2016
THE STATE OF RISK OVERSIGHT:

AN OVERVIEW OF ENTERPRISE RISK MANAGEMENT PRACTICES

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Overview of Study

The speed of innovation and the highly dynamic global business environment create tremendous opportunities for organizations as they pursue value. As business leaders manage the ever-changing economic, political, and technological landscape they face an exponentially increasing range of uncertainty that creates a highly complex portfolio of potential risks that, if unmanaged, can cripple an organization's business model and brand.

A number of organizations are recognizing the value that a structured and explicit focus on emerging risks can bring to the leadership of an organization by arming it with richer insights about opportunities and challenges on the horizon. Many of them are strengthening management's and the board's processes to identify, assess, manage, and monitor those risks most likely to impact – both positively and negatively – the organization's strategic success. A number of them have embraced the concept of enterprise risk management (ERM) to help them strengthen their enterprise-wide risk oversight. While organizations have managed risks for decades, ERM is a process led from the top of the organization by its board and senior leaders that considers risks from a top-down, strategic perspective so that those risks can be managed proactively with an enterprise-wide lens which will make the organization more likely to 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 seven years with the American Institute of Certified Public Accountants' (AICPA) Business, Industry, and Government Team to survey business leaders about a number of characteristics related to their current enterprise-wide risk management efforts. This is the seventh report that we have published summarizing our research in partnership with the AICPA.

Data was collected during the fall of 2015 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 441 completed surveys. This report summarizes our findings and provides a resource for benchmarking an organization's approach to risk oversight against current practices.

This year we observe that the maturity of enterprise-wide risk oversight processes remains relatively stable at levels consistent with the past few years with large organizations, public companies, and financial services organizations significantly more mature than other organizations in their enterprise-risk oversight processes. Most notably, organizations continue to struggle to integrate their risk oversight efforts with their strategic planning processes. We believe that significant opportunities remain for organizations to continue to strengthen their approaches to identifying and assessing key risks facing the entity especially as it relates to coordinating these efforts with strategic planning activities.

The following Executive Summary highlights 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.

www.erm.ncsu.edu.

Key Findings

The Risk Environment and the State of ERM Maturity:

Executives recognize that the overall risk environment is increasingly more challenging:

- **57%** 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.
- **63%** admit they were caught off guard by an operational surprise "somewhat" to "extensively" in the last five years. This percentage was even higher for large organizations and public companies.

Even though the risk environment is creating tremendous challenges, the overall level of risk oversight is relatively immature and not providing strategic value:

- Only **25%** believe their organization has a "complete formal enterprise-risk management process in place," and that finding has not risen over the past four years, suggesting that organizations have not made significant strides in risk oversight maturity.
- **25%** describe their organization's level of risk management maturity as "Mature" or "Robust." That percentage grows only to about one-third of the larger companies, public companies, and financial services organizations.
- **56%** indicate that their organization's risk management process is "not at all" or "minimally" viewed as a proprietary strategic tool that provides unique competitive advantage, suggesting that organizations continue to struggle to position ERM for strategic value.

Calls for Improved Enterprise-Wide Risk Oversight

The lack of ERM maturity within organizations is surprising given there are extensive calls from boards of directors for increased senior executive involvement in risk oversight:

- **70%** indicate that the board of directors is asking "somewhat" to "extensively" for increased senior executive involvement in risk oversight. That is even higher for large companies (**88%**) and public companies (**88%**).
- **66%** of organizations experience "somewhat" to "extensive" pressure from external parties to provide more information about risks. That percentage grows to over **80%** for the largest organizations, public companies, and financial services organizations.

Risk Oversight Leadership

Some, but clearly not most, organizations are appointing an executive to lead the risk oversight process. Organizations are more likely to have a management-level risk committee. This year's trends are consistent with prior years, suggesting no changes in approach:

- **32%** have designated an individual to serve as the chief risk officer or equivalent. That grows to over **50%** for public companies, large companies, and financial services organizations.
- **45%** have a management-level risk committee, with that most common (**70%**) for the largest organizations.
- For most organizations with a risk management committee, the committee meets at least quarterly.

Risk Identification Techniques

There is a mixture of specific risk management processes along with ad hoc activities that comprise most organizations' risk management processes:

- **36%** of organizations maintain risk inventories at the enterprise level, with the largest organizations and public companies much more likely to maintain inventories of risks at the enterprise level, with **55%** and **54%** doing so, respectively.
- **37%** of organizations update their risk inventories annually while an additional **22%** update the inventories semi-annually or quarterly.
- About **50%** of the largest organizations provide explicit guidelines (e.g., scales) for management to assess an individual risk's probability and impact. That is similar to public companies and financial services organizations. However, only about **30%** of the full sample provides that kind of guidance.

Risk Reporting

Given the board's ultimate role in risk governance, the findings suggest there is noticeable room for improvement in the nature of risk reporting to boards of directors.

