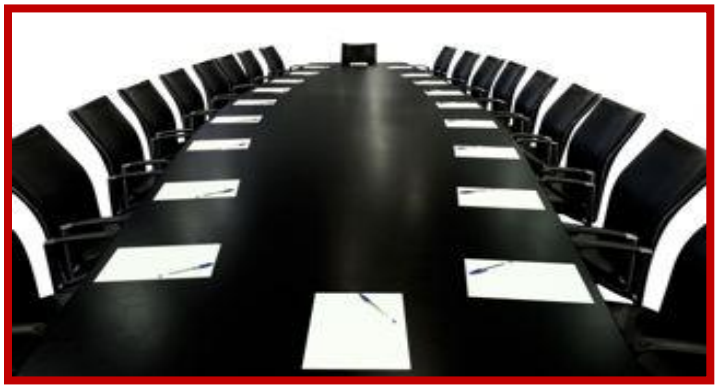
Current State of Enterprise Risk Oversight:

Progress is Occurring but Opportunities for Improvement Remain



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Research Conducted by the ERM Initiative at North Carolina State University on behalf of the American Institute of CPAs Business, Industry & Government Team

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NC STATE UNIVERSITY
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ENTERPRISE RISK MANAGEMENT

Overview of Study

Recent events, such as the significant investment loss at JP Morgan Chase, economic and political uncertainty across much of Europe, the increasing influence of social media, and continuing concerns about cyber threats, highlight the impact and speed in which emerging events can affect the strategic success of an enterprise. In response, an increasing number of business leaders are re-examining their approaches to risk management in an effort to become better informed and more prepared to address emerging threats to their organization. That, coupled with a spate of recent corporate governance reforms, is placing greater expectations on boards of directors and senior executives for more effective enterprise-wide risk oversight.

To obtain a better understanding of the current state of enterprise risk oversight among entities of all types and sizes, we conducted this study in conjunction with the American Institute of Certified Public Accountants' (AICPA) Business, Industry, and Government Team. This is the fourth year that we have conducted similar research in partnership with the AICPA. Data was collected during April and May 2012 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 618 responses to our survey (not all questions received 618 responses as discussed on p. 5). This report summarizes our findings and provides a great resource for benchmarking an organization's approach to risk oversight against current trends.

This year we observe a notable increase in the percentage of organizations who report increased maturity of their enterprise-wide risk oversight processes, with large organizations, public companies, and financial services organizations significantly more mature than other organizations in their enterprise-risk oversight processes. Despite improvements, significant opportunities remain for organizations to strengthen underlying processes for identifying and assessing key risks facing the entity especially as it relates to integrating risk oversight efforts with strategic planning activities.

The next three pages summarize some of the key findings from this research. The remainder of the report provides more detailed information about other key findings and related implications for risk oversight.

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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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Key Findings

Nature and Extent of Risks Organizations Face

- Organizations continue to face an increasing volume and complexity of risks, and they report having been caught off-guard by operational surprises on a regular basis:
  - About 62% of respondents believe that the volume and complexity of risks have changed "extensively" or "mostly" in the last five years. This holds true for organizations of all sizes and types.
  - Over two-thirds (68.1%) admit they were caught off guard by an operational surprise "somewhat" to "extensively" in the last five years. This was even higher for large organizations and public companies.

Adoption of an Enterprise-Wide Approach to Risk Oversight

- There is a steady increase in the percentage of organizations that claim to have a "complete formal enterprise-risk management process in place."
  - In 2009, we found that only 8.8% of organizations we surveyed claimed to have complete ERM processes in place; by 2012, 23.4% made that claim.
  - The largest organizations and public companies are even further along, with 46.6% and 45.6% of those organizations, respectively, claiming to have complete ERM processes in place. In contrast, just over 10% of not-for-profit organizations made that claim.
- Despite that, almost 40% of all organizations in the survey have no ERM processes in place, which is surprising given that two-thirds of organizations describe their risk culture as "strongly risk averse" or "risk averse."

Pressure for Improved Enterprise-Wide Risk Oversight

- Almost two-thirds of organizations experience "somewhat" to "extensive" pressure from external parties to provide more information about risks.
  - Financial services organizations are especially experiencing these external pressures with 85.1% experiencing them "somewhat" to "extensively."
  - Similarly, about three-fourths of the large organizations and public companies experience similar levels of pressure from external parties.
- Factors leading to an increased senior executive focus on risk management activities vary across types of organizations.
  - For the large organizations, the board is the most common factor whereas for financial services organizations and public companies it is their regulator(s).

Nature of Risk Oversight Processes

- While the percentage of organizations embracing ERM is on the rise, the level of risk management sophistication still remains fairly immature for most responding to our survey.

- Even the large organizations, public companies, and financial services organizations have room for improvement, with less than 40% claiming to have "mature" or "robust" risk management oversight.
- Less than half the organizations have a formal policy statement regarding its enterprise-wide risk management approach.

Risk Oversight Leadership

- We observed a notable increase over prior years in the percentage of respondent organizations that have formally designated an individual to serve as the Chief Risk Officer (CRO) or equivalent senior risk executive.
  - In 2009, 17.8% reported they have that designation in place as compared to 37.7% in 2012.
  - In about half of those organizations the individual typically reports to the CEO/President.
- Similarly, we saw a notable increase in the percentage of organizations that have a management-level risk committee or equivalent.
  - 48.6% have that kind of committee in 2012 compared to 22% in 2009.
  - Over 70% of the large organizations, public companies, and financial services organizations have internal risk management committees.
  - For most organizations, the committee meets at least quarterly.

Techniques to Identify and Assess Risks

- A growing number of organizations are maintaining inventories of risks at the enterprise level.
  - Only 19.6% claimed to do so in 2009 compared to 37.9% in 2012.
  - Updates of risk inventories are typically done on an annual basis.
- Despite maintaining risk inventories, close to three-quarters of the organizations do not provide explicit guidelines or measures to business unit leaders on how to assess probability and impact of risks.

Communicating Information About Key Risks

- Just under half (43.3%) either have no structured process for identifying and reporting risk exposures to the board or they track risks by silos with minimal reporting of aggregate risk exposures to the board.
- The majority of organizations (62.6%) communicate key risks on an *ad hoc* basis at management meetings. Only 33.3% explicitly schedule agenda time to discuss key risks at management meetings.
- Large organizations, public companies and financial services organizations are much more likely to prepare written reports about risk information monthly, quarterly, or annually.
- There seems to be room for improvement in the nature of risk information being reported to senior executives. Almost half (43.0%) of our respondents admitted that they were "not at all" or were "minimally" satisfied with the nature and extent of the reporting of key risk indicators to senior executives regarding top risk exposures.

Board of Director Involvement in Enterprise Risk Oversight

- Just under half of the boards in the full sample have formally assigned risk oversight responsibilities to a board committee; however, board delegation to a committee is noticeably more common for the largest organizations, public companies, and financial services organizations.
  - If boards delegate risk oversight to a committee, most are assigning that task to the audit committee.
- About 60% of the boards review and discuss in a specific meeting the top risk exposures facing the organization; however, the boards of the large organizations and public companies do that more often (in at least three-fourths of those organizations).
- A growing percentage of organizations provide a report to the board of directors or one of its committees describing the entity's top risk exposures on at least an annual basis. In 2009, 26.3% claimed that kind of reporting compared to 49.9% in 2012.
- While not-for-profits organizations tend to report fewer than 5 risks to the board, large organizations, public companies, and financial services organizations usually report between 5 and 19 risks.

