
Similar to our observation that half (50%) of organizations are designating an executive to lead the risk oversight function (either as CRO or equivalent) in 2018, we also observed that a number of organizations have a management-level risk committee or equivalent. In fact, the likelihood that an organization has a management-level risk committee is higher than the likelihood they have appointed a CRO or equivalent. For 2018, 65% of the full sample has a risk committee as compared to 50% that have appointed a CRO or equivalent. And, the percentage of organizations creating a management-level risk committee continues to steadily rise, with 65% having a risk committee in 2018 compared to 59% last year and 58% two years ago.

HAVE A MANAGEMENT LEVEL RISK COMMITTEE



The presence of an internal management-level risk committee is noticeably more likely to be present in the largest organizations, public companies, and financial services entities where 82%, 82%, and 81%, respectively, of those organizations have an internal risk committee. And, the increased use of a management-level risk committee over the past few years is observed across all types of organizations as illustrated by the bar graph below. It is important to highlight the noticeable jump from 50% to 60% in the frequency of not-for-profit organizations creating a management-level risk committee.

PERCENTAGE OF ORGANIZATIONS WITH MANAGEMENT-LEVEL RISK COMMITTEES



Management-level risk committees most often meet quarterly, followed by those that meet monthly.

For the organizations with a formal executive risk oversight committee, those committees meet most often (50% of the time) on a quarterly basis, with an additional 27% of the risk committees meeting monthly. These results do not differ notably for the subsets of largest organizations, public companies, or not-for-profit organizations. But, a higher percentage of financial services entities meet that often, with 54% meeting quarterly and 32% meeting monthly.

The officer most likely to serve on the executive risk committee is the chief financial officer (CFO) who serves on 75% of the risk committees that exist among organizations represented in

our survey. The CEO/President serves on 59% of the risk committees while the chief operating officer serves on 49% of the risk committees. In around half of the organizations surveyed, the general counsel sits on the risk committee while 45% include the internal auditor. These percentages are generally the same for all other organizations, except about 60% of large organizations and public companies include the internal auditor on the risk committee.

INTEGRATION OF RISK MANAGEMENT AND STRATEGY

***Key Theme:** Despite the realization that entities must take risks to generate returns, most organizations struggle to integrate their risk management activities with their strategic planning activities.*

The increasingly competitive business landscape highlights the importance of having a more explicit focus on the interrelationship of risk-taking and strategy development and execution. We asked several questions to obtain information about the intersection of risk management and strategy in the organizations we surveyed.

A better understanding of risks facing the organization should provide rich input to the strategic planning process so that management and the board can design strategic goals and initiatives with those risks in mind. If functioning effectively, a robust ERM process should be an important strategic tool for management.

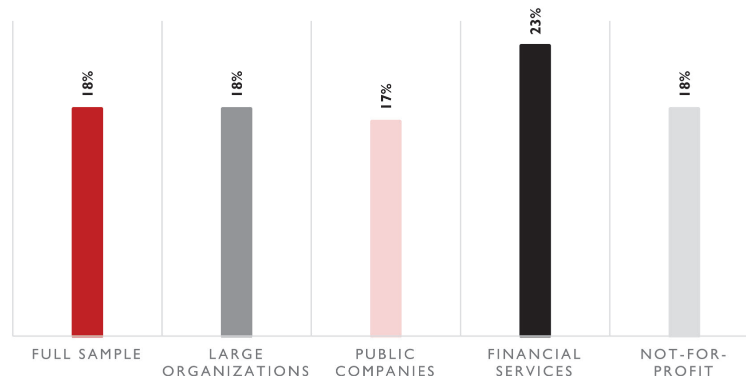
Responses to the question about the extent to which respondents believe the organization's risk management process is a proprietary strategic tool that provides unique competitive advantage shed insight about how risk management is viewed in those organizations. Just over half (57%) responded to that question by indicating "not at all" or "minimally," consistent with what we have observed in prior years. Organizations continue to struggle to integrate their risk management and strategic planning efforts.

Percentage of Respondents					
	NOT AT ALL	MINIMALLY	SOMEWHAT	MOSTLY	EXTENSIVELY
To what extent do you believe the organization's risk management process is a proprietary strategic tool that provides unique competitive advantage?	30%	27%	25%	13%	5%

A strong understanding of risks on the horizon identified by an ERM process should be an important input to strategic planning.

Furthermore, as shown by the bar graph below, the assessment of the strategic value of the organization's risk management process was relatively low for all organizations, although it was slightly higher for financial services organizations. Less than 25% of any type of organization perceive risk management as having "mostly" or "extensive" strategic value. That suggests there is tremendous opportunity to connect the understanding of risks in light of the strategy. Connecting ERM and strategy seems like an important next step for most organizations. A robust ERM process should provide valuable input to management as they execute their strategic plan. It should be an important proprietary strategic tool.

PERCENTAGE WHO BELIEVE RISK MANAGEMENT "MOSTLY" OR "EXTENSIVELY" PROVIDES STRATEGIC ADVANTAGE



Similar to last year, we found that 32% of organizations in our full sample currently do only minimal or no formal assessments of emerging strategic, market, or industry risks. The lack of these emerging risk assessments is greatest for not-for-profit organizations where we found that 35% of those organizations have no formal assessments of those types of risks. The largest organizations, public companies, and financial services organizations are much more likely to consider emerging strategic, market, and industry risks, where only 15%, 17%, and 25% of those organizations, respectively, signaled that they have no or only minimal formal assessments of these kinds of emerging risks.

About one-third of organizations in our survey do no or only minimal formal assessments of strategic, market, or industry risks.

When organizations formally assess risks, most do so in a predominantly qualitative (20%) manner or by using a blend of qualitative and quantitative assessment tools (56%). This dominance of a qualitative approach holds true for the subgroups (largest organizations (69%), public companies (67%), and financial services firms (59%)) as well. Thus, the use of robust quantitative risk assessment techniques is not that common across most organizations. While quantitative techniques might be used for certain types of risks (e.g., risks related to investment portfolio management), quantitative techniques are not used on a widespread basis across most types of risks.