- **33%** describe their ERM process as systematic, robust, and repeatable with regular reporting of top risks to the board. That percentage is higher (**59%**) for large organizations and public companies (**63%**). Interestingly, this percentage increased for all types of organizations, except not-for-profits, suggesting organizations are strengthening their risk reporting to boards.
- **61%** of the largest organizations use written reports to communicate risks information to senior executives (**72%** of public companies). That was true for only **38%** of the full sample.
- **27%** use scheduled agenda discussion time at management meetings to communicate key risks to senior executives. That percentage ranges between **32%** and **42%** for large organizations, public companies, and financial services organizations.
- **61%** of the organizations report risks to senior executives via ad hoc discussions at management meetings.
- **40%** admit to not being "at all satisfied" or "minimally" satisfied with the nature and extent of the reporting of key risk indicators to senior executives.

Board of Director Involvement in Enterprise Risk Oversight

Most boards are assigning risk oversight responsibilities to a board committee:

- About **44%** of the boards of directors in the full sample have formally assigned risk oversight responsibilities to a board committee. That is notably different for the boards of directors of the largest organizations and public companies where over **70**% of those boards have made such assignments.
- **60%** of large organizations that have assigned oversight responsibility to a board committee delegate responsibility to the audit committee while **26%** delegate to a risk committee.
- **61%** of boards of financial services organizations delegate risk oversight to a board committee and when they do so **39%** delegate to a risk committee and **43%** delegate to an audit committee.
- **80%** of large organizations and **81%** of public companies formally report top risk exposures to the board of directors or one of its committees at least annually.
- Around **70%** of the largest organizations and public companies report between 5 and 19 risks to the board.

Integration of Risk Oversight and Strategic Planning

Despite the importance of having processes to identify, assess, and monitor risks that might affect the organization's business model and strategies, many continue to struggle to integrate their risk oversight with strategic planning:

- **47%** believe that existing risk exposures are considered "mostly" or "extensively" when evaluating new strategic initiatives. But, **35%** do no formal assessments of emerging strategic, market, or industry risks.
- **30%** of the organizations have boards that "mostly" or "extensively" review the top risk exposures facing the organization when the board discusses the organization's strategic plan.
- This percentage was around **50%** for the largest organizations, public companies, and financial services organizations. This seems surprisingly low given the relationship between risk and return.

Barriers to Progress

There are a number of perceived barriers to strengthening an organization's risk oversight:

- **46%** believe that a "barrier" or "significant barrier" to ERM is that there are insufficient resources allocated to ERM. A similar percentage believes that there are other priorities that compete with ERM.
- **63%** have not provided or only minimally provided training and guidance on risk management.

The rest of this report provides detailed insights about each of these key findings.

Overview of Research Approach

This is the seventh 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 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 the fall of 2015 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 441 fully completed surveys. 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 are the same across all seven of our editions of the surveys that we have conducted each year from 2009 - 2015. 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 441 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. 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 serving in financial roles responded to our survey, with 34%[1] having the title of chief financial officer (CFO), 21% serving as controller, and 8% leading internal audit. Other respondents included the chief risk officer (4%) and treasurer (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 prior year survey, the four most common industries responding to this year's survey were finance, insurance, and real estate (26%), followed by not-for-profit (22%), manufacturing (17%), and services (16%).The mix of industries is generally consistent with the mix in our previous reports.

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

Industry (SIC Codes)	Percentage of Respondents
For-Profit Entities:	
Finance, Insurance, Real Estate (SIC 60-67)	26%
Manufacturing (SIC 20-39)	17%
Services (SIC 70-89)	16%
Wholesale/Distribution (SIC 50-51)	5%
Construction (SIC 15-17)	4%
Retail (SIC 52-59)	3%
Transportation (SIC 40-49)	3%
Mining (SIC 10-14)	3%
Not-for-Profit (SIC N/A)	22%

A variety of sizes of organizations are represented by the respondents to the survey. As shown in the table below, two-thirds (66%) of companies that provided data about their financial performance generated revenues up to $500 million in their most recent fiscal year. An additional 11% generated revenues between $500 million and $1 billion while 23% of organizations providing revenue data earned revenues in excess of $1 billion. Almost all (87%) of the organizations are based in the United States.

Range of Revenues in Most Recent Fiscal Year	Percentage of Respondents
$\$0 < x \leq \$10$ million	16%
$\$10$ million $< x \leq \$100$ million	36%
$\$100$ million $< x \leq \$500$ million	14%
$\$500$ million $< x \leq \$1$ billion	11%
$\$1$ billion $< x \leq \$2$ billion	7%
$\$2$ billion $< x \leq \$10$ billion	9%
$x > \$10$ billion	7%

Throughout this report, we highlight selected findings that are notably different for the 93 largest organizations in our sample, which represent those with revenues greater than $1 billion. Additionally, we also provide selected findings for the 103 publicly-traded companies, 114 financial services entities, and 95 not-for-profit organizations included in our sample.