Integration of Risk Oversight and Strategic Planning

- There may be opportunities for organizations to strengthen the connections between risk oversight and strategic planning.
  - Over one-third of the organizations do no formal assessments of emerging strategic, market, or industry risks.
  - For those that attempt to assess strategic risks, most do so in a predominantly qualitative manner or by using a blend of qualitative and quantitative techniques.
  - About half of the organizations fail to meaningfully consider existing risk exposures when evaluating new strategic initiatives.
- Less than one-third have "mostly" or "extensively" articulated the organization's appetite for or tolerance of risks in the context of strategic planning.
- Just over 15% believe "mostly" or "extensively" that the organization's risk management process is a proprietary strategic tool that provides unique competitive advantage.

Linkage of Risk Oversight and Compensation

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

Barriers to Progress

- Barriers still exist that restrict progress in the effectiveness of an organization's risk management processes, with the most common being the belief that "risks are monitored in other ways besides ERM."
- About a third also noted "too many pressing needs" and "no requests to change our risk management approach" as barriers to progress.

Overview of Research Approach

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 http://www.erm.ncsu.edu). The research was conducted in conjunction with the American Institute of Certified Public Accountants' (AICPA) Business, Industry, and Government Team. Data was collected during April and May 2012 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 618 partially or fully completed surveys.[1] This report summarizes our findings.

Description of Respondents

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 were included in our three previous editions of the surveys covered in our 2009, 2010, and 2011 reports.[2] 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.

Results are based on responses from 618 executives, mostly serving in financial leadership roles, representing a variety of industries and firm sizes.

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. Also, some respondents provided an answer to selected questions while they omitted others. 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 insight 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 serving in financial roles responded to our survey, with 39.7% having the title of chief financial officer (CFO), 18.9% serving as controller, and 18.9% leading internal audit. Other respondents included the chief risk officer (5.7%) and treasurer (1.2%), with the remainder representing numerous other executive positions.

Nature of Organizations Represented

A broad range of industries are represented by the respondents. Consistent with our 2011 survey, the four most common industries responding to the 2012 survey were finance, insurance, and real

[1] Not all questions were completed by all 618 respondents. In some cases, the questions were not applicable based on their responses to other questions. In other cases, the respondents chose to skip a particular question.

[2] Visit http://www.poole.ncsu.edu/erm/index.php/research/nc-state-erm-research to obtain a copy of all prior reports.

estate (34.4%), followed by manufacturing (16.6%), not-for-profit (14.6%), and services (13.7%). The mix of industries is generally consistent with the mix in both our 2009, 2010, and 2011 reports.

Industry (SIC Codes)	Percentage of Respondents
Finance, Insurance, Real Estate (SIC 60-67)	34.4%
Manufacturing (SIC 20-39)	16.6%
Not-for-Profit (SIC N/A)	14.6%
Services (SIC 70-89)	13.7%
Construction (SIC 15-17)	5.1%
Retail (SIC 52-59)	4.4%
Wholesale/Distribution (SIC 50-51)	3.7%
Transportation (SIC 40-49)	2.9%
Mining (SIC 10-14)	1.7%
All Other	2.9%

A variety of sizes of organizations are represented by the respondents to the survey. As shown in the table below, two-thirds (66.9%) of companies that provided data about their financial performance generated revenues up to $500 million in their most recent fiscal year. An additional 11.4% generated revenues between $500 million and $1 billion while 21.7% (88 of 405 organizations providing revenue data) earned revenues in excess of $1 billion. Almost all (93%) of the organizations are based in the United States.

Range of Revenues in Most Recent Fiscal Year	Percentage of Respondents
$0 < x ≤ $10 million	13.1%
$10 million < x ≤ $100 million	30.9%
$100 million < x ≤ $500 million	22.9%
$500 million < x ≤ $1 billion	11.4%
$1 billion < x ≤ $10 billion	15.5%
x > $10 billion	6.2%

Throughout this report, we highlight selected findings that are notably different for the 88 largest organizations in our sample, which represent those with revenues greater than $1 billion. Additionally, we also provide selected findings for the 125 publicly-traded companies, 141 financial services entities, and 60 not-for-profit organizations included in our sample.

Nature and Extent of Risks Organizations Face

With the volatile state of the global economy, many argue that the volume and complexity of risks faced by organizations today are at all-time highs. 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. Almost 20% noted that the volume and complexity of risks have increased "extensively" over the past five years. An additional 41.8% responded that the volume and complexity of risks have increased "mostly." Thus, on a combined basis, about 62% of respondents indicate that the volume and complexity of risks have changed "mostly" or "extensively" in the last five years, which is relatively similar to participants in prior years who responded in that manner (55% in the 2011 report, 64% in the 2010 report and 62.2% in the 2009 report). Less than 1% responded that the volume and complexity of risks have not changed at all.

The majority of respondents believe the volume and complexity of risks have increased "mostly" or "extensively" in the past five years, and that finding does not differ across various types of organizations.

We separately analyzed responses to this question for various subgroups of respondents. The percentage of respondents from the largest organizations (those with revenues in excess of $1 billion) who believe the volume and complexity had increased "extensively" or "mostly" was higher at 69.3% than the full sample. Similarly, public company respondents also believe the volume and complexity has increased notably with 23.2% responding with "extensively" and 44.8% responding "mostly" for a combined percentage of 68.0%. Similar results were noted for financial services entities where 69.5% described the change in volume and complexity of risks as "mostly" or "extensively." In summary, most leaders, regardless of type of organization, continue to believe the risks they face are complex and numerous.

	Description of Response (Full Sample)				
Question	Not at All	Minimally	Somewhat	Mostly	Extensively
To what extent has the volume and complexity of risks increased over the past five years?	.7%	6.0%	31.6%	41.8%	19.9%

Some risks have actually translated into significant operational surprises for the organizations represented in our survey. About 11 percent noted that they have been affected by an operational surprise "extensively" within the last five years and an additional 26.1% of respondents noted that they have been affected "mostly" in that same time period. An additional 31.5% responded "somewhat" to this question. Collectively, this data indicates that the majority of organizations (68.1%) are being affected by real risk events that emerged with unexpected frequency, consistent with what we found in our prior studies. Just under 75% of the largest organizations in our sample and those that are publicly traded responded with "somewhat," "mostly" or "extensively" to this question, suggesting that the rate of operational surprises is higher for large organizations than the

full sample. While lower, non-profit-organizations also experienced operational surprises, with 63.3% responding at "somewhat" or higher.

