ERM in the Spotlight

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One of the fundamental components of the governance framework and a vital tool for enhancing and fortifying the control environment is enterprise risk management. In order to deal with potential risks proactively and lessen their impact and likelihood, the business units seek to build an enterprise risk management department or practices. According to the 2022 State of Risk Oversight report from North Carolina State University's Poole College of Management, 66% of the organizations surveyed still cannot claim they have "complete ERM in place".

The enterprise risk management process involves putting in place a specific framework, then identifying, analyzing, evaluating, mitigating, and monitoring all the captured risks that might obstruct the achievement of important business goals. While the traditional risk management is typically managed the risks after an incident has happened to prevent it from reoccurring and lacked an integrated and disciplined approach.

Continued uncertainties related to the Ukrainian crisis, inflation rates, climate change, and political uncertainties are causing perceptions of risks that require the organizations to identify potential risks, identify the impact of those risks, and identify the likelihood of those risks based on a particular approach and criteria. This will help the organizations to determine the appropriate mitigation strategies and maintain track of the major risks to ensure that they are gradually reduced, and that all mitigation is carried out by the target date.

The roles and duties of the personnel, senior management, CEO, and board of directors in the risk management procedures must be identified by the enterprise risk management. In order to guarantee that risk management procedures will be applied efficiently and effectively, the ERM team must also raise the awareness level of all employees and senior management. 72% of the CEOs are calling on other senior executives to increase their level of engagement in risk management, especially those in large organizations or public companies.

In some countries, the regulatory authorities, such as the Central Bank and the Exchange Market, requested that organizations develop a risk management department or at least meet the bare minimum requirements for risk management, which include "Risk Registers, Risk Appetite Threshold, Mitigation plans for the top risks, etc.". If the organizations do not abide by the regulatory authorities' laws and regulations, they may face fines or other consequences that will harm their reputation.

Enterprise risk management should annually evaluate the organization's overall level of risk management maturity using a predetermined scale to ascertain the current and ideal state. The senior management must be informed of the assessment's findings by the risk management department.

The organizations have to take the necessary actions and initiate the enterprise risk management department. Smart organizations will take advantage of the urgent focus on managing risk to improve all processes, Napoleon Hill said "Don't wait. The time will never be just right. Start where you stand and work whatever tools you may have at your command and better tools will be found as you go along".