State of Risk Environment

Many argue that the volume and complexity of risks faced by organizations today continue to evolve at a rapid pace, creating huge challenges for management and boards in their oversight of the most important risks. Recent volatility in equity markets, falling oil prices, mixed signals from economic indicators, terrorism events, the Fed's decision to begin its raising of interest rates, and the constant concern about cyber threats, among numerous other issues, represent examples of challenges management and boards face in their navigating an organization's risk landscape. 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. Nineteen percent noted that the volume and complexity of risks have increased "extensively" over the past five years, with an additional 38% responding that the volume and complexity of risks have increased "mostly." Thus, on a combined basis, 57% 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 in prior years noted: 59% in the 2014 report, 57% in the 2013 report, 62% in the 2012 report, 55% in the 2011 report, 64% in the 2010 report and 62% in the 2009 report). Only 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 is consistent 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 70%) than the full sample. Similarly, public company respondents also believe the volume and complexity has increased notably with 23% responding with "extensively" and 49% responding "mostly" for a combined percentage of 72%. Similar results were noted for financial services entities where 62% 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?	1%	6%	36%	38%	19%

Some risks have actually translated into significant operational surprises for the organizations represented in our survey. About 11% noted that they have been affected by an operational surprise "extensively" within the last five years and an additional 17% 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 (63%) 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) that have emerged in their organizations that have affected how they do business, consistent with what we found in our prior studies. The rate is even higher for large organizations and publicly-traded entities, with close to three-fourths of those responding as "somewhat," "mostly," or "extensively." The reality is that all organizations are dealing with unexpected risks. Just under two-thirds of the financial services entities and not-for-profit organizations in our sample responded with "somewhat" or higher to this question.

	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?	5%	32%	35%	17%	11%

Relative to our earlier studies, we do not observe a notable 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 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.

State of ERM Maturity

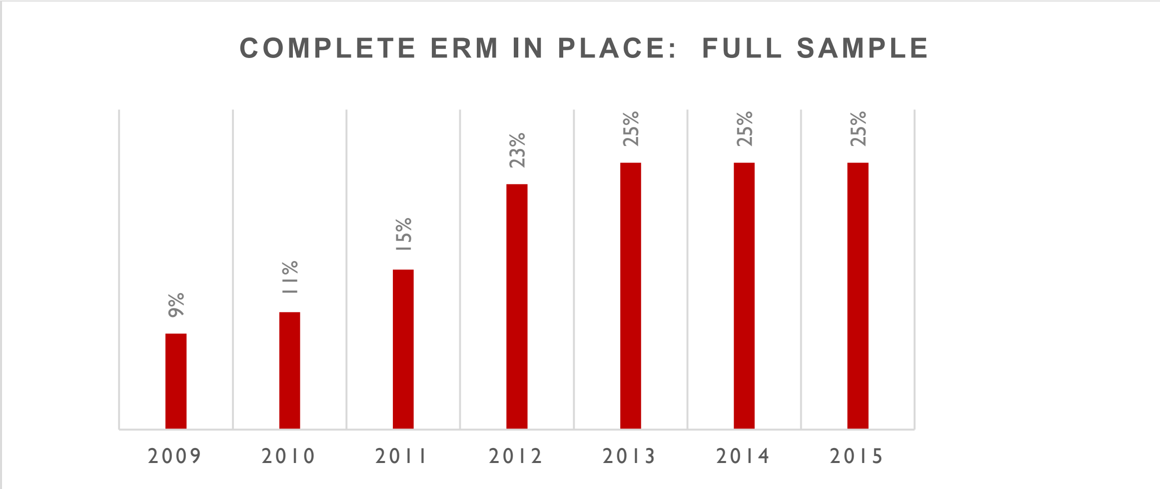
There have been growing calls for more effective enterprise risk oversight at the board and senior management levels in recent years. Many corporate governance reform experts have called for the adoption of a holistic approach to risk management widely known as "enterprise risk management" or "ERM." 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.

Current State of ERM

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 from the following the best description of the state of their ERM currently in place:

- No enterprise-wide process in place
- Currently investigation 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

One of the more notable observations is that there appears to be a leveling off of the percentage of organizations in the full sample that believe they have a "complete formal enterprise-wide risk management process place." As illustrated by the chart on the next page, there does not appear to be an increase over time in the number of organizations that believe their ERM is complete.



The above chart shows an increase from 2009 through 2012 with a leveling off for the subsequent three years in the percentage of organizations that claim they have a "complete formal enterprise-wide risk management process in place." In our 2009 report, only 9% of organizations claimed to have complete ERM processes in place; however, in 2015 the percentage is just above 25% for the full sample. That suggests that there continues to be 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	24%	8%	8%	14%	22%
Currently investigating concept of enterprise-wide risk management, but have made no decisions yet	12%	2%	3%	2%	15%
No formal enterprise-wide risk management process in place, but have plans to implement one	8%	4%	4%	6%	8%
Partial enterprise-wide risk management process in place (i.e., some, but not all, risk areas addressed)	31%	35%	34%	32%	38%
Complete formal enterprise-wide risk management process in place	25%	51%	51%	46%	17%

As seen in the last row of the chart above, 51% of the largest companies in our sample and 51% of public companies in our sample claim to have complete formal enterprise-wide risk management processes in place. This is higher than in 2014 when 44% of the largest organizations and 48%

of public companies reported they have complete, formal ERM processes in place. These findings suggest that ERM is of increasing significance and importance, especially in the largest organizations and those that are public companies.

