Current state of risk management and risk governance in practice: evidence from a survey

Prof. Dr. Patrick Ulrich/Julia Barth/Sonja Lehmann
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Problem statement

- In times of growing global interdependence and disruption caused by new digital technologies, **risks are becoming increasingly complex** (Romeike 2018).
- Companies are faced with various types of risks, particularly **cyber risks** (Weigel/Hiebel/Wiedemann 2018, Deloitte 2017).
- Interaction and requirements **regarding governance, risk management and compliance** (GRC) are increasing (Rücker/Prigge 2018).

- Thus, the research question of this work is the following:

“What is the current state of risk management in practice?”

Findings from literature

- Risk management shows **ambiguities, gaps and inconsistencies** in today´s dynamically changing business environment (Stein/Wiedemann 2016).
- Literature reviews on risk management suggest the **integrated management of all risks** (Falkner/Hiebl 2015, Bromiley et al. 2015).
- Research on **enterprise risk management** still leaves room for **further development** (Bromiley et al. 2015).
- Risk governance is a new and more comprehensive concept which aims at **proactively managing current and potential risks** (Weigel/Hiebl/Wiedemann 2018).
- The increased level of complexity not only requires an effective operative risk management, but **adequate risk governance** as well (Weigel/Hiebel/Wiedemann 2018).

Methodology

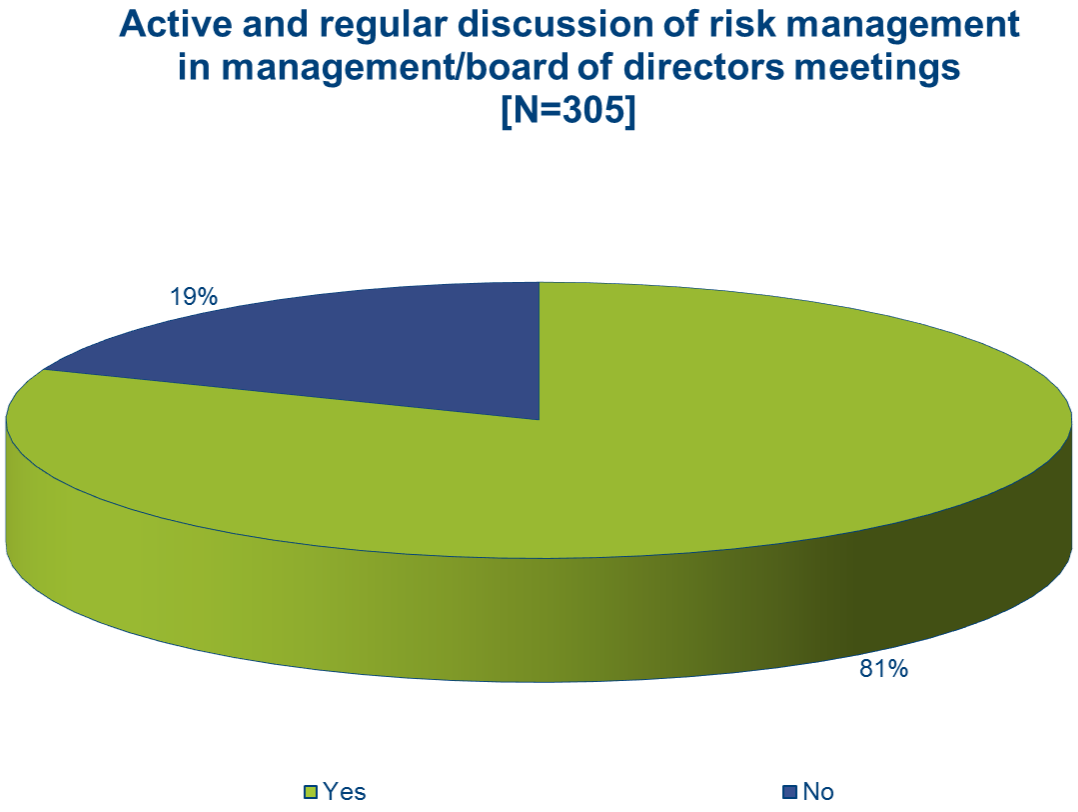
- The study was conducted as an **online survey** and addressed **companies of different sizes and industries**.
- To acquire potential participants, we used the Nexis database und generated a random sample of **19,632 companies** located in Germany.
- The data was collected between **January 16th and February 14th, 2018** using a standardized online questionnaire which contained both open and closed questions.
- Of the 19,632 companies contacted by e-mail, **320** took part in the survey. This corresponds to a **response rate of 1.63 percent**.
- As the questionnaire contained sensitive questions, the **determination of mandatory questions was omitted**, which means that the number of respondents slightly varies from question to question.