Even though the majority of organizations appear to be fairly unstructured, casual, and somewhat *ad hoc* in how they identify, assess, and monitor key risk exposures, responses to several questions indicate a high level of confidence that risks are being strategically managed in an effective manner. We asked several questions to gain a sense for how risk exposures are integrated into an organization's strategy execution. Almost half (40%) of our respondents believe that existing risk exposures are considered "mostly" or "extensively" when evaluating possible new strategic initiatives.

But, a much smaller percentage of organization believe that their organization has articulated its appetite for or tolerance of risks in the context of strategic planning. Only 28% of the respondents believe their organization has "mostly" or "extensively" articulated its appetite or tolerance of risks in the context of strategic planning. That percentage is consistent across all types of organizations, except for financial services organizations where 40% responded that their organization has. In addition, 30% of the respondents indicate that risk exposures are considered "mostly" or "extensively" when making capital allocations to functional units. That percentage is higher (38%) for financial services organizations.

Percentage of Respondents Saying "Mostly" to "Extensively"

EXTENT THAT	FULL SAMPLE	LARGEST ORGANIZATIONS (REVENUES >$1B)	PUBLIC COMPANIES	FINANCIAL SERVICES	NOT-FOR-PROFIT ORGANIZATIONS
Existing risk exposures are considered when evaluating possible new strategic initiatives	40%	39%	42%	46%	35%
Organization has articulated its appetite for or tolerance of risks in the context of strategic planning	28%	26%	28%	40%	20%
Risk exposures are considered when making capital allocations to functional units	30%	32%	29%	38%	21%

Most organizations have not formally articulated the entity's appetites for taking different types of risks.

These results suggest that there is still opportunity for improvement in better integrating risk oversight with strategic planning. Given the importance of considering the relationship of risk and return, it would seem that all organizations should "extensively" consider existing risk exposures in the context of strategic planning. Similarly, just over a third (36%) of organizations in our full sample have "not-at-all" or only "minimally" articulated an appetite for risk-taking in

the context of strategic planning. Without doing so, how do boards and senior executives know whether the extent of risk-taking in the pursuit of strategic objectives is within the bounds of acceptability for key stakeholders?

In a separate question, we asked about the extent that the board formally discusses the top risk exposures facing the organization when the board discusses the organization's strategic plan. We found that just over a quarter indicated the board engages "mostly" or "extensively" in those discussions about top risk exposures in the context of strategic planning. When we separately analyzed this for the largest organizations, public companies, and financial services firms, we did find that those boards were somewhat more likely to integrate their discussions of the top risk exposures as part of their discussion of the organization's strategic plan as documented in the table below. However, it is important to highlight that the majority of those organizations (at least two-thirds of organizations) do not perceive that their boards are engaging in extensive discussions about top risk exposures as they consider the organization's strategic plan. That seems to suggest a significant opportunity for boards to rethink the effectiveness of their risk governance and oversight.

Percentage of Respondents					
EXTENT TO WHICH TOP RISK EXPOSURES ARE FORMALLY DISCUSSED BY THE BOARD OF DIRECTORS WHEN THEY DISCUSS THE ORGANIZATION'S STRATEGIC PLAN	FULL SAMPLE	LARGEST ORGANIZATIONS (REVENUES >$1B)	PUBLIC COMPANIES	FINANCIAL SERVICES	NOT-FOR-PROFIT ORGANIZATIONS
"Extensively"	4%	4%	5%	8%	4%
"Mostly"	22%	30%	25%	28%	16%
Combined	26%	34%	30%	36%	20%

Most boards are not formally discussing the entity's top risk exposures when they discuss the organization's strategic plan.

Despite the higher percentages of boards that discuss risk exposures in the context of strategic planning for the largest organizations and public companies, the fact that about one-third of those organizations are having these kinds of discussions suggests that there is still room for marked improvement in how risk oversight efforts and strategic planning are integrated. Given the fundamental relationship between risk and return, it would seem that these kinds of discussions should occur in all organizations. Thus, there appears to be a continued disconnect between the oversight of risks and the design and execution of the organization's strategic plan.

Because of the explosive growth in social media platforms and the increasing ability for risk events impacting an organization to rapidly go viral over social media, we added two new questions in this year's survey to better understand how more effective risk management might help the organization be better prepared for risk events that might strategically affect reputation and brand. Our first question asked about the extent that the organization's risk identification and assessment processes consider risks that might be triggered by social media attention focused on the organization. Less than 20% of respondents responded to that question with "mostly" or "extensively" (not-for-profit organizations responded slightly higher at 24%). That suggests risks triggered by social media are not a significant focus for most organizations at this point in time. However, a much higher percentage of respondents believe that their organization's ERM process will help them be better prepared to manage a significant event that could damage reputation or brand.

Percentage of Respondents					
EXTENT TO WHICH RESPONDENTS ANSWERED "MOSTLY" TO "EXTENSIVELY" TO THESE TWO QUESTIONS:	FULL SAMPLE	LARGEST ORGANIZATIONS (REVENUES >$1B)	PUBLIC COMPANIES	FINANCIAL SERVICES	NOT-FOR-PROFIT ORGANIZATIONS
To what extent does your organization's risk identification and assessment process consider risks that might triggered by social media attention focused on your organization?	17%	19%	16%	18%	24%
To what extent do you believe your organization's ERM process will help management identify and manage a significant risk event impacting your organization's reputation and brand?	38%	40%	39%	50%	42%