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

For the full sample, we found that just under one-fourth (24%) of the respondents have no enterprise-wide risk management process in place. An additional 12% 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, 36% 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 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.

Robustness of ERM

We also 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 most responding to our survey. When asked to describe the level of maturity of their organization's approach to risk oversight, we found that 17% described their organization's level of functioning ERM processes as "very immature" and an additional 23% described their risk oversight as "developing." So, on a combined basis 40% self-describe the sophistication of their risk oversight as immature to developing (this is mostly unchanged from the 42% reported in our 2014 study). Only 4% responded that their organization's risk oversight was "robust," consistent with responses noted in all six of our prior reports.

What is the level of maturity of your organization's risk management oversight?	Very Immature	Developing	Evolving	Mature	Robust
Full Sample	17%	23%	35%	21%	4%
Largest Organizations	5%	12%	36%	38%	9%
Public Companies	4%	11%	40%	36%	9%
Financial Services	4%	12%	43%	36%	5%
Not-for-Profit Organizations	21%	28%	36%	14%	1%

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, 25% of the full sample respondents describe their organization's approach to ERM as either "mature" or "robust." In contrast, 47% of the largest organizations, 45% of the public companies, and 41% of financial services entities indicate their ERM approaches are either "mature" or "robust." In contrast, only 15% of not-for-profit organizations believe their level of risk management oversight is "mature" or "robust."

While the level of risk oversight maturity is higher for these subsets of organizations than the full sample and the numbers improved compared to previous years' results, it is important to note that a significant percentage of these subsets of organizations still 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 describe the level of ERM maturity as very immature to evolving. Few describe their processes as robust.

ERM as Strategic Tool

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. Just over half (56%) responded to that question by indicating "not at all" or "minimally." Interestingly, this is slightly higher than the 52% reported in the prior year's report. Furthermore, 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?	33%	23%	26%	15%	3%

Calls for Improved Enterprise-Wide Risk Oversight

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

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" (47%). An additional 32% 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.

About two-thirds of the largest organizations, public companies, and 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.

Interestingly, 52% 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.

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 13% of the organizations surveyed, the board of directors is asking senior executives to increase their involvement in risk oversight "extensively," another 26% of the organizations report "mostly," and an additional 31% 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. Interestingly, requests from the board of directors for increased risk oversight are high for not-for-profit organizations, too.

	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%	29%	26%	19%	7%
"Mostly"	26%	28%	26%	26%	34%
"Somewhat"	31%	31%	36%	34%	33%
Combined	70%	88%	88%	79%	74%

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.

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 (48%) of the respondents indicated that the CEO has asked "mostly" or "extensively" for increased management involvement in risk oversight, which is an increase over the 40% we saw in our 2014 report. An additional 27% of our respondents indicated that the CEO has expressed "somewhat" of a request for increased senior management oversight of risks.

We also 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 on the next page, while a small percentage (11%) of respondents described external pressures as "extensive," an additional 26% indicated that external pressures were "mostly" and another 29% described that pressure as "somewhat." Thus, on a combined basis two-thirds (66%) of our respondents believe the external pressure to be more transparent about their risk exposures is "somewhat" to "extensive." That result is consistent with what we noted in our 2015 report.

External pressures are notably stronger for financial services entities, 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%	17%	18%	24%	5%
"Mostly"	26%	34%	30%	35%	22%
"Somewhat"	29%	36%	33%	23%	27%
Combined	66%	87%	81%	82%	54%

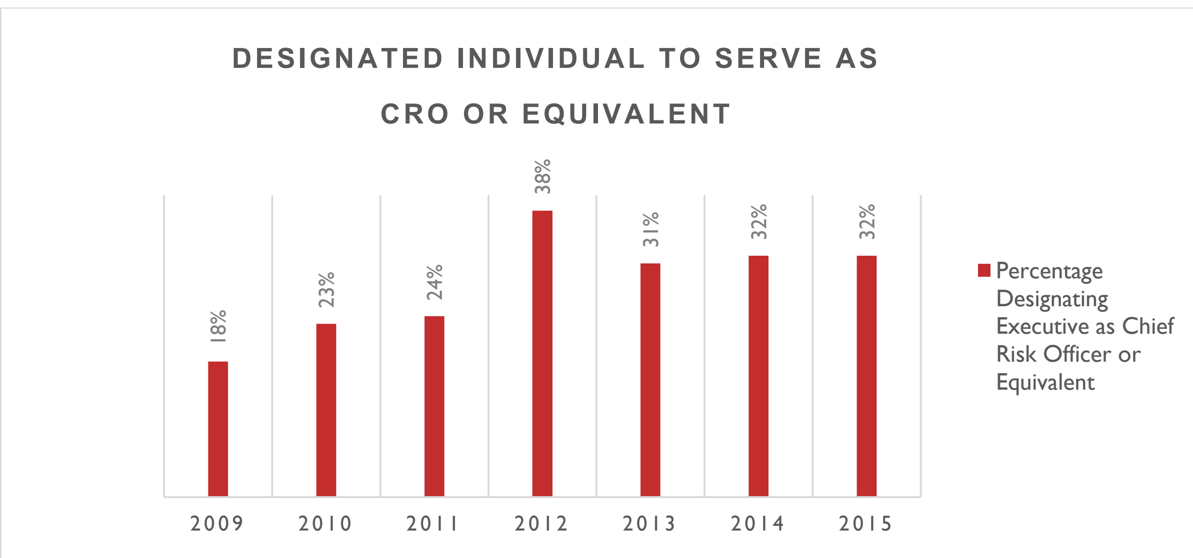
Several other factors are prompting senior executives to consider changes in how they identify, assess, and manage risks. For the overall sample, respondents noted that regulator demands, emerging corporate governance requirements and a desire to better anticipate unexpected risk events are the three 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 and public companies 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.