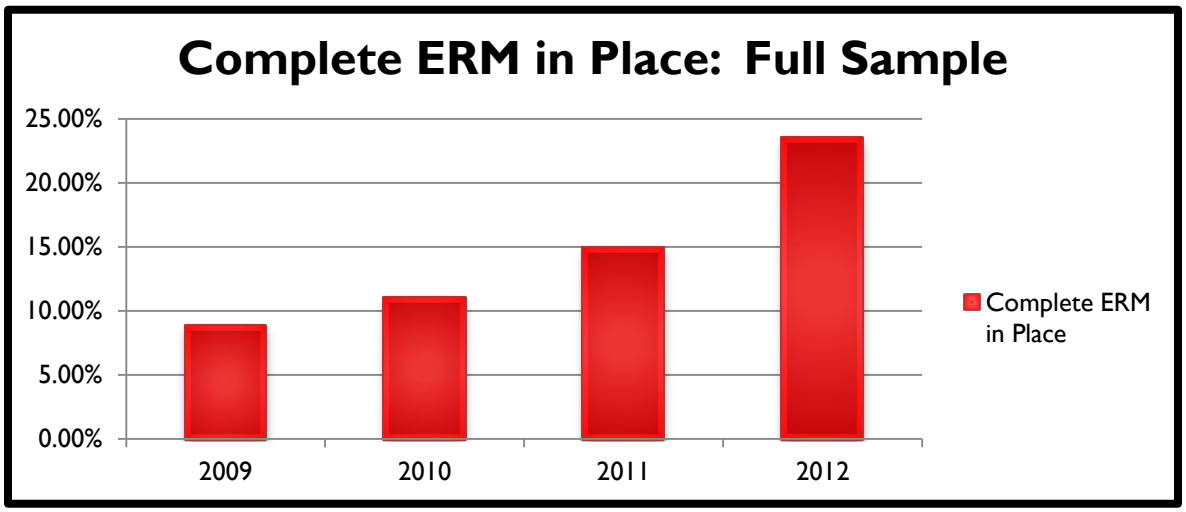
	Description of Response (Full Sample)				
Question	Not at All	Minimally	Somewhat	Mostly	Extensively
To what extent has your organization faced an operational surprise in the last five years?	4.2%	27.7%	31.5%	26.1%	10.5%

Relative to our earlier studies, we do not observe a reduction in the rate of operational surprises affecting organizations "mostly" or "extensively." The responses to questions about the nature and extent of risks organizations face indicate that executives are experiencing an increasing 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.

Adoption of an Enterprise-Wide Approach to Risk Oversight

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. See Appendix A for more information about the concept of ERM.

For our 2012 study, one of the most notable findings is that the concept of ERM as a process to oversee enterprise-wide risks continues to be embraced by more organizations over time.



The above chart shows a steady increase from 2009 through 2012 in the percentage of organizations that claim they have a "complete formal enterprise-wide risk management process in place." In our 2009 report, only 8.8% of organizations claimed to have complete ERM processes in place; however, in 2012 the percentage is 23.4% for the full sample. Thus the adoption of ERM is steadily increasing over time, although there is significant opportunity for improvement in most organizations, given that three-fourths of organizations surveyed cannot yet claim they have "complete ERM in place."

The adoption of ERM is greatest for larger companies and public companies.

	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	**26.6%**	6.8%	7.2%	12.0%	32.2%
Currently investigating concept of enterprise-wide risk management, but have made no decisions yet	**12.1%**	5.7%	9.6%	3.5%	16.9%
No formal enterprise-wide risk management process in place, but have plans to implement one	**6.3%**	3.4%	4.0%	5.7%	13.6%
Partial enterprise-wide risk management process in place (i.e., some, but not all, risk areas addressed)	**31.6%**	37.5%	33.6%	42.6%	25.4%
Complete formal enterprise-wide risk management process in place	**23.4%**	46.6%	45.6%	36.2%	11.9%

As seen in the last row of the chart above, 46.6% of the largest companies in our sample and 45.6% of public companies in our sample claim to have complete formal enterprise-wide risk management processes in place. This, too, is noticeably higher than in 2011 when 32.3% of the largest organizations and 23.5% of public companies reported they have complete, formal ERM processes in place. These findings suggest that ERM is growing in significance and importance in all types of organizations.

Despite these positive trends towards greater adoption of ERM, there is noticeable room for improvement. For the full sample, we found that just over one-fourth (26.6%) of the respondents have no enterprise-wide risk management process in place. An additional 12.1% 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, just over one-third of respondents have no formal enterprise-wide approach to risk oversight and are currently making no plans to consider this form of risk oversight.

The adoption of ERM is on the rise, with large organizations and public companies further along the ERM maturity curve. Almost half of large organizations and public companies claim to have complete, formal enterprise-wide risk management processes in place.

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.

A majority of the respondents in the full sample indicated that their organization's risk culture is one that is either "strongly risk averse" (10.6%) or "risk averse" (40.8%). An additional 33.7% of our respondents indicated that they are in an organizational culture that is "risk neutral." Thus, it is somewhat surprising to see the overall lack of ERM maturity for the full sample given their description of organizational appetite for risk-taking.

The greater maturity in ERM processes for large organizations, public companies, and the financial services industry may be due to an even greater percentage of respondents who indicated their risk culture was "strongly risk averse" or "risk averse." Sixty-three percent of the largest organizations, 55.2% of the public companies, and 58.2% of the financial services companies indicated their risk culture is "strongly risk averse" or "risk averse." Perhaps the relatively lower appetite for risk taking in those organizations is one of the drivers for more advanced ERM processes as compared to the full sample.

Ironically, 62.7% of not-for-profit organizations express their risk culture as "strongly risk averse" or "risk averse;" however, those organizations appear to be the least mature in their enterprise-wide risk oversight processes.

Pressure for Improved Enterprise-Wide Risk Oversight

Our survey results indicate that expectations for improving risk oversight in these organizations may be on the rise. Respondents noted that for 13.5% of the organizations surveyed, the board of directors is asking senior executives to increase their involvement in risk oversight "extensively," another 28.9% of the organizations report "mostly," and an additional 29.1% have boards that are asking for increased oversight "somewhat." Board expectations for increased senior executive involvement in risk oversight is most dramatic for the largest organizations, public companies, and financial services organizations, as shown in the table below. Requests from the board of directors for increased risk oversight are a little less frequent for not-for-profit organizations.

	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"	13.5%	26.1%	20.0%	15.0%	5.0%
"Mostly"	28.9%	40.9%	36.8%	36.4%	30.0%
"Somewhat"	29.1%	22.7%	32.8%	28.6%	35.0%
Combined	71.5%	89.7%	89.6%	80.0%	70.0%

These expectations are possibly being prompted by increasing external pressures now being placed on boards. In response to these expectations, boards and audit committees may be challenging senior executives about existing approaches to risk oversight and they are demanding more information about the organization's top risk exposures.

In addition, and perhaps due to the board's interest in strengthened risk oversight, the chief executive officer (CEO) is also calling for increased senior executive involvement in risk oversight. Almost half (46.6%) of the respondents indicated that the CEO has asked "mostly" or "extensively" for increased management involvement in risk oversight, which is almost identical to what we saw in our 2011 and 2010 reports. An additional, 27.5% of our respondents indicated that the CEO has expressed "somewhat" of a request for increased senior management oversight of risks.

Almost two-thirds of organizations experience "somewhat" to "extensive" pressure from external parties to be more transparent about their risk exposures.

