



# Risk Governance VS. Enterprise Risk Management

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## The Gap between Risk Management & Corporate Governance

Risk Management and Corporate Governance are two own grown research areas. In particular ERM research has appeared largely in accounting and finance journals and rarely in management journals.

*Bromiley et al. (2015), p. 265.*

Way 1:



Integration of Risk  
Management in  
Corporate Governance  
*(not part of this presentation)*

Way 2:



Integration of  
Corporate Governance  
in Risk Management

Way 3:



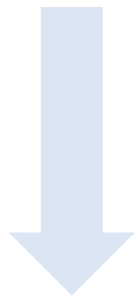
Closing the Gap between  
Corporate Governance &  
Risk Management with Risk  
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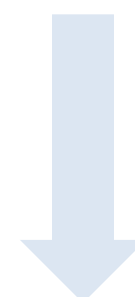
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Way 2:



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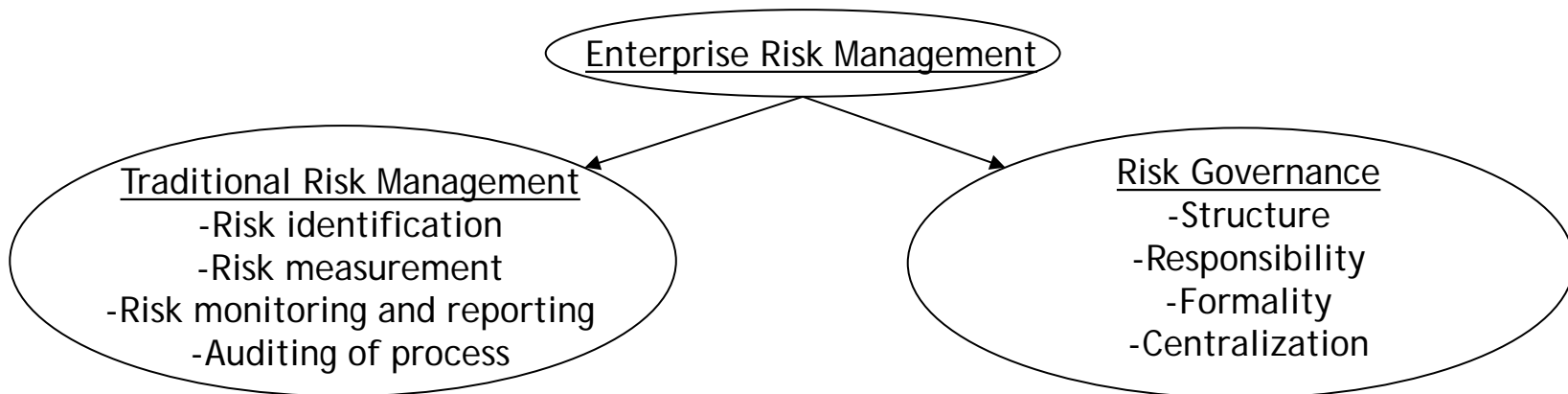
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# Integration of Corporate Governance in Risk Management

„Risk Governance as used in this study refers to the direction and control of the risk management system. Risk governance provides the structure of the risk management system and specifies responsibilities, authority, and accountability in the risk management system as well as the rules and procedures for making decisions in risk management.“



Source: Lundqvist (2015), p. 442 und 444.

## Developments in Risk Management

Old Paradigm	New Paradigm
downside risk	risk is part of the strategy
financial risks	business risks
silo-based	portfolio
accounting, treasury & internes Audit	all management activities
fragmentation	centralization
risk limits	risk strategy
ad hoc activity	ongoing activity

*Based on Simona-Iulia (2014), p. 80.*

## Definitions of Enterprise Risk Management

“ERM is a **process**, effected by an entity’s board of directors, management or other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.”

*COSO (2004), p. 2.*

„ERM is the **process** of analyzing the portfolio of risks facing the enterprise to ensure that the combined effect of such risks is within an acceptable tolerance.“

*Beasley et al. (2008), p. 311.*

ERM consists of active and intrusive **process** that (1) are capable of challenging existing assumptions about the world within and outside the organization; (2) communicate risk information with the use of distinct tools (such as risk maps, stress tests, and scenarios); (3) collectively address gaps in the control of risks that other control functions (such as internal audit and other boundary controls) leave unaddressed; and, in doing so, (4) complement - but do not displace - existing management control practices.