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

	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	31%	38%	46%	60%	21%
Unanticipated risk events affecting organization	32%	45%	44%	32%	32%
Emerging best practice expectations	37%	47%	43%	54%	39%
Emerging corporate governance requirements	29%	51%	47%	47%	19%
Board of Director requests	28%	49%	50%	31%	26%

Risk Oversight Leadership

While in the initial years of our surveys, we found an increasing percentage of firms formally designating an individual to serve as the Chief Risk Officer (CRO) or equivalent senior risk executive, it appears that the trend has remained unchanged over the past three years. As illustrated by the bar chart below, 32% of organizations responding indicated that they have made that kind of designation for 2015, which is similar to 2014 and 2013.



Large organizations, public companies, and financial services organizations are more likely to have designated an individual to serve as CRO or equivalent, with more than half of those organizations doing so.

	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	32%	55%	57%	56%	27%

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). Interestingly, for 21% of the organizations with a CRO position, the individual reports formally to the board of directors or its audit committee while an additional 14% report to the chief financial officer. These lines of reporting are similar to what we noted in our prior year reports.

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

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.

	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	21%	24%	27%	20%	12%
Chief Executive Officer or President	48%	39%	49%	59%	46%
Chief Financial Officer	14%	12%	7%	9%	23%

Similar to our observation that about one-third (32%) of organizations are designating an executive to lead the risk oversight function (either as CRO or equivalent) in 2015, we also observed that a number of organizations have a management-level risk committee or equivalent. For 2015, 45% of the full sample has a risk committee as compared to 45% in 2014, 43% in 2013, 49% in 2012, 35% in 2011, 30% in 2010, and 22% in 2009.

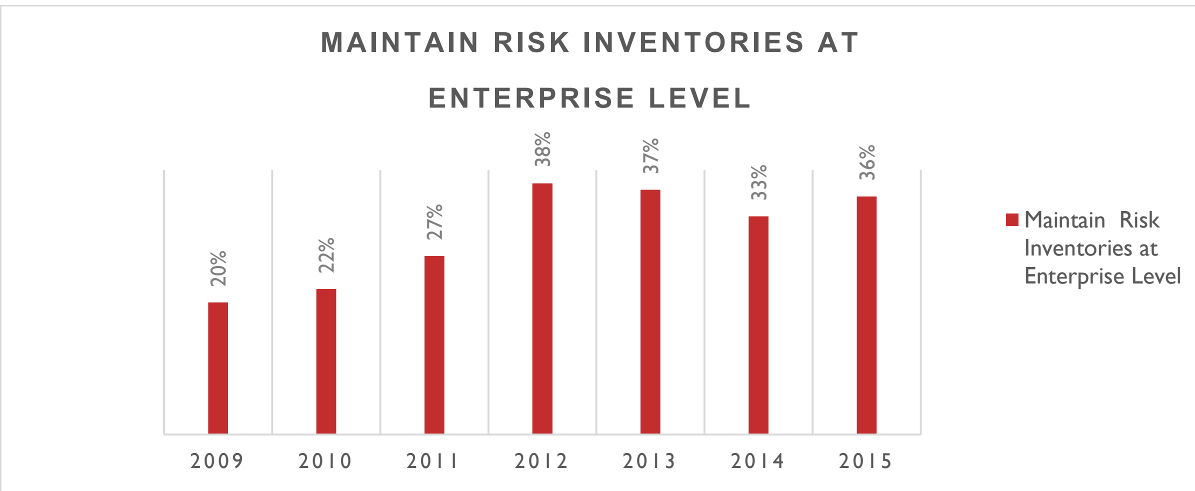
The presence of an internal risk committee was noticeably more likely to be present in the largest organizations, public companies, and financial services entities where 70%, 69%, and 69%, respectively, of those organizations had an internal risk committee. For the organizations with a formal executive risk oversight committee, those committees met most often (51% of the time) on a quarterly basis, with an additional 31% 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 81% of the risk committees that exist among organizations represented in our survey. The CEO/President serves on 62% of the risk committees while the chief operating officer serves on 48% of the risk committees. In just under half of the organizations surveyed, the general counsel and the internal audit officer also sit on the risk committee along with other executives from different positions.

