

A new approach to enterprise risk management

January 11 2022



Credit: Pixabay/CC0 Public Domain

While some organizations can respond to unexpected events, which can span from disruptive technologies and intensified competition to extreme weather events and climate related disasters, most of them

cannot, and have a challenging time. So, how do we deal effectively with an increasingly complex and uncertain world?

Faced with uncertain and unpredictable business conditions that regularly trigger major corporate scandals, there has been increased focus on risk governance and reporting driven by public expectations, regulatory requirements, and corporate law initiatives.

In support of this, various professional associations and public policymakers recommend adoption of Enterprise Risk Management (ERM)—notably the COSO and ISO 31000 frameworks. The ERM guidelines and standards can be valuable in helping companies identify and deal proactively with risks—and opportunities.

However, is this sufficient to deal with complex and risky international business contexts? These essential issues are explored in a new groundbreaking research article published in *Long Range Planning*.

Based on unique survey data from among the 500 largest companies in Denmark, the new research study from Copenhagen Business School investigates the effects of adopting ERM frameworks. And, as something new, the study analyzes risk management performance in conjunction with internal strategic decision-making processes.

"This is the first study of its kind to provide a more complete organizational picture of the risk management effects. We find that pursuit of basic strategy-making efforts is fundamental to gain positive effects from adoption of formal [enterprise](#) risk management practices," says Professor Torben Juul Andersen from the Department of International Economics, Government and Business at Copenhagen Business School.

Effective ways to deal with risk

The findings show that it takes more than implementing formal ERM frameworks to deal with uncertain global [business](#) conditions—it takes a broader organizational engagement. The research suggests that corporate leaders and public policymakers should engage in deeper thinking about more effective ways to deal with the impending risks of our time that are girded with many uncertainties and unknown factors.

"When actual developments take us by surprise and organizational decision-makers must deal with influences from unexpected events—like pandemics and climate effects—formal control-based guidelines and practices are insufficient. They are convenient and make us feel safe but provide a false sense of security," says Professor Andersen.

The study argues that future solutions need a combination of fast responses with ongoing assessments of developments and viable solutions. "Companies that enable local responses and engage in strategic planning to assess sudden events perform significantly better compared to companies that only adopt formal ERM frameworks," adds Professor Andersen.

Positive performance outcomes

The research found that adhering to the principles of ERM is linked to positive performance outcomes, but these effects are substantially enforced by decentralized responses and central strategic considerations.

"Hence, it is not sufficient to adopt formal risk management practices to deal with impending risk events. Instead, the ability to deal effectively with uncertain and unknown conditions hinges on local responses and ongoing strategic analyses," says Professor Andersen.

The study urges policymakers to think actively about how to deal with emergent risk situations, the most significant of which will exceed prior expectations and imagined scenarios. "The only way to find new viable solutions is by experimenting—or acting fast through local responses that may point the way towards an adapted strategic direction," he adds.

"There is a need for more versatile risk responses to [deal](#) with [unexpected events](#) and the unknown conditions of the evolving future where formal control-based approaches actually may curtail the ability to create innovative solutions," Professor Andersen concludes.

More information: Torben Juul Andersen et al, Conjoint effects of interacting strategy-making processes and lines of defense practices in strategic Risk Management: An empirical study, *Long Range Planning* (2021). [DOI: 10.1016/j.lrp.2021.102164](https://doi.org/10.1016/j.lrp.2021.102164)

Provided by Copenhagen Business School

Citation: A new approach to enterprise risk management (2022, January 11) retrieved 11 May 2024 from <https://phys.org/news/2022-01-approach-enterprise.html>

<p>This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.</p>
--