RISK MANAGEMENT TECHNIQUES

***Key Theme:** If organizations engage in processes to formally identify risks, they typically do so annually.*

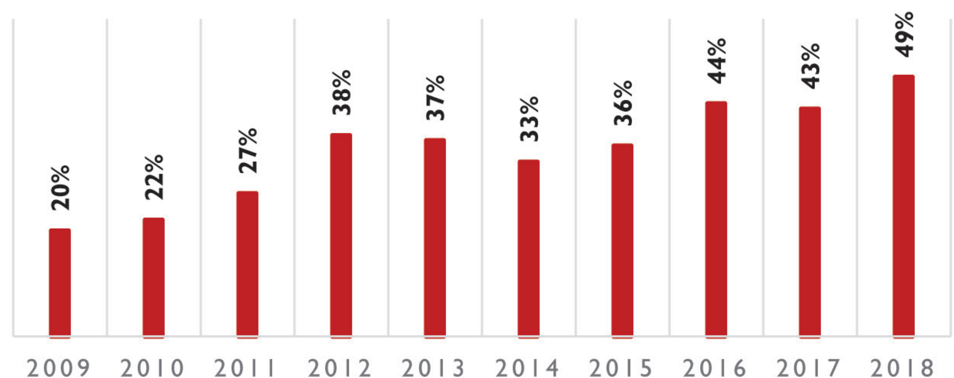
Just under half of the organizations in the full sample (46%) have a formal policy statement regarding its enterprise-wide approach to risk management. The presence of a formal policy statement is more common in the largest organizations (65%), public companies (67%), and financial services entities (67%), where regulatory and best practice expectations have a greater influence. Not-for-profit organizations are least likely to have a formal policy statement in place (only 34% do), which may be partially attributable to the fewer external influences related to risk management.

Percentage of Respondents					
	FULL SAMPLE	LARGEST ORGANIZATIONS (REVENUES >$1B)	PUBLIC COMPANIES	FINANCIAL SERVICES	NOT-FOR-PROFIT ORGANIZATIONS
Organization has a formal policy statement regarding enterprise-wide approach to risk management	46%	65%	67%	67%	34%

The majority of the large organizations (78%) and public companies (76%) have a standardized process or template for identifying and assessing risks, while 71% of the financial services organizations have those kinds of procedures in place. In contrast, only 61% of not-for-profit organizations structure their risk identification and assessment processes in that manner. For the full sample, 59% have a standardized process or template.

A higher percentage of organizations now maintain inventories of risks at the enterprise level than in prior years, as illustrated by the bar graph below. In 2018, 49% of the organizations now maintain enterprise-level risk inventories compared to 44% two years ago. When compared to 2009, we definitely see more awareness of the importance of maintaining an understanding of the universe of risks facing the organization.

MAINTAIN RISK INVENTORIES AT ENTERPRISE LEVEL



A greater percentage of large organizations, public companies, and financial services firms maintain risk inventories at the enterprise level, as shown by the table below.

Percentage of Respondents					
	FULL SAMPLE	LARGEST ORGANIZATIONS (REVENUES >$1B)	PUBLIC COMPANIES	FINANCIAL SERVICES	NOT-FOR-PROFIT ORGANIZATIONS
Percentage that maintain risk inventories at enterprise level	49%	69%	70%	59%	50%

We also asked whether organizations go through a dedicated process to update their key risk inventories. As shown in the table below, there is substantial variation as to whether they go through an update process. But, when they do update their risk inventories, it is generally done annually, although a noticeable percentage of organizations update their risk inventories semi-annually or quarterly.

Percentage of Respondents					
FREQUENCY OF GOING THROUGH PROCESS TO UPDATE KEY RISK INVENTORIES	FULL SAMPLE	LARGEST ORGANIZATIONS (REVENUES >$1B)	PUBLIC COMPANIES	FINANCIAL SERVICES	NOT-FOR-PROFIT ORGANIZATIONS
Not at all	23%	7%	6%	15%	21%
Annually	45%	54%	45%	52%	51%
Semi-Annually	9%	15%	13%	7%	8%
Quarterly	15%	16%	26%	18%	10%
Monthly, Weekly, or Daily	8%	8%	10%	8%	10%

About half (51%) of the full sample has formally defined the meaning of the term "risk" for employees to use as they identify and assess key risks. Defining "risk" occurs more often for large organizations, public companies, and financial services organizations (about two-thirds of those organizations). When they do so, 26% focus their definition on "downside" risks (threats to the organization) and over one-third (39%) focus on both the "upside" (opportunities for the organization) and "downside" of risk.

Almost half of the full sample provides explicit guidelines or measures to business unit leaders on how to assess the probability and impact of a risk event (45% and 42%, respectively). We found slightly lower results for not-for-profit organizations. However, consistent with the past couple of years about 60% of the largest organizations, public companies, and financial services organizations provide explicit guidelines or measures to business unit leaders for them to use when assessing risk probabilities and impact. The public companies are the most likely to provide this guidance. This year, 62% and 60% of public companies report that they provide guidelines for assessing risk probabilities and impact, respectively.

Percentage of Respondents					
PERCENTAGE THAT PROVIDE GUIDELINES TO ASSESS RISK	FULL SAMPLE	LARGEST ORGANIZATIONS (REVENUES >$1B)	PUBLIC COMPANIES	FINANCIAL SERVICES	NOT-FOR-PROFIT ORGANIZATIONS
- Probability	45%	59%	62%	60%	39%
- Impact	42%	58%	60%	59%	37%

COMMUNICATING RISK INFORMATION TO MANAGEMENT AND THE BOARD

***Key Theme:** Written information about risk exposures is commonly prepared for senior executives and the board, but the process of reporting to the board is mostly informal, ad hoc, or for silos of risks.*

We asked respondents about their current stage of risk management processes and reporting procedures. More than one-third (35%) either have no structured process for identifying and reporting top risk exposures to the board or they track risks by silos with minimal reporting of aggregate risk exposures to the board. An additional 30% describe their risk management processes as informal and unstructured with *ad hoc* reporting of aggregate risk exposures to the board.

Interestingly, however, just over one-third (35%) of the full sample believe their enterprise risk oversight processes are systematic, robust, and repeatable with regular reporting of top risk exposures to the board. This percentage is relatively consistent with the results reported in our 2017 report (38%) and our 2016 report (35%), but definitely higher than the 17% noted in earlier years of our study. Reporting top risk exposures to the board occurs to another 30%, but such reporting is more informal and *ad hoc*. The final third (35%) do minimal, if any, reporting of top risk exposures to the board. These same findings are mirrored for not-for-profit organizations. These findings are in line with what we observed in the prior year.