Risk Identification Techniques

About two-thirds of the organizations in the full sample (65%) 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 (61%), public companies (64%), and financial services entities (57%). 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	35%	61%	64%	57%	22%

The number of organizations that maintain inventories of risks at the enterprise level remained practically the same over the last year, as illustrated by the bar graph below. Despite that, the percentage has increased significantly when looking at the earlier years (2009-2011). While only 20% of organizations did so in 2009, by 2015 over one-third 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 on the next page. 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	36%	55%	54%	53%	23%

Just over one-third 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 a third focus their definition on "downside" risks (threats to the organization) and about one-fourth focus on both the "upside" (opportunities for the organization) 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 (68% and 69%, respectively). We found similar results for not-for-profit organizations. However, consistent with 2014 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. The public companies are the most likely to provide this guidance. In 2015, 55% and 52% provide guidelines for assessing risk probabilities and impact, respectively.

	Percentage of Respondents				
	Full Sample	Largest Organizations (Revenues >$1B)	Public Companies	Financial Services	Not-For-Profit Organizations
Provide explicit guidelines to assess risk					
- Probability	32%	48%	55%	51%	21%
- Impact	31%	44%	52%	43%	21%

We also asked whether organizations go through a dedicated process to update their key risk inventories. As shown in the table on the next page, 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	34%	13%	14%	14%	42%
Annually	37%	45%	40%	49%	43%
Semi-Annually	7%	10%	13%	9%	6%
Quarterly	15%	30%	28%	19%	5%
Monthly, Weekly, or Daily	7%	2%	5%	9%	4%

Two-thirds of the large organizations (67%) and public companies (74%) have a standardized process or template for identifying and assessing risks, while 67% of the financial services organizations have those kinds of procedures in place. In contrast, only 34% of not-for-profit organizations structure their risk identification and assessment processes in that manner.

Risk Reporting

We asked respondents about their current stage of risk management processes and reporting procedures. Just under half (42%) 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 26% describe their risk management processes as informal and unstructured with *ad hoc* reporting of aggregate risk exposures to the board.

Interestingly, however, one-third (33%) 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 slightly higher than the results reported in our 2014 report (30%).

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."	33%	59%	63%	56%	21%

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.

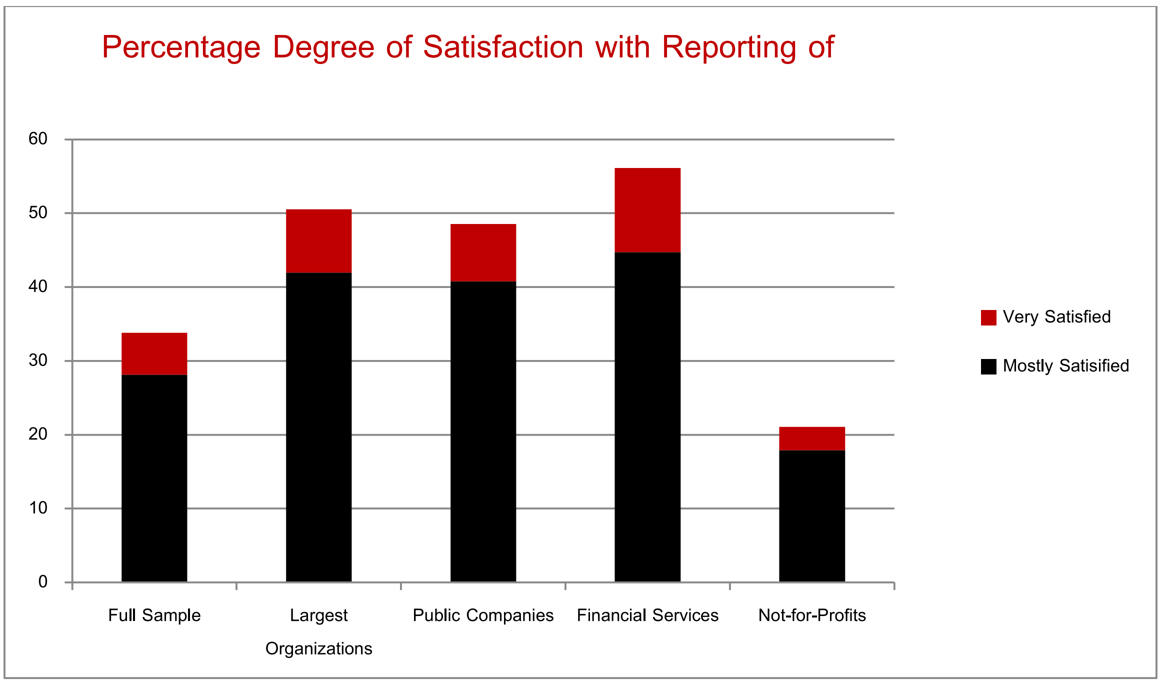
There is notable variation across organizations of different sizes and types in how key risks are communicated by business unit leaders to senior executives. According to the data in the table on the next page, the majority (61%) of organizations communicate key risks merely on an *ad hoc* basis at management meetings. Only 27% 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 six years we have tracked this data point (27% in 2014, 34% in 2013, 33% in 2012, 33% 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.