We also asked respondents to describe to what extent external factors (e.g., investors, rating agencies, emerging best practices) are creating pressure on senior executives to provide more information about risks affecting their organizations. As illustrated in the table on the next page, while a small percentage (11.2%) of respondents described external pressure as "extensive," an additional 24.4% indicated that external pressures were "mostly" and another 28.7% described that pressure as "somewhat." Thus, on a combined basis just under two-thirds (64.3%) of our respondents believe the external pressure to be more

transparent about their risk exposures is "somewhat" to "extensive." That result is higher than the similar combined percentage of 59.3% noted in our 2011 report.

External pressures are notably stronger for the largest organizations, public companies, and financial services entities. In particular, financial services organizations are experiencing the greatest amount of external pressures, likely from regulators who are becoming more vocal proponents of ERM in banks. These organizations perceived the external pressures to provide more information about risks facing the organization to be much greater than the overall sample of firms.

	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"	11.2%	13.6%	14.4%	24.8%	1.7%
"Mostly"	24.4%	36.4%	31.2%	33.3%	23.3%
"Somewhat"	28.7%	29.5%	28.8%	27.0%	30.0%
Combined	64.3%	79.5%	74.4%	85.1%	55.0%

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 regulator demands and a desire to better anticipate unexpected risk events are the two most frequently cited factors for increasing senior executive involvement. However, as illustrated by the table on the next page, regulator demands seem to be putting even greater pressure on senior executives in financial services organizations. In contrast, the strongest factor for increased risk oversight in the largest organizations is coming from the board of directors and the related emerging corporate governance requirements. Not-for-profit organizations are also experiencing pressure to increase senior executive focus on risk management activities, although to a lesser extent than other organizations.

Percentage of Respondents Selecting "Mostly" or "Extensively"					
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	40.6%	49.4%	50.8%	69.5%	31.0%
Unanticipated risk events affecting organization	37.5%	47.1%	40.7%	37.1%	28.8%
Emerging best practice expectations	33.7%	45.3%	41.5%	51.5%	23.7%
Emerging corporate governance requirements	32.6%	50.5%	48.8%	50.7%	25.9%
Board of Director requests	30.2%	51.1%	46.7%	31.0%	20.4%

Board of director requests are driving improvements in risk oversight most for large organizations whereas regulator demands are having the greatest influence for change in financial services organizations.

Nature of Risk Oversight Processes

While the percentage of organizations adopting ERM is on the rise, the level of sophistication of underlying risk management processes still remains fairly immature for most responding to our survey. When asked to describe the level of maturity of their organization's approach to risk oversight, we found that 18.0% described their organization's level of functioning ERM processes as "very immature" and an additional 24.7% described their risk oversight as "developing." So, on a combined basis 42.7% self-describe the sophistication of their risk oversight as immature to developing (this is only slightly lower than 48.2% reported in our 2011 study). Only 2.8% responded that their organization's risk oversight was "robust," consistent with responses noted in our 2009, 2010, and 2011 reports.

What is the level of maturity of your organization's risk management oversight?	Very Immature	Developing	Evolving	Mature	Robust
Full Sample	18.0%	24.7%	39.8%	14.7%	2.8%
Largest Organizations	5.7%	6.8%	50.0%	29.5%	8.0%
Public Companies	9.6%	14.4%	47.2%	22.4%	6.4%
Financial Services	7.8%	18.4%	46.8%	22.7%	4.3%
Not-for-Profit Organizations	17.2%	39.7%	39.7%	3.4%	0.0%

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, 17.5% of the full sample respondents describe their organization's approach to ERM as either "mature" or "robust." In contrast, 37.5% of the largest organizations, 28.8% of the public companies, and 27.0% of financial services entities indicate their ERM approaches are either "mature" or "robust." In contrast, only 3.4% of not-for-profit organizations believe their level of risk management oversight is "mature" or "robust."

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

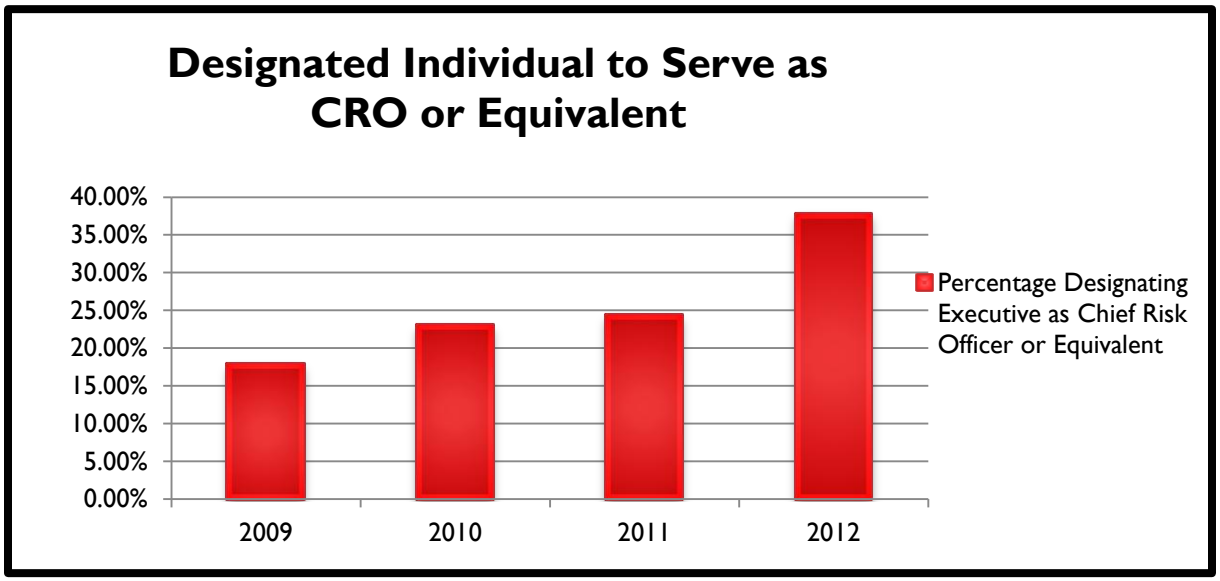
While the level of risk oversight maturity is higher for these subsets of organizations than the full sample, it is important to note that a significant majority of these subsets of organizations do not describe their approaches to ERM as being "mature" or "robust." When you consider the results concerning 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.

Most organizations in the full sample (73.3%) do not have a formal policy statement regarding its enterprise-wide approach to risk management. The presence of a formal policy is more common in the largest organizations (47.7%), public companies (44.7%), and financial services entities (48.2%). Not-for-profit organizations are least likely to have a formal policy in place.

Percentage of Respondents					
	Full Sample	Largest Organizations (Revenues >$1B)	Public Companies	Financial Services	Not-For-Profit Organizations
Has formal policy statement regarding enterprise-wide approach to risk management	26.7%	47.7%	44.7%	48.2%	11.9%

Risk Oversight Leadership

With the recent focus on strengthening risk oversight in organizations, we observed a notable increase over prior years in the percentage of organizations that have formally designated an individual to serve as the Chief Risk Officer (CRO), or equivalent senior risk executive. As illustrated by the bar chart below, 37.7% of organizations responding indicated that they have made that kind of designation, which is notably higher than the 24.3% reported in 2011, 23.0% reported in 2010, and 17.8% reported in 2009.