Survey results

Characterization of the sample

- **Sector**: 55 percent services (whereby 13 percent belong to the financial services sector), 36 percent industrial sector, 9 percent retail
- **Legal form**: 52 percent GmbH, 18 percent GmbH & Co. KG, 8 percent AG, 8 percent eG, 14 percent other categories
- **Median of turnover**: 50 million euros
- **Median number of employees**: 160
- **Capital market oriented company**: 17 percent „yes“, 83 percent „no“
- **Family firm**: 39 percent „yes“, 61 percent „no“
- **Professional function**: 11 percent owner/shareholder, 62 percent employed manager, 27 percent other function

Survey results



Survey results

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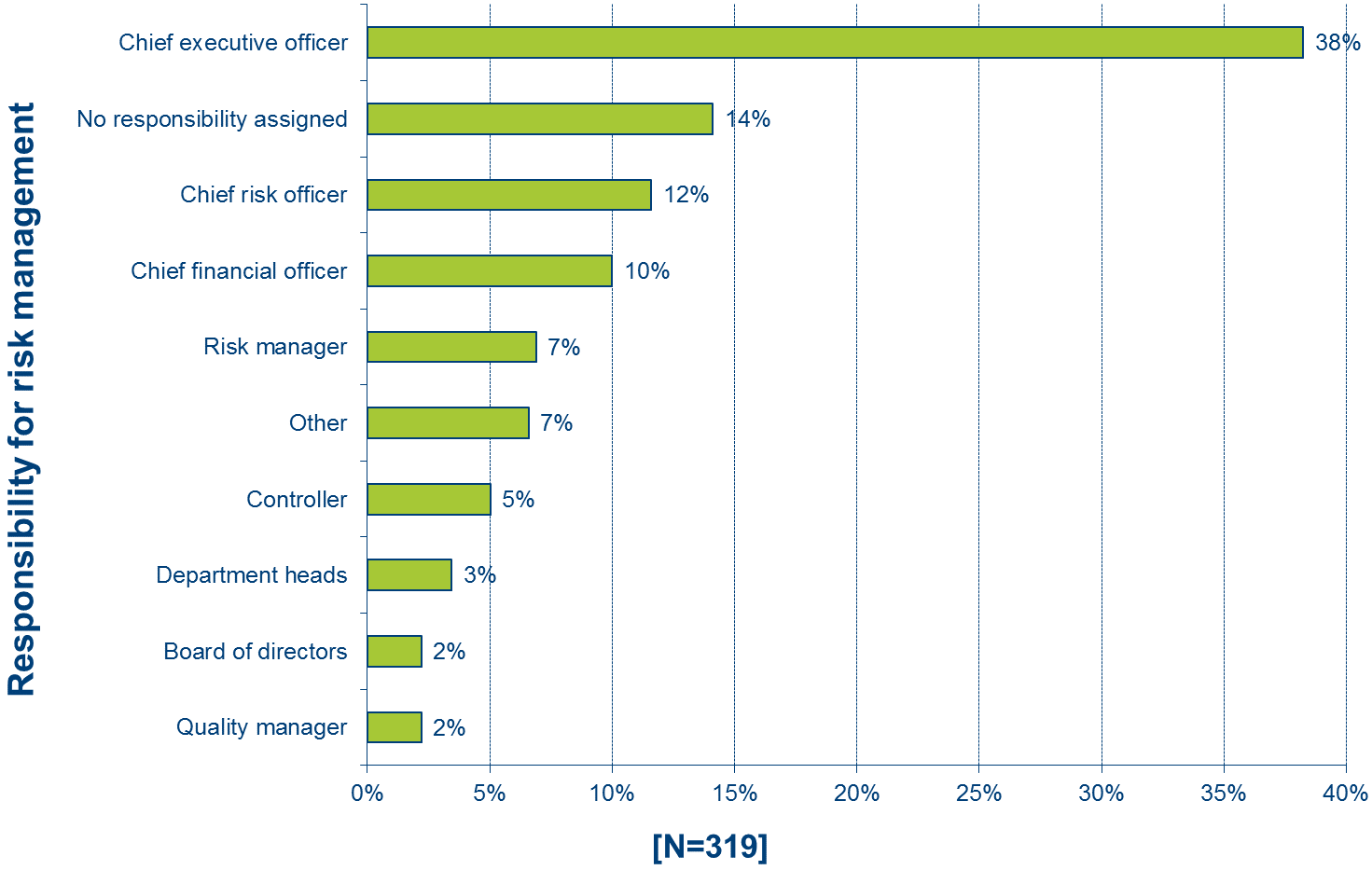
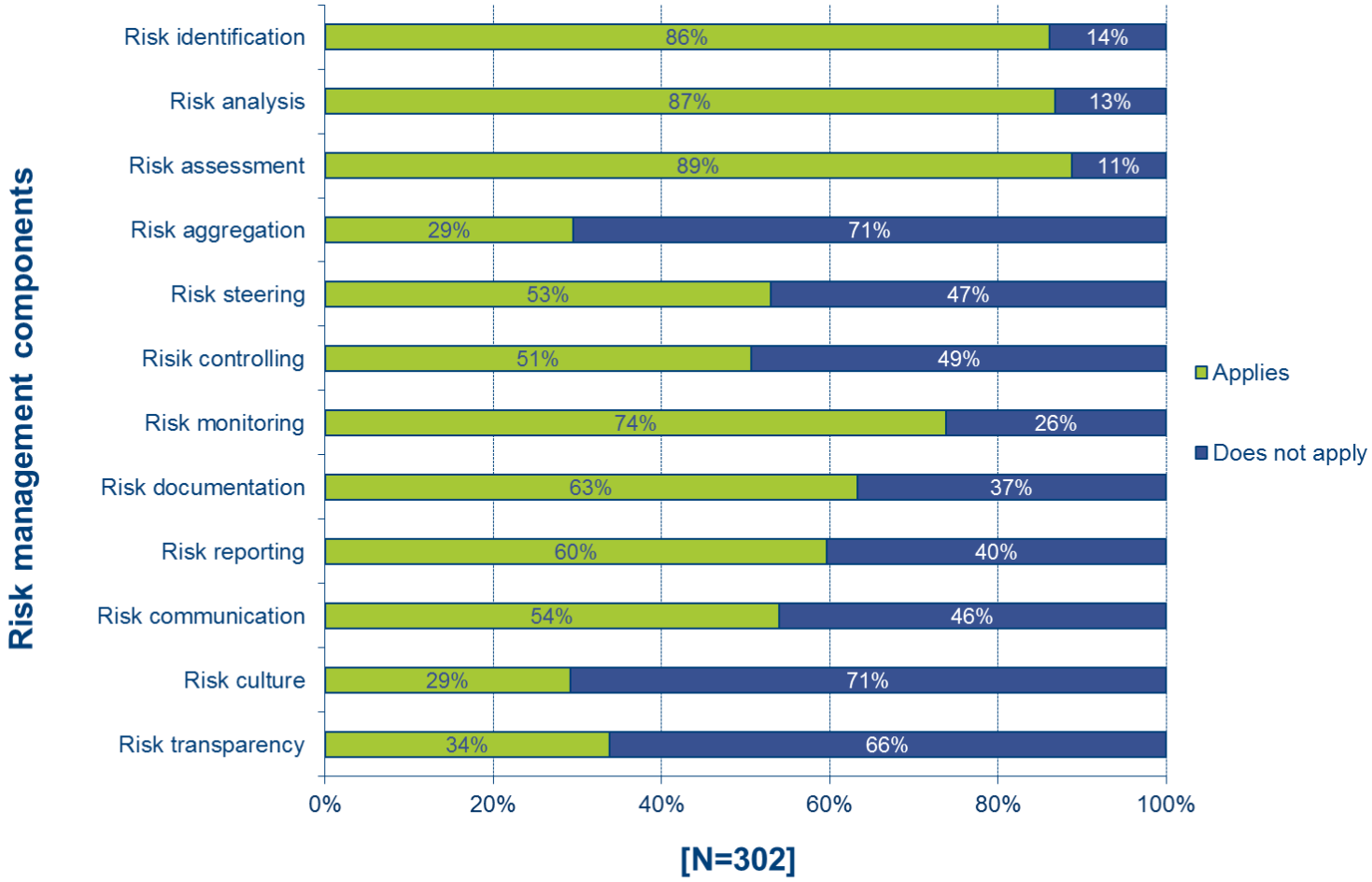