	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	61%	42%	39%	42%	68%
Scheduled agenda discussion at management meetings	27%	42%	37%	32%	21%
Written reports prepared either monthly, quarterly, or annually	38%	61%	72%	65%	21%

Note: 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 (40%) 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. Similar levels of dissatisfaction, 41% and 44%, were observed in our 2014 and 2013 reports, respectively. In contrast, only 34% 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 financial services organizations where over half (56%)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. About half of public companies (49%), largest organizations (51%), and financial services organizations (56%) report those levels of satisfaction with this type of reporting. Levels of satisfaction are lowest for not-for-profits where 52% are not-at-all or only minimally satisfied with the nature and extent of their reporting of key risk indicators.

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 under one-third (31%) believed their disclosures had changed "mostly" while an additional 12% 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 49% and "extensively" for 23%. 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, 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, 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 about half of the organizations, the board has delegated risk oversight to a committee, with most delegating to the audit committee.

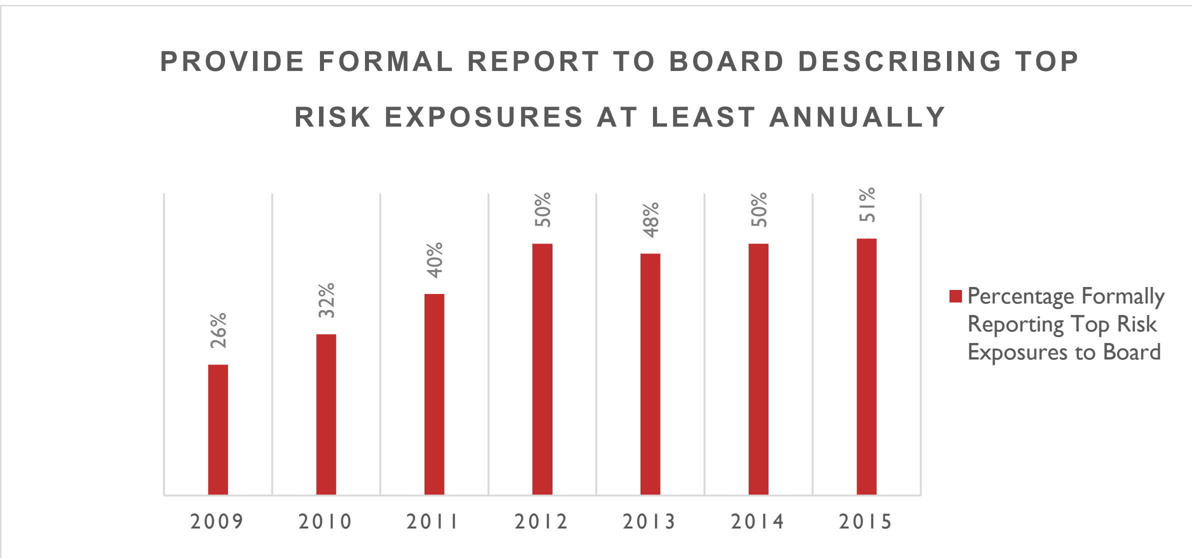
To shed some insight into current practices, we asked respondents to provide information about how their organization's board of directors has delegated risk oversight to board level committees. We found that only 44% of the respondents in the full sample indicated that their boards have formally assigned risk oversight responsibility to a board committee. This is noticeably different from the largest organizations, public companies, and financial services organizations where 73%, 77%, and 61% 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, about half (48%) are assigning that task to the audit committee. About a quarter of firms assign oversight to a risk committee. The largest organizations and public companies are most likely to assign formal risk oversight to 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	47%	60%	56%	43%	57%
Risk committee	24%	26%	30%	39%	5%
Executive committee	15%	6%	4%	9%	19%

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 (54%) of those in the full sample indicate that the full board has those discussions on a formal basis. However, as shown by the table on the next page, boards of the largest organizations, public companies and financial services organizations 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	54%	76%	76%	64%	45%

As illustrated by the graph below, about half (51%) 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 has stabilized over the past four years as shown below. In 2009, we found that only 26% of organizations provided that kind of information to the board at least annually. By 2015, that had risen to 51% of organizations surveyed.



As illustrated by the chart below, an overwhelming percentage (80%) of large organizations and public companies (81%) formally report top risk exposures to the board of directors or one of its committees at least annually. This is in line with what we found in our 2014 study where 77% of large organizations and 84% of public companies provided those reports to the board. In 2015, close to three-fourths (72%) of financial services organizations formally report top risk exposures to the board; however just 42% 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	51%	80%	81%	72%	42%

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, just under half of the full sample and 60% of not-for-profit organizations report less than 5 risk exposures to the board. However, about two-thirds 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	49%	24%	17%	26%	60%
Between 5 and 9 risks	25%	32%	31%	34%	13%
Between 10 and 19 risks	19%	34%	42%	29%	16%
More than 20 risks	7%	10%	10%	11%	11%

Integration of Risk Oversight and Strategic Planning

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.