*Mikes / Kaplan (2015), p. 37.*

## Proxys for the degree of ERM implementation

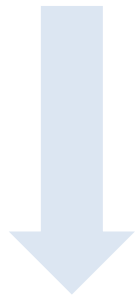
Authors	Year	ERM-Proxy
Beasley et al.	2008	CRO (appointment)
Gordon et al.	2009	ERM Index based on proxys for Strategy, Operation, Reporting , Compliance
Pagach / Warr	2011	CRO (appointment)
Hoyt / Liebenberg	2011	CRO/Risk Management Committee + Evidence of an ERM framework (ERM Key Words)
McShane et al.	2011	S&P ERM Rating for insurers ( 5 steps)
Farrell / Gallagher	2014	ERM Maturity Model (5 steps)
Grace et al.	2014	Economic Capital Model (3 steps) + CRO / Risk Management Committee
Hoyt / Liebenberg	2015	CRO/Risk Management Committee + Evidence of an ERM framework (ERM Key Words)

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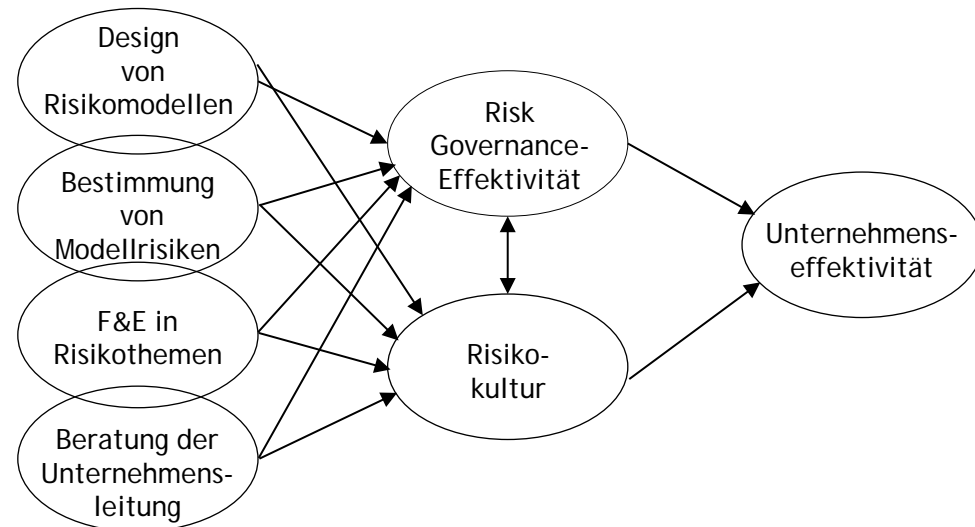


# Our view on Risk Governance

[Corporate Governance]



[Risikomanagement]



Risk Governance-  
Philosophie

Risk Governance-  
Aufgaben

Risk Governance-  
Wirkungen

Source: Wiedemann et al. (2016), p. 38.

## Risk Governance tasks observed in Enterprise Risk Management

Authors	Year	Size	Risk Governance tasks			
			Model design	Model risk	R&D	Risk Consulting
Beasley et al.	2008	+				
Gordon et al.	2009	+				
Pagach / Warr	2011	+				
Hoyt / Liebenberg	2011	+				x
McShane et al.	2011	+	x		x	x
Farrell / Gallagher	2014	+	x			x
Grace et al.	2014	+	x			x
Hoyt / Liebenberg	2015	+				x

## Conclusion

- The value creation of ERM depends on the definition of ERM (and the ERM-Proxy). But there is no fix boarder between TRM and ERM. And different ERM-Proxys cause different results:
  - Only TRM adds value (e.g. McShane et al. (2011) )
  - Also ERM adds value (e.g. Farrall /Galagher (2014) )
- ERM focusses mainly on the financial industry. There is in particular a need for ERM research in SME firms.
- “Risk governance is neither a risk-based approach to governance nor - as a new brick for an augmented risk management - the pure governance of risks. Since it requires a critical and independent perspective on risk management and has to ensure “rigor and relevance” of risk modelling, it needs to be institutionalized as a separate function.”  
*Stein /Wiedemann (2016), p. 8.*

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