Percentage of Respondents					
PERCENTAGE WHO DESCRIBE THEIR ERM IMPLEMENTATION AS	FULL SAMPLE	LARGEST ORGANIZATIONS (REVENUES >$1B)	PUBLIC COMPANIES	FINANCIAL SERVICES	NOT-FOR-PROFIT ORGANIZATIONS
Our process is systematic, robust, and repeatable with regular reporting of top risk exposures to the board.	35%	55%	53%	45%	26%
Our process is mostly informal and unstructured, with *ad hoc* reporting of aggregate risk exposures to the board.	30%	31%	29%	30%	37%
We mostly track risks by individual categories/silos of risks, with minimal reporting of aggregate risk exposures to the board.	18%	12%	13%	19%	21%
There is no structured process for identifying and reporting top risk exposures to the board.	17%	2%	5%	6%	16%

We do see higher percentages of large organizations, public companies, and financial services organizations that have systematic, robust, and repeatable reporting of top risk exposures to the board, although the rate of that happening is just over 50% of the organizations. These results beg the question of how boards are effectively fulfilling their governance oversight responsibilities if the nature of the reporting of top risk exposures to them is non-existent or *ad hoc*, informal, and silo-based.

There is notable variation across organizations of different sizes and types in how key risks are communicated by business unit leaders to senior executives. According to the data in the table on the next page, about half (50%) of the full sample of organizations and just over half of the not-for-profit organizations communicate key risks merely on an *ad hoc* basis at management meetings. While 42% of the full sample prepares written reports monthly, quarterly, or annually, only 33% of the organizations surveyed schedule agenda time to discuss key risks at

management meetings.The percentage of organizations scheduling agenda discussions about risks at management meetings has been relatively flat over the last ten years we have tracked this data point (it has ranged between 27% and 34% over the ten years). Written reports from business unit leaders to senior management are much more common for large organizations, public companies, and financial services entities. But, they are not that much more likely (relative to the full sample) to schedule agenda discussions at management meetings to communicate risk information to senior executives. Most appear to rely on written reports to communicate information about top risk exposures.

Percentage of Respondents					
HOW ARE RISKS COMMUNICATED FROM BUSINESS UNIT LEADERS TO SENIOR EXECUTIVES?	FULL SAMPLE	LARGEST ORGANIZATIONS (REVENUES >$1B)	PUBLIC COMPANIES	FINANCIAL SERVICES	NOT-FOR-PROFIT ORGANIZATIONS
Ad hoc discussions at management meetings	50%	32%	33%	40%	53%
Scheduled agenda discussion at management meetings	33%	36%	34%	40%	37%
Written reports prepared either monthly, quarterly, or annually	42%	70%	69%	66%	50%

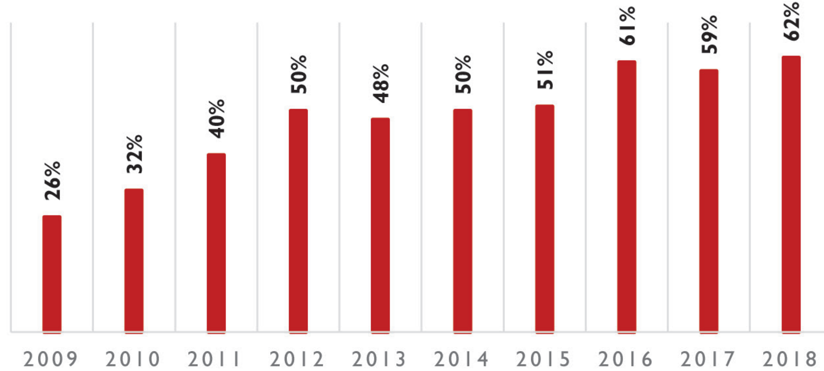
Note: Respondents could select more than one choice. Thus, the sum of the percentages exceeds 100%.

Surprisingly, just over half (58%) of those in the full sample indicate that the full board formally reviews and discusses the top risk exposures in a specific meeting of the board. This is much more likely for boards of the largest organizations, public companies and financial services organizations.

Percentage of Respondents					
PERCENTAGE OF ORGANIZATIONS WHERE THE	FULL SAMPLE	LARGEST ORGANIZATIONS (REVENUES >$1B)	PUBLIC COMPANIES	FINANCIAL SERVICES	NOT-FOR-PROFIT ORGANIZATIONS
Board of Directors reviews and discusses in a specific meeting the top risk exposures facing the organization	58%	75%	72%	67%	53%

As illustrated by the graph on the next page, 62% of the organizations provide a formal report at least annually to the board of directors or one of its committees describing the entity's top risk exposures. This is noticeably higher than the percentages doing so in 2009 when we found that only 26% of organizations provided that kind of information to the board at least annually.

PROVIDE FORMAL REPORT TO BOARD DESCRIBING TOP RISK EXPOSURES AT LEAST ANNUALLY

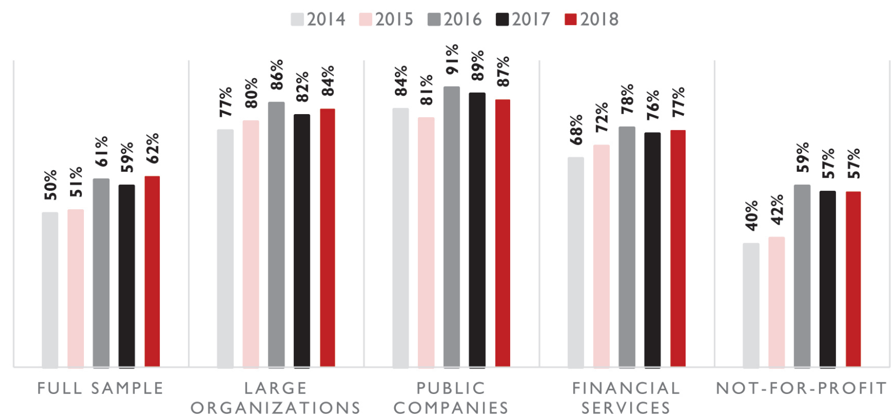


Formal reporting to the board or one of its committees about top risk exposures is definitely more common for large organizations (84%), public companies (87%), and financial services (77%). Formal reporting is less likely for not-for-profit organizations with 57% doing so.