We found that 35% 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 43% 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 13%, 11%, and 16% 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 (15%) manner or by using a blend of qualitative and quantitative assessment tools (47%). This dominance of a qualitative approach holds true for the subgroups (largest organizations, public companies, and financial services firms) as well.

Over one-third of organizations in our survey do no formal assessments of strategic, market, or industry 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 (47%) of our respondents believe that existing risk exposures are considered "mostly" or "extensively" when evaluating possible new strategic initiatives and about one-third (34%) 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." In addition, 36% of the respondents indicate that risk exposures are considered "mostly" or "extensively" when making capital allocations to functional units.

	Percentages		
Extent that	"Mostly"	"Extensively"	Combined
Existing risk exposures are considered when evaluating possible new strategic initiatives	34%	13%	47%
Organization has articulated its appetite for or tolerance of risks in the context of strategic planning	26%	8%	34%
Risk exposures are considered when making capital allocations to functional units	26%	10%	36%

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, about one-third of organizations in our full sample have not 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 only 30% 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 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.

	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"	9%	18%	18%	15%	7%
"Mostly"	21%	28%	32%	31%	17%
Combined	30%	46%	50%	46%	24%

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 more than half of those organizations are not 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.

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.

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

We asked respondents about the extent to which risk management activities are an explicit component of determining management performance compensation. We found that in 29% of the organizations surveyed, risk management is "not at all" a component of the performance compensation and for another 26% the component is only "minimally" considered. Thus, in a little over half of the organizations surveyed (55%), 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 Selecting "Not-at-All" or "Minimally"				
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	29%	10%	12%	19%	46%
Minimally	26%	28%	27%	21%	18%
Combined	55%	38%	39%	40%	64%

While the largest organizations, public companies, and financial services firms are more likely to factor risk management activities into performance compensation, roughly four in ten firms within 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.

Barriers to Progress

While our analysis suggests that organizations have made real 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 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 progress 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 47% 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 31% and 17%, respectively, of respondents in the full sample. Thirty-one percent of those same respondents also noted that there are "too many pressing needs" while 23% 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, even though 40% 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 below 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 (46%) 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	27%	17%	44%
Insufficient resources	32%	14%	46%
Lack of perceived value	21%	13%	34%
Perception ERM adds bureaucracy	17%	9%	26%
Lack of board or senior executive ERM leadership	16%	10%	26%
Legal or regulatory barriers	6%	1%	7%

Most organizations (63%) 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 (48%), public companies (48%), and financial services (43%). 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 organizations agree that the volume and complexity of risks they face continue to increase over time and they often encounter significant operational surprises, the maturity of risk oversight varies widely across organizations. We observe that the largest organizations, public companies, and financial services firms are more advanced in their risk oversight processes than the full sample of organizations, but there remain noticeable gaps in a number of key risk management processes. Only about one-quarter of respondents describe their organization's risk management process as "mature" or "robust", only one-third maintain risk inventories at an enterprise level, less than one-third provide guidance for management to prioritize their most important risks, and most reporting of risk information to senior executives is *ad hoc*. Most importantly, organizations continue to struggle to effectively integrate their oversight of risks with their strategic planning processes. Less than half believe existing risk exposures are considered "mostly" or "extensively" when evaluating new strategic initiatives, and less than half view their organization's risk management process as providing strategic value. Before ERM can effectively add value, organizations need to find ways to center their ERM efforts from a strategic lens to ensure the organization's risk oversight is focusing on the most important emerging risks for the enterprise.

Results from all seven 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 oversight processes 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.

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 – 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 - 2014 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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Bruce C. Branson, Ph.D., is Professor of Accounting and Associate Director of the ERM Initiative in the Poole College of Management at NC State University. His teaching and research is focused on enterprise risk management and financial reporting, and includes an interest in the use of derivative securities and other hedging strategies for risk reduction/risk sharing. He also has examined the use of various forecasting and simulation tools to form expectations used in financial statement audits and in earnings forecasting research. He earned his Ph.D. at Florida State University.

Bonnie V. Hancock, M.S., is the Executive Director of the ERM Initiative at NC State University where she also teaches graduate and undergraduate courses in the Poole College of Management. Her background includes various executive positions at Progress Energy where she has served as president of Progress Fuels (a Progress Energy subsidiary with more than $1 billion in assets), senior vice president of finance and information technology, vice president of strategy and vice president of accounting and controller. She currently serves on the following corporate boards: AgFirst Farm Credit Bank where she chairs the risk policy committee, Office of Mortgage Settlement Oversight where she chairs the audit committee, and Powell Industries, a publicly traded company based in Houston, Texas, where she serves on both the compensation and audit committees.

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