Financial services organizations are much more likely to have designated an individual to serve as CRO or equivalent, with almost two-thirds of those organizations doing so. A majority of the largest organizations and public companies have also pinpointed individuals to serve in those capacities.

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	37.7%	55.7%	55.2%	63.8%	22.0%

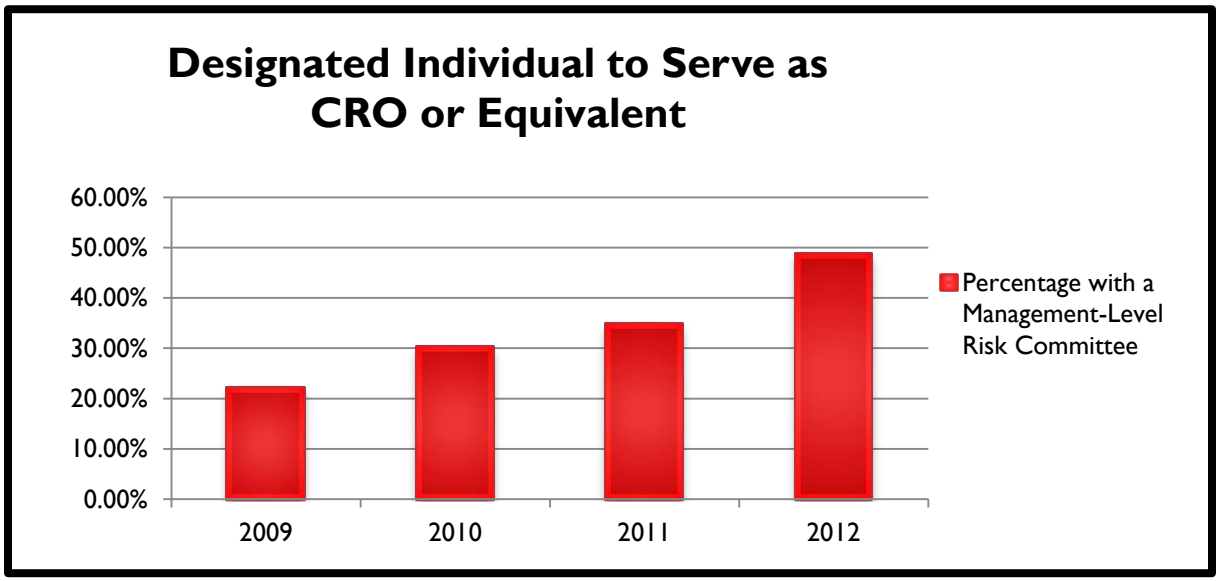
For firms with a chief risk officer position, the individual to whom the CRO most often reports is the CEO or President (47.4% of the instances for the full sample). Interestingly, for 22.3% of the organizations with a CRO position, the individual reports formally to the board of directors or its audit committee while an additional 17.7% report to the chief financial officer. These lines of reporting are similar to what we noted in our 2011 and 2010 reports.

When you examine the largest organizations, public companies, and financial services entities separately, there are some notable differences as shown in the table below. Direct reporting to the CEO and/or President is most common for financial services firms and not-for-profit organizations.

More organizations are appointing individuals to serve as Chief Risk Officer (CRO) or equivalent than in prior years, with the greatest percentage noted for large 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	22.3%	20.4%	21.7%	25.6%	16.7%
Chief Executive Officer or President	47.4%	42.9%	43.5%	53.3%	58.3%
Chief Financial Officer	17.7%	24.5%	17.4%	15.6%	8.3%

Similar to our observation that more organizations are designating an executive to lead the risk oversight function (either as CRO or equivalent), we also observed that an increasing number of organizations have a management-level risk committee or equivalent. For 2012, 48.6% of the full sample has a risk committee as compared to 34.5% in 2011, 30% in 2010, and 22% in 2009.



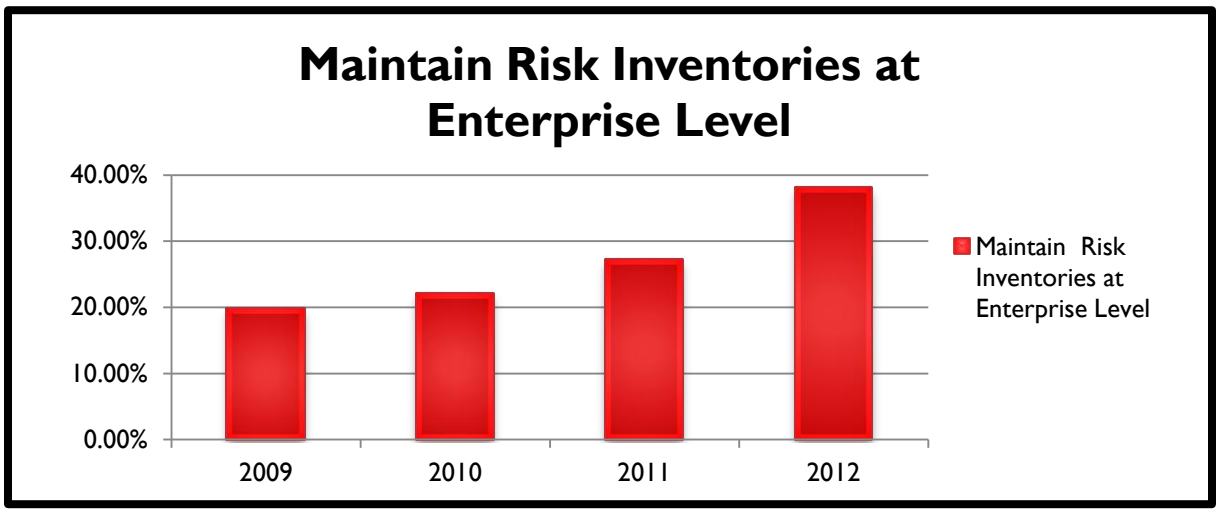
The presence of an internal risk committee was noticeably more likely to be present in the largest organizations, public companies, and financial services entities where 80.2%, 71.8%, and 73.8%, respectively, of those organizations had an internal risk committee. These findings are much higher than what we observed in our 2011 report where 54.8% of the largest organizations, 53.8% of public companies, and 54.6% of financial services organizations had management-level risk committees.

For the organizations with a formal executive risk oversight committee, those committees met most often (48.2% of the time) on a quarterly basis, with an additional 27.2% of the risk committees meeting monthly. These results did not differ notably for the subsets of largest organizations, public companies, or financial services entities.

The officer most likely to serve on the executive risk committee is the chief financial officer (CFO) who serves on 86.1% of the risk committees that exist among organizations represented in our survey. The CEO/President serves on 64.8% of the risk committees while the chief operating officer serves on 57.9% of the risk committees. In about half of the organizations surveyed, the general counsel and the internal audit officer also sit on the risk committee along with other executives from differing positions.

Techniques to Identify and Assess Risks

A growing number of organizations are maintaining inventories of risks at the enterprise level, as illustrated by the bar graph below. While only 19.6% of organizations did so in 2009, by 2012 just under 40% of organizations claim to be maintaining an inventory of risks at the enterprise level.