Percentage of Respondents					
	FULL SAMPLE	LARGEST ORGANIZATIONS (REVENUES >$1B)	PUBLIC COMPANIES	FINANCIAL SERVICES	NOT-FOR-PROFIT ORGANIZATIONS
Percentage that formally report top risk exposures to the board at least annually	62%	84%	87%	77%	57%

Formal reporting of top risks to the board at least annually has been gradually increasing across all organizations over the past three years. In light of this, boards and management teams may benefit from evaluating the robustness of the underlying risk management processes that management is using to identify and assess risks for reporting to the board.

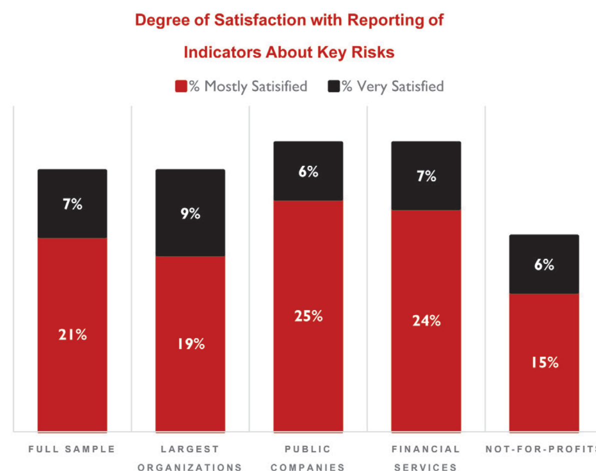
PERCENTAGE OF ORGANIZATIONS FORMALLY REPORTING TOP RISK EXPOSURES TO BOARD AT LEAST ANNUALLY



We also asked about the number of risk exposures that are typically presented to the board or one of its committees. As illustrated in the table below, about one-third of the full sample and not-for-profit organizations report between 10 and 19 risk exposures to the board whereas over half of the large organizations and public companies report that many risks to the board. When you combine the findings for reporting between 5 and 9 risks with the findings for reporting between 10 and 19 risks, then over 75% of the large organizations and public companies, and 64% of financial services organizations formally report between 5 and 19 risks to the board. That seems to be the most common range of numbers of risks reported.

Percentage of Respondents					
PERCENTAGE OF ORGANIZATIONS REPORTING THE FOLLOWING NUMBER OF RISK EXPOSURES TO THE BOARD OF DIRECTORS OR ONE OF ITS COMMITTEES:	FULL SAMPLE	LARGEST ORGANIZATIONS (REVENUES >$1B)	PUBLIC COMPANIES	FINANCIAL SERVICES	NOT-FOR-PROFIT ORGANIZATIONS
Less than 5 risks	33%	12%	9%	23%	38%
Between 5 and 9 risks	24%	23%	24%	22%	25%
Between 10 and 19 risks	33%	53%	53%	42%	29%
More than 20 risks	10%	12%	14%	13%	8%

Overall, there seems to be room for improvement in the nature of risk information being reported to senior executives. Given the lack of available data, finding good metrics to monitor emerging risks can be challenging, and entities appear to be struggling to find effective measures that they can use to help them monitor top risk exposures. Almost half (41%) of our respondents admitted that they were "not at all" or were "minimally" satisfied with the nature and extent of the internal reporting of key risk indicators (known as KRIs) to senior executives. Similar levels of dissatisfaction were also reported in both 2017 and 2016. In contrast, only 28% are "mostly satisfied" or "very satisfied" with the nature and extent of internal reporting of key risk indicators to senior executives. The lack of overwhelming satisfaction with reporting of key risk indicators seems to be across the board. That is, even respondents from large organizations, public companies, and financial services entities are not that satisfied. While respondents for public companies and financial services organizations signal a greater level of satisfaction about the nature and extent of reporting of key risk indicators, that level of satisfaction is still less than one-third of those surveyed, which suggests that the majority of all types of organizations see room for improvement in their key risk indicators. The growing use of data analytics may provide opportunities for management to strengthen their management "dashboards" to include more information that helps track potential risks on the horizon.



For the subset of publicly traded companies, we asked about the extent to which the organization's public disclosures of risks in their Form 10-K filing had increased in the past five years. We found that just 25% believed their disclosures had changed "mostly" while an additional 9% believed their disclosures had changed "extensively." We find these rates of change in disclosure noteworthy given that those same public company organizations indicated that the extent to which the volume and complexity of risks had increased over the past five years was "mostly" for 50% and "extensively" for 17%. When taken together, these findings are interesting in that 67% of respondents perceive that the volume and complexity of risks has changed mostly or extensively in the past five years, but only 34% have seen changes in the nature of their risk disclosures to investors. That may cause some to wonder whether the required Form 10-K Item 1.A risk factor disclosures that describe key risks affecting the company provide a realistic view of the risk profiles of the organizations.

BUILDING IN RISK MANAGEMENT ACCOUNTABILITIES

***Key Theme:** Few organizations are explicitly incorporating risk management activities into compensation plans.*

The linkage between executive compensation and risk oversight is also receiving more attention. In fact, the SEC's proxy disclosure rules require public companies to provide information about the relation between compensation policies, risk management, and risk-taking incentives that can affect the company's risks, if those compensation policies and practices create risks that are reasonably likely to have a material adverse effect on the company. Shareholder activism and negative media attention are also creating more pressure for boards of directors to consider how existing compensation arrangements might contribute to excessive risk-taking on the part of management.

Most organizations do not include risk management activities as an explicit component in determining management compensation.