Survey results

Specification of team/department

- 35 percent controlling
- 25 percent risk management
- 11 percent quality management

Survey results



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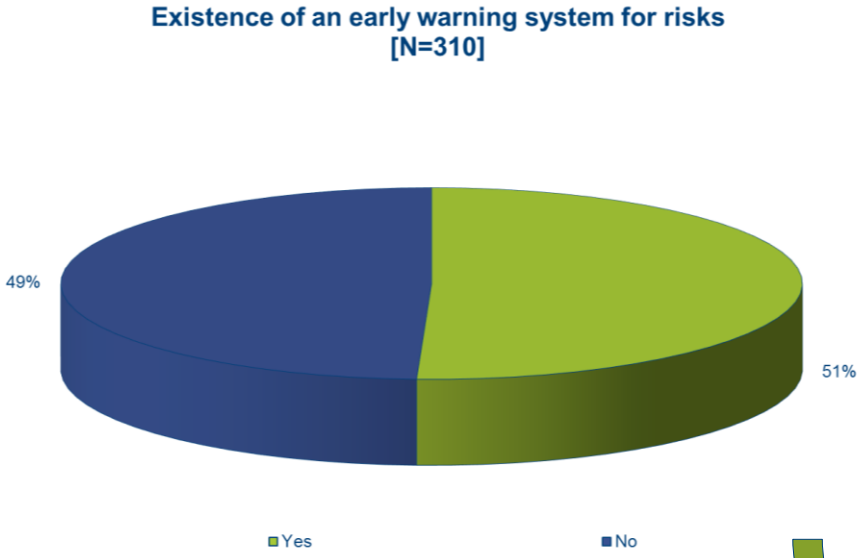

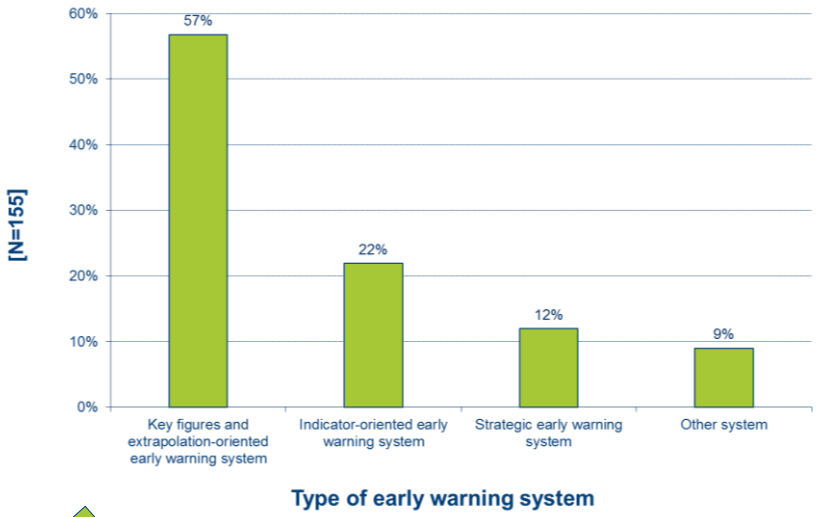

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