A greater percentage of large organizations, public companies, and financial services firms maintain risk inventories at the enterprise level as shown below. Fewer not-for-profit organizations do so.

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	37.9%	56.8%	58.4%	51.0%	27.1%

Just over half of the full sample has formally defined the meaning of the term "risk" for employees to use as they identify and assess key risks. When they do so, about half focus their definition on "downside" risks (threats to the organization) and about half focus on both the "upside" and "downside" of risk. A large majority of the full sample do not provide explicit guidelines or measures to business unit leaders on how to assess the probability and impact of a risk event (74.0% and 70.7%, respectively). We found similar results for not-for-profits organizations. However, consistent with 2011 about half of the largest organizations and public companies provide explicit guidelines or measures to business unit leaders for them to use when assessing risk probabilities and impact. Among financial services, 38.1% and 40.0% provide guidelines for assessing risk probabilities and impact, respectively.

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 quarterly. Not-for-profit organizations are less likely to be going through a process to update their risk inventories.

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	30.8%	6.8%	12.8%	15.6%	47.5%
Annually	38.7%	45.6%	39.2%	51.1%	35.5%
Semi-Annually	10.0%	17.0%	13.6%	9.2%	8.5%
Quarterly	15.3%	26.1%	28.8%	16.3%	8.5%
Monthly, Weekly, or Daily	5.2%	4.5%	5.6%	7.8%	0.0%

Almost three-fourths of the large organizations (73.9%) and public companies (71.2%) have a standardized process or template for identifying and assessing risks, while 63.0% of the financial services organizations have those kinds of procedures in place. In contrast, only 27.6% of not-for-profit organizations structure their risk identification and assessment processes in that manner.

Communicating Information About Key Risks

We asked respondents about their current stage of risk management processes and reporting procedures. Just under half (43.3%) 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 27.2% describe their risk management processes as informal and unstructured with *ad hoc* reporting of aggregate risk exposures to the board.

Interestingly, however, just below 30% 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, which is noticeably higher than the 17.4% reported in our 2011 study.

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."	29.6%	59.8%	54.0%	44.0%	18.6%

Thus, while a noticeable majority of organizations do not claim to have systematic, robust, and repeatable ERM processes with regular reporting to the board, the trends suggest that more organizations are moving in that direction over time. As demonstrated by the data in the table above, a noticeably higher percentage of large organizations, public companies, and financial services organizations believe they have a systematic, robust, and repeatable ERM process.

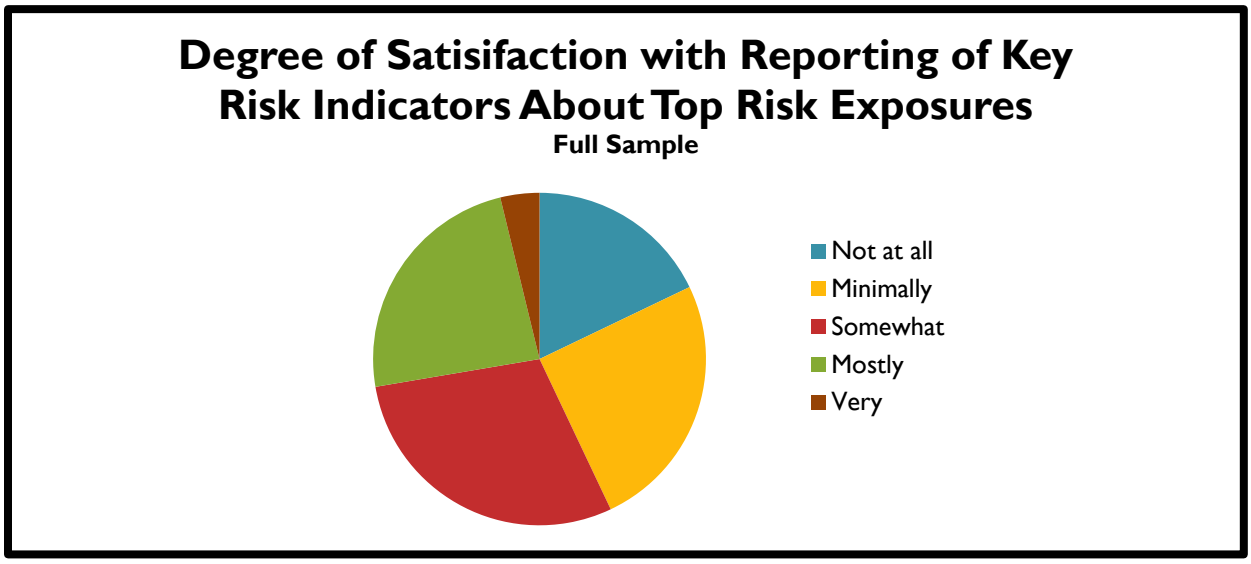
There is notable variation across organizations of different sizes and types in how key risks are communicated by business unit leaders to senior executives. According to the data in the table on the next page, the majority (62.6%) of organizations communicate key risks merely on an *ad hoc* basis at management meetings. Only 33.3% of the organizations surveyed scheduled 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 four years we have tracked this data point (33.3% in 2012, 32.9% in 2011, 29% in 2010 and 2009). The communication of key risks is more likely to be scheduled for discussion at management meetings for the largest organizations or financial services organizations, as shown on the next page. Written reports prepared on a monthly, quarterly, or annual basis are most likely to be prepared by the largest organizations, public companies, and financial services organizations. The largest organizations are more likely to enter risk data into a risk management database at least quarterly.

The majority of organizations communicate risk information to senior executives on an ad hoc basis versus scheduling agenda time to discuss risks at management meetings.

	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	62.6%	37.2%	38.5%	50.7%	78.9%
Scheduled agenda discussion at management meetings	33.3%	45.3%	36.1%	42.9%	29.8%
Written reports prepared either monthly, quarterly, or annually	47.6%	79.1%	73.8%	65.0%	35.2%
Risk data is entered into a risk management database at least quarterly	16.5%	41.8%	26.2%	28.5%	8.8%

[1] Respondents could select more than one choice. Thus, the sum of the percentages exceeds 100%.

Overall, there seems to be room for improvement in the nature of risk information being reported to senior executives. Almost half (43.0%) of our respondents admitted that they were "not at all satisfied" or were "minimally" satisfied with the nature and extent of the reporting of key risk indicators to senior executives regarding the entity's top risk exposures. Similar levels of dissatisfaction, 43.4% and 48%, were observed in our 2011 and 2010 reports, respectively. In contrast, only 27.7% are "mostly satisfied" or "very satisfied" with the nature and extent of reporting of key risk indicators to senior executives.



Results are very different, however, for the largest organizations where almost half (48.3%) of the respondents are mostly satisfied or very satisfied with the nature and extent of reporting of key risk indicators to senior executives regarding the entity's top risk exposures. Just over one-third of public companies and financial services organizations report those levels of satisfaction with this type of reporting. Levels of satisfaction are lowest for not-for-profits where 62.7% are not-at-all or only minimally satisfied with the nature and extent of their reporting of key risk indicators.

Almost half of the respondents are dissatisfied with the nature and extent of reporting of key risk indicators to senior executives regarding the entity's top risk exposures.