Emerging best practices are identifying ways in which boards can more explicitly embed risk oversight into management compensation structures. Ultimately, the goal is to link risk management capabilities to individual performance assessments so that the relationship between risk and return is more explicit. For enterprise-wide risk oversight to be sustainable for the long term, members of the management team must be incentivized to embrace this holistic approach to risk oversight. These incentives should be designed to encourage proactive management of risks under their areas of responsibility as well as to enhance timely and transparent sharing of risk knowledge.

We asked respondents about the extent to which risk management activities are an explicit component of determining management performance compensation. We found that in 33% of the organizations surveyed, risk management is "not at all" a component of the performance compensation and for another 31% the component is only "minimally" considered. Thus, in about two-thirds of the organizations surveyed (64%), the extent that risk management activities are an explicit component in determining management compensation is non-existent or minimal. These findings are similar to what we observed last year.

Percentage of Respondents					
TO WHAT EXTENT ARE RISK MANAGEMENT ACTIVITIES AN EXPLICIT COMPONENT IN DETERMINING MANAGEMENT PERFORMANCE COMPENSATION?	FULL SAMPLE	LARGEST ORGANIZATIONS (REVENUES >$1B)	PUBLIC COMPANIES	FINANCIAL SERVICES	NOT-FOR-PROFIT ORGANIZATIONS
Not at All	33%	29%	23%	23%	45%
Minimally	31%	32%	27%	27%	34%
Combined	64%	61%	50%	50%	79%

Even public companies and financial services are unlikely to factor risk management activities into performance compensation, generally around one-half of those subsets in our sample are "not at all" or only "minimally" doing so as illustrated by the table above. The increasing focus on compensation and risk-taking should lead more organizations over time to consider modifications to their compensation policies and procedures.

ADDRESSING BARRIERS TO ENHANCED RISK OVERSIGHT

***Key Theme:** Strategies are needed to circumvent barriers that inhibit progress towards enhancing the organization's risk management processes.*

While our analysis suggests that organizations have made significant progress in how they identify, assess, and manage key risks, there is still plenty of room for improvement. In some ways it is encouraging to see the progress; however, given the significant global financial, economic, and political challenges that have been in play in recent years, it is discouraging not to see more organizations making more rapid advances in developing robust, systematic processes to oversee an entity's most significant risk exposures. There appear to be several perceived impediments that prevent management from taking the necessary actions to strengthen their approach to risk oversight.

We asked respondents whose organizations have not yet implemented an enterprise-wide risk management process to provide some perspective on that decision. While respondents could indicate more than one impediment, the most common response (in 51% of the cases) was that they believe "risks are monitored in other ways besides ERM." This strikes us as interesting and paradoxical, given the lack of risk oversight infrastructure highlighted by the data discussed in the prior pages of this report. It begs the question, *"so what processes are in place to help management and the board keep its eyes on emerging, strategic risks?"*

Other responses were "no requests to change our risk management approach" and "do not see benefits exceeding costs," noted by 33% and 22%, respectively, of respondents in the full sample. Thirty-four percent of those same respondents also noted that there are "too many pressing needs" while 26% reported a belief that they had "no one to lead the effort."

These findings are similar to those reported in our earlier reports. So, there has been little change in the nature of barriers to embracing an ERM approach to risk oversight. Instead, there appears to be a strong confidence that existing risk management processes are adequate to address the risks that may arise. This is somewhat surprising given 38% of the full sample describe their risk oversight processes as very immature or just developing, and a large proportion of our respondents indicated an overall dissatisfaction with their current approach to the reporting of information to senior executives about top risk exposures.

Respondents provided more depth about some of the primary barriers. The table on the next page contains a summary of those that the respondents described as a "barrier" or "significant barrier." Competing priorities and a lack of sufficient resources appear to be the most common barriers to adopting an ERM approach to risk oversight. A lack of perceived value and a lack of visible ERM leadership among boards and senior executives also affect ERM implementation decisions. The ordering of these most common barriers is consistent with the ordering of results provided in all our prior years' reports. The results are also very similar for each of the subsets we examined (largest organizations, public companies only, and financial services firms). A higher percentage of not-for-profits (55%) relative to the full sample noted that competing priorities are the primary barrier to their embrace of ERM and 54% of not-for-profits believe that the lack of sufficient resources inhibits their progress.

Percentage of Respondents			
DESCRIPTION OF BARRIER	"BARRIER"	"SIGNIFICANT BARRIER"	COMBINED PERCENTAGE
Competing priorities	31%	18%	49%
Insufficient resources	32%	14%	46%
Lack of perceived value	23%	12%	35%
Perception ERM adds bureaucracy	18%	11%	29%
Lack of board or senior executive ERM leadership	13%	12%	25%
Legal or regulatory barriers	5%	2%	7%

Most organizations have not provided risk management training for employees.

Most organizations (60%) have not provided or only minimally provided training and guidance on risk management in the past two years for senior executives or key business unit leaders. This is slightly lower for the largest organizations (51%), public companies (53%), and financial services (46%). Thus, while improvements have been made in the manner in which organizations oversee their enterprise-wide risks, the lack of robustness in general may be due to a lack of understanding of the key components of an effective enterprise-wide approach to risk oversight that some basic training and education might provide.

NEXT STEPS: QUESTIONS TO CONSIDER

While the findings in this study indicate some progress in how organizations are proactively managing risks on the horizon, many of the findings suggest boards of directors and senior executives may still need to engage in robust and honest assessments regarding their organization's current capabilities for managing the ever-changing landscape of risks on the horizon. Here are a few questions that executives and boards may want to ask themselves and others in the organization to help pinpoint tactical next steps for strengthening their risk management processes:

1. **How would each senior executive describe the organization's current approach to risk management?** If an organization opens its doors to do business today, then in some ways the organization is managing risks. So many business leaders quickly conclude that they are effectively engaged in risk management. Here are some questions to consider to evaluate the effectiveness of that process:

   - Does the organization's risk management process mostly focus on pockets or silos of risks impacting particular business functions or operations, or is that process leading to a top-down, holistic view of the entity's most critical risks to achieving its strategic objectives?
   - Is the coordination and implementation of risk management activities across the organization mostly *ad hoc* or informal?
   - To what extent does that process help executives and boards see related risks emerging across different silos of the business that might snowball into bigger, enterprise-wide issues?
   - Does the existing risk management process tend to focus on already known risks mostly linked to internal operations and compliance issues?
   - Would most employees describe the organization's risk management process as bureaucratic and non-value adding?
   - How effective is that process in prompting management to think outside the status quo to pinpoint unknown, but knowable risks?

2. **Is there consensus among senior executives and boards about the top enterprise-level risks?** Many executives believe the uncertainties associated with the rapid pace of change in the global business environment is triggering an ever-evolving and expanding portfolio of risks on the horizon for most organizations. If executives fail to stay in constant dialogue about emerging risk issues, they may find themselves addressing the wrong risks or they may actually be creating risks for other parts of the organization as they manage risks in their area of responsibility. Think about the following:

   - To what extent is the senior executive team engaging in dialogue about the top enterprise-level risks and reaching consensus about those most critical to the organization?
   - Is ownership and accountability for managing enterprise-level risks clear to those involved?
   - Does the senior executive team understand how the organization is responding to top risk exposures and are they confident those responses are actually implemented and effective?
   - How often is the board engaging in robust discussion with the board of directors about the top risks and is there agreement between management and the board about the most critical risks to the organization?

3. **How is output from the risk management process used to inform strategic planning?** Most executives understand the reality that the organization must be willing to take risks in order to generate higher returns. But unfortunately, our survey results find that small percentages of organizations view their risk management activities as providing important strategic value. Less than half of the organizations formally consider existing risk exposures when evaluating new possible strategic opportunities and less than one-third of the organizations have their boards of directors formally discuss risk exposures when they discuss the strategic plan. Consider answers to these questions:
    - Why is the organizations' risk management process failing to provide important strategic information about risks on the horizon?
    - Is the current risk management process focused too heavily on operational or compliance issues?
    - Are the top risks identified by the risk management process mapped to the most important strategic initiatives?
    - To what extent is the risk management process prompting management to look outside the entity for external events that might trigger risks for the enterprise?
    - Does the existing risk management process frame the task of identifying risks from the organization's core value drivers and new strategic initiatives in the strategic plan?
    - How frequently do risk management leaders and those leading the strategic planning process interact?

4. **Does management have access to a robust set of key risk indicators to monitor its top risks?** Our survey results find that a relatively small percentage of organizations have a robust set of metrics included in their management dashboards to help them keep an eye on shifting risk conditions. Most organizations have a tremendous amount of key performance indicators (KPIs) to help them monitor the performance of the business. However, it is important to remember that KPIs are historical in nature and they only focus on things internal to the enterprise.
    - To what extent does management have metrics that are forward looking and that are based on monitoring both internal and external trends?
    - How would management know that one of its top risk concerns is escalating?
    - What would the warning signs be?
    - Who among the management team is monitoring those signals?
    - Are there clear "trigger points" that signal when action must be taken?
    - How easy would it be for executives to override pre-established trigger points?

5. **Is the entity sufficiently prepared to manage a significant risk event?** The worst time for an organization to discover a lack of risk management preparedness is during the risk event itself. Unfortunately, there have been a number of recent events impacting large, well-known organizations that seem to suggest that management was ill-prepared to navigate the risk event, causing tremendous brand and reputational harm. While a robust enterprise-wide risk management process cannot be expected to prevent and manage all types of risks that might emerge, organizations that invest time and resources in engaging senior executives and boards in more robust risk management discussions and dialogue on an ongoing basis find that they are in a better position to deal with a significant risk event should one arise.

- How confident are senior executives in their ability to navigate a significant risk event? What is the basis for that confidence?
- To what extent might management be "blindsided" by unexpected risk events? How vulnerable is the organization to blind-spots similar to those that led to other organizations' risk management failures?
- Does management and the board have a detailed "playbook" of how they will respond should one of the organization's top risk exposures emerge in a significant way?
- To what extent is the entity prepared to navigate a risk event that has gone viral overnight over social media platforms?

These questions are just a sampling of the kinds of issues senior executives and boards of directors should consider as they evaluate the robustness of their entity's approach to managing the rapidly evolving portfolio of risks. Honest answers to the above will hopefully prompt objective assessment and discussion about the effectiveness of those processes. The time to strengthen an organization's risk management processes is before a significant event occurs. You may want to ask others in your organization to individually consider responses to these questions. To facilitate that, we have compiled the above into a short questionnaire that is in **Appendix B** of this report.

There are a number of barriers that inhibit progress in risk management improvements in organizations. Perceptions that investing in risk management is a competing priority relative to other organizational initiatives or perceptions that managing risks lacks value may signal a lack of understanding about how effective risk oversight may actually improve the organization's ability to proactively and resiliently navigate emerging risks.

There are a number of resources available to executives and boards to help them understand their responsibilities for risk oversight and effective tools and techniques to help them in those activities (see for example, the NC State ERM Initiative's web site and the AICPA's ERM web site). As expectations for more effective enterprise-wide risk oversight continue to unfold, it will be interesting to continue to track changes in risk oversight procedures over time.

APPENDIX A: OVERVIEW OF RESPONDENT DEMOGRAPHICS

This is the tenth year we have conducted this study to identify trends across a number of organizations related to their enterprise risk management (ERM) processes. This study was conducted by research faculty who lead the Enterprise Risk Management Initiative (the ERM Initiative) in the Poole College of Management at North Carolina State University (for more information about the ERM Initiative please see www.erm.ncsu.edu). The research was conducted in conjunction with the American Institute of Certified Public Accountants' (AICPA) Management Accounting - Business, Industry, and Government Team. Data was collected during the fall of 2018 through an online survey instrument electronically sent to members of the AICPA's Business and Industry group who serve in chief financial officer or equivalent senior executive positions. In total, we received 445 fully completed surveys. This report summarizes our findings.

Description of Respondents

Results are based on responses from 445 executives, mostly serving in financial leadership roles, representing a variety of industries and firm sizes.

Respondents completed an online survey consisting of over 40 questions that sought information about various aspects of risk oversight within their organizations. Most of those questions are the same across all ten of our editions of the surveys that we have conducted each year from 2009 - 2018. This approach provides us an opportunity to observe any shifts in trends in light of more recent developments surrounding board and senior executive's roles in risk oversight.

Because the completion of the survey was voluntary, there is some potential for bias if those choosing to respond differ significantly from those who did not respond. Our study's results may be limited to the extent that such bias exists. Furthermore, there is a high concentration of respondents representing financial reporting roles. Possibly, there are others leading the risk management effort within their organizations whose views are not captured in the responses we received. Despite these limitations, we believe the results reported herein provide useful insights about the current level of risk oversight maturity and sophistication and highlight many challenges associated with strengthening risk oversight in many different types of organizations.

A variety of executives participated in our survey, with 24% of respondents having the title of chief financial officer (CFO), 15% serving as chief risk officer (CRO), 11% as controller, and 9% leading internal audit, with the remainder representing numerous other executive positions.

The respondents represent a broad range of industries. Consistent with our prior year survey, the four most common industries responding to this year's survey were finance, insurance, and real estate (27%), followed by not-for-profit (24%), manufacturing (15%), and services (14%).The mix of industries is generally consistent with the mix in our previous reports.

Industry (SIC Codes)	Percentage of Respondents
FOR-PROFIT ENTITIES:	
FINANCE, INSURANCE, REAL ESTATE (SIC 60-67)	27%
MANUFACTURING (SIC 20-39)	15%
SERVICES (SIC 70-89)	14%
WHOLESALE/DISTRIBUTION (SIC 50-51)	6%
CONSTRUCTION (SIC 15-17)	4%
RETAIL (SIC 52-59)	4%
MINING (SIC 10-14)	4%
TRANSPORTATION (SIC 40-49)	2%
NOT-FOR-PROFIT (SIC N/A)	
GOVERNMENT AGENCIES, UNIVERSITIES, NON-PROFITS	24%

The respondents represent a variety of sizes of organizations. As shown in the table below, over half (56%) of organizations that provided data about their financial performance generated revenues up to $500 million in their most recent fiscal year. An additional 10% generated revenues between $500 million and $1 billion while 34% of organizations providing revenue data earned revenues in excess of $1 billion. Almost all (82%) of the organizations are based in the United States.

Range of Revenues in Most Recent Fiscal Year	Percentage of Respondents[2]
$0 <X < $10 MILLION	16%
$10 MILLION < X < $100 MILLION	21%
$100 MILLION < X < $500 MILLION	19%
$500 MILLION < X < $1 BILLION	10%
$1 BILLION < X < $2 BILLION	9%
$2 BILLION < X < $10 BILLION	11%
X > $10 BILLION	14%

Throughout this report, we highlight selected findings that are notably different for the 142 largest organizations in our sample, which represent those with revenues greater than $1 billion. Additionally, we also provide selected findings for the 126 publicly-traded companies, 119 financial services entities, and 107 not-for-profit organizations included in our sample.

[2]Thirty of the 445 respondents did not provide information about revenues. The data reported in this table reflects the percentages based on the 415 that provided revenue information.

APPENDIX B: TEMPLATE OF QUESTIONS TO CONSIDER

Consider having several members of management or the board of directors individually answer the following questions. Ask them to think about the organization's enterprise-wide approach to risk management as they answer each question. Then, have them meet to discuss differences in answers to facilitate a conversation about the effectiveness of the organization's approach to risk oversight.

	YES	NO
Does the organization's risk management process aggregate silos of risks impacting particular business functions or operations to create a top-down, holistic enterprise-wide view of the entity's most critical risks impacting its strategic objectives?		
Is the coordination and implementation of risk management activities across the organization explicit and coordinated?		
Does the organization's risk management process help executives and boards see related risks emerging across different silos of the business that might snowball into bigger, enterprise-wide issues?		
Would most employees describe the organization's risk management process as strategic and value adding?		
Is that process effective in prompting management to think outside the status quo to pinpoint unknown, but knowable risks?		
Does the senior executive team engage in dialogue about the top enterprise-level risks and reaching consensus about those most critical to the organization?		
Is ownership and accountability for managing enterprise level risks clear to those involved?		
Does the senior executive team understand how the organization is responding to top risk exposures and are they confident those responses are actually implemented and effective?		
Does the board of directors engage in robust discussion about the top risks and is there agreement between management and the board about the most critical risks to the organization?		
Is the organization's risk management process providing important strategic information about risks on the horizon?		
Is the current risk management process focused on broader strategic issues that include more than operational or compliance issues?		
Are the top risks identified by the risk management process mapped to the most important strategic initiatives?		
Does the risk management process prompt management to look outside the entity for external events that might trigger risks for the enterprise?		
Does the existing risk management process frame the task of identifying risks from the organization's core value drivers and new strategic initiatives in the strategic plan?		
Do risk management leaders and those leading the strategic planning process interact frequently?		
Does management have metrics that provide forward looking insights about emerging risks that are based on both internal and external trends?		
Does management's dashboard include data to help them know that one of the entity's top risk concerns is escalating?		
Are key members of management assigned responsibility for monitoring those emerging risk signals?		
Are there clear emerging risk "trigger points" that signal when action must be taken?		
Do processes exist to prevent executives from overriding pre-established risk limits or risk trigger points that cannot be easily overridden by executives?		
Are senior executives adequately prepared to navigate a significant risk event?		
Does management engage in activities to identify "blindspots" that are keeping them from recognizing vulnerabilities that would lead to significant risk events for the organization?		
Does management and the board have a detailed "playbook" of how they will respond should one of the organization's top risk exposures emerge in a significant way?		
Is the organization adequately prepared to navigate a risk event that has gone viral overnight over social media platforms?		

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