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 one-third (34.1%) believed their disclosures had changed "mostly" while an additional 15.4% believed their disclosures had changed "extensively." We find these rates of change in disclosure noteworthy given that those same organizations indicated that the extent to which the volume and complexity of risks had increased over the past five years was "mostly" for 44.8% and "extensively" for 23.2%. Thus, the realization that the organization's risk profile has changed is also affecting its risk disclosures in the Form 10-K.

Board of Director Involvement in Enterprise Risk Oversight

Regulators and other corporate governance proponents have placed a number of expectations on boards for effective risk oversight. The New York Stock Exchange (NYSE) Governance Rules place responsibility for risk oversight on the audit committee, 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, 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.

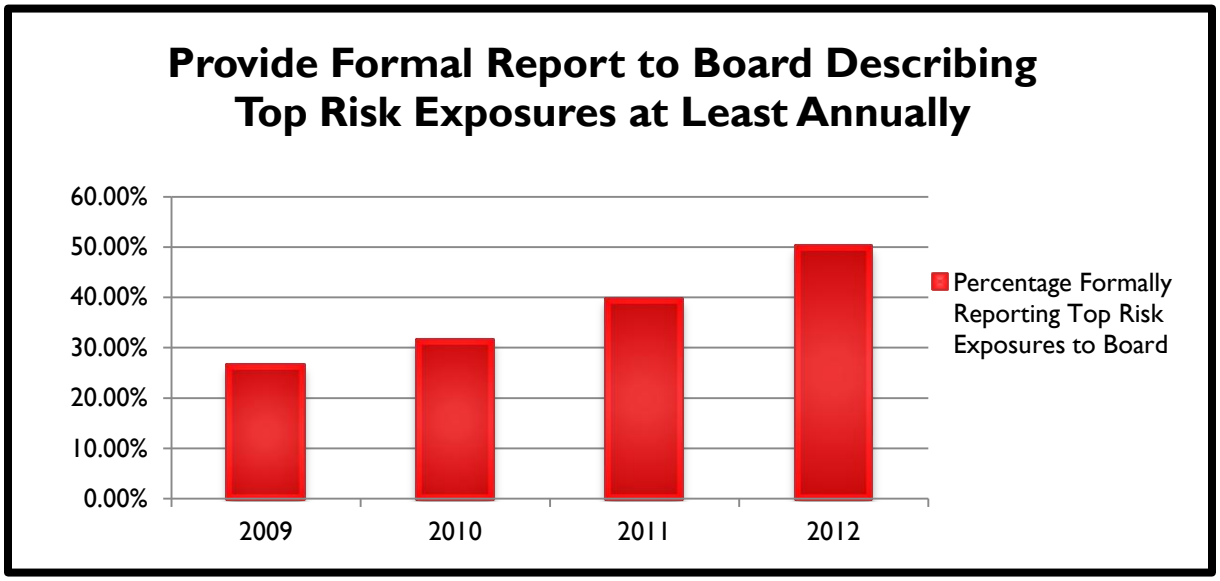
To shed some insight into current practices, we asked respondents to provide information about how their organization's board of directors has delegated risk oversight to board level committees. We found that only 45.9% of the respondents in the full sample indicated that their boards have formally assigned risk oversight responsibility to a board committee. This is noticeably different from the largest organizations, public companies, and financial services organizations where 80.7%, 82.0%, and 71.5% respectively, of those organizations' boards note they 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, most are assigning that task to the audit committee.

Just under half of the boards in the full sample have formally assigned risk oversight responsibilities to a board committee; however, board delegation to a committee is noticeably more common for the largest organizations, public companies, and financial services organizations.

In light of these formal committee assignments for oversight of the enterprise's risk management processes, we asked to what extent the full board reviews and discusses in a specific meeting the top risk exposures facing the organizations. Surprisingly, just over half (58.8%) of those in the full sample indicate that the full board has those discussions on a formal basis. However, as shown by the table below, boards of the largest organizations and public companies are much more likely to discuss in a specific meeting the top risk exposures facing the organization.

	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	**58.8%**	78.2%	80.6%	68.6%	37.9%

As illustrated by the graph below, a growing percentage of 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. In 2009, we found that 26.3% of organizations provided that kind of information to the board at least annually. By 2012, that had risen to 49.9% of organizations surveyed.



As illustrated by the chart below, an overwhelming percentage (85.2%) of large organizations and public companies (79.2%) formally report top risk exposures to the board of directors or one of its committees at least annually. This is higher than what we found in our 2011 study where 61.3% of large organizations and 72.5% of public companies provided those reports to the board.

In 2012, just over two-thirds of financial services organizations formally report top risk exposures to the board; however just over one-third of not-for-profit organizations do 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	49.9%	85.2%	79.2%	67.9%	36.2%

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 on the next page, the full sample and not-for-profit organizations are more likely to report less than 5 risk exposures to the board. However, two-thirds or more of the large organizations, public companies, and financial services organizations formally report between 5 and 19 risks to the board.

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	42.9%	10.7%	14.3%	24.4%	64.8%
Between 5 and 9 risks	25.3%	32.1%	33.6%	33.3%	16.7%
Between 10 and 19 risks	24.5%	45.2%	38.7%	31.1%	13.0%
More than 20 risks	7.3%	11.9%	13.4%	11.1%	5.6%

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 only 44.7% indicated those discussions about top risk exposures in the context of strategic planning are "mostly" or "extensively." When we separately analyzed this for the largest organizations, public companies, and financial services entities, we did find that those boards were much 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.

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"	11.7%	15.9%	16.8%	13.5%	6.8%
"Mostly"	33.0%	51.1%	47.2%	44.7%	22.0%
Combined	44.7%	67.0%	64.0%	58.2%	28.8%

Despite the noticeably higher percentages of boards that discuss risk exposures in the context of strategic planning for the largest organizations and public companies, the fact that one-third of those organizations are not having these kinds of discussions suggests that there is still room for 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.

Integration of Risk Oversight and Strategic Planning

The continued economic crisis highlights the increasing importance of more explicit focus on the interrelationship of risk taking and strategy execution. We asked several questions to obtain information about the intersection of risk management and strategy in the organizations we surveyed.

We found that 37.1% of organizations in our full sample currently do 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 48.3% 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 8.2%, 14.9%, and 22.3% of those organizations, respectively, have no formal assessments of these kinds of emerging risks.

Of those in the full sample that do attempt to assess strategic risks, most do so in a predominantly qualitative (24.4%) manner or by using a blend of qualitative and quantitative assessment tools (26.5%). This dominance of a qualitative approach holds true for the subgroups (largest organizations, public companies, and financial services entities) as well.

Just over one-third of organizations in our survey do no formal assessments of strategic, market, or industry risks.

Similarly, 33.4% of those surveyed also fail to conduct any formal assessments of operational/supply chain related risks and 33.4% fail to formally assess reputational and political risks.

The risk areas with greater frequencies of formal assessment appear to be those related to financing/investing/financial reporting risks, information technology risks, and legal/regulatory risks. For financing/investing/financial reporting risks, 76.8% of respondents indicated that they do some form of assessment, with 43.2% indicating that their assessments of those risks are mostly quantitative. While the percentages of respondents who formally assess information technology risks and legal/regulatory risks are much higher than the percentage of respondents assessing strategic, operational/supply chain, and reputational/political risks, the assessments tend to be mostly qualitative assessments, not quantitative assessments. This is what we found in our 2009, 2010, and 2011 reports as well.

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. Over 51% of our respondents believe that existing risk exposures are considered "mostly" or "extensively" when evaluating possible new strategic initiatives and about one-third of the respondents believe that their organization has articulated its appetite for or

tolerance of risks in the context of strategic planning "mostly" or "extensively." And, 38% of the respondents indicate that risk exposures are considered "mostly" or "extensively" when making capital allocations to functional units. Just under half (48.6%) of organizations do not "mostly" or "extensively" consider existing risk exposures when evaluating new strategic initiatives.

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, almost two-thirds of organizations in our full sample have not articulated its 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?

	Percentages		
Extent that	"Mostly"	"Extensively"	Combined
Existing risk exposures are considered when evaluating possible new strategic initiatives	37.7%	13.7%	51.4%
Organization has articulated its appetite for or tolerance of risks in the context of strategic planning	28.5%	6.6%	35.1%
Risk exposures are considered when making capital allocations to functional units	27.8%	10.2%	38.0%

Responses to the question about the extent respondents believe the organization's risk management process is a proprietary strategic tool that provides unique competitive advantage provide insight about how risk management is viewed in those organizations. Over half responded to that question by indicating "not at all" or "minimally." Interestingly, the assessment of the strategic value of the organization's risk management process was relatively low and not significantly different for the largest organizations, public companies, and financial services organizations. Thus, there may be a lack of understanding of how an effective ERM process can be informative to management as they execute their strategic plan, and/or the organization has not developed its process well enough to consider it a proprietary strategic tool.

	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?	32.6%	26.1%	25.4%	12.8%	3.1%

Linkage of Risk Oversight and Compensation

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 and 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.

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 incented 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 26.0% of the organizations surveyed, risk management is "not at all" a component of the performance compensation and for another 30.2% the component is only "minimally" considered. Thus, in over half of the organizations surveyed, the extent that risk management activities are an explicit component in determining management compensation is non-existent or minimal.

	Percentage of Respondents Selecting "Mostly" or "Extensively"				
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	26.0%	15.1%	15.4%	12.1%	33.9%
Minimally	30.2%	29.1%	27.6%	27.7%	42.4%
Combined	56.2%	44.2%	43.0%	39.8%	76.3%

While the largest organizations, public companies, and financial services entities are more likely to factor risk management activities into performance compensation, around 40% of those subsets of our sample are "not at all" or only "minimally" doing so as illustrated by the table on the prior page. The increasing focus on compensation and risk-taking should lead more organizations over time to consider modifications to their compensation policies and procedures.

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

Barriers to Progress

While our analysis suggests that organizations have made advancements 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 that level of progress; however, given the significant global financial, economic, and political challenges that have been in play since 2008, it is discouraging to see the lack of progress for many organizations 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 55.6% 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?"*

The next most common responses were "too many pressing needs" and "no requests to change our risk management approach" noted by 37.9% and 37.5%, respectively, of respondents in the full sample. Twenty-nine percent of those same respondents also noted that there is "no one to lead the effort" while 25.4% reported a belief that they "do not see benefits exceeding the costs."

These findings are similar to those reported in our 2011, 2010, and 2009 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, even though just under half of the full sample describe their risk oversight processes as very immature or minimally mature, 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 reported in our 2011, 2010, and 2009 reports. The results are also very similar for each of the subsets we examined (largest organizations, public companies only, and financial services). A higher percentage of not-for-profits (55.9%) related to the full sample noted that competing priorities are the primary barrier to their embrace of ERM.

	Percentage Believing Barrier is		
Description of Barrier	"Barrier"	"Significant Barrier"	Combined Percentage
Competing priorities	25.5%	20.7%	46.2%
Insufficient resources	26.2%	17.3%	43.5%
Lack of perceived value	19.9%	13.8%	33.7%
Perception ERM adds bureaucracy	19.1%	10.9%	30.0%
Lack of board or senior executive ERM leadership	13.5%	10.9%	24.4%
Legal or regulatory barriers	2.9%	1.2%	4.1%

Most organizations (63.2%) 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 similar for the largest organizations (where 43.6% provided no or only minimal training and guidance), public companies (47.6% provide no or minimal training and guidance), and financial services (44.7% provide no or minimal training and guidance). Training is least likely to be provided in not-for-profit organizations. 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.

Summary

While we do notice a trend towards more advanced enterprise-wide risk oversight from 2009 through 2012, there continue to be opportunities for improvement in the robustness of those processes. Organizations agree that the volume and complexity of risks they face continue to increase over time and they often encounter significant operational surprises. What we do observe is that the largest organizations, public companies, and financial services entities are more advanced in their risk oversight processes than the full sample of organizations. Thus, enterprise-wide risk management maturity does vary across different sizes and types of firms.

Results from all four years of our surveys continue to find that the approach to risk oversight in many organizations continues to be *ad hoc* and informal, with little recognized need for strengthened approaches to tracking and monitoring key risk exposures, especially emerging risks related to strategy. Even the large organizations, public companies, and financial services organizations admit that their risk management oversights are less than mature. The results from the survey suggest there may be a need for some entities to evaluate existing risk management processes in light of perceived increases in the volume and complexity of risks and operational surprises being experienced by management.

On a positive note, more organizations are investing in infrastructure to help strengthen their risk oversight efforts. A growing percentage has designated an individual to serve as chief risk officer or equivalent or they are increasing the use of internal management risk committees. Boards are often delegating risk oversight to one of the board's committees, with that being the audit committee most frequently.

There may be opportunities to better connect risk oversight and strategic planning efforts. Almost half admitted that they were "not at all" or "minimally" satisfied with the nature and extent of reporting of key risk indicators to senior executives regarding top risk exposures.

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 ERM Initiative's Web site – http://www.erm.ncsu.edu). 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:
Description of Enterprise Risk Management (ERM)

An enterprise risk management (ERM) approach emphasizes a top-down view of the inventory of key risk exposures potentially affecting an enterprise's ability to achieve its objectives. Boards and senior executives seek to obtain knowledge of these risks with the goal of preserving and enhancing stakeholder value.

Committee of Sponsoring Organizations of the Treadway Commission's (COSO's) ***Enterprise Risk Management – Integrated Framework*** defines ERM as follows:

> *"Enterprise risk management is a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risks to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives."*
>
> COSO's ***Enterprise Risk Management – Integrated Framework*** (2004)

ERM is a formal process that is enterprise-wide and addresses risks in a portfolio manner, where interactions among risks are considered.

Because the term "ERM" is used often, but not necessarily consistently understood, we provided respondents (as we did for the 2009, 2010, and 2011 reports) COSO's definition of enterprise risk management.

Author Bios

All three authors serve in leadership positions within the Enterprise Risk Management (ERM) Initiative at NC State University (http://www.erm.ncsu.edu) The ERM Initiative provides thought leadership about ERM practices and their integration with strategy and corporate governance. Faculty in the ERM Initiative frequently work with boards of directors and senior management teams helping them link ERM to strategy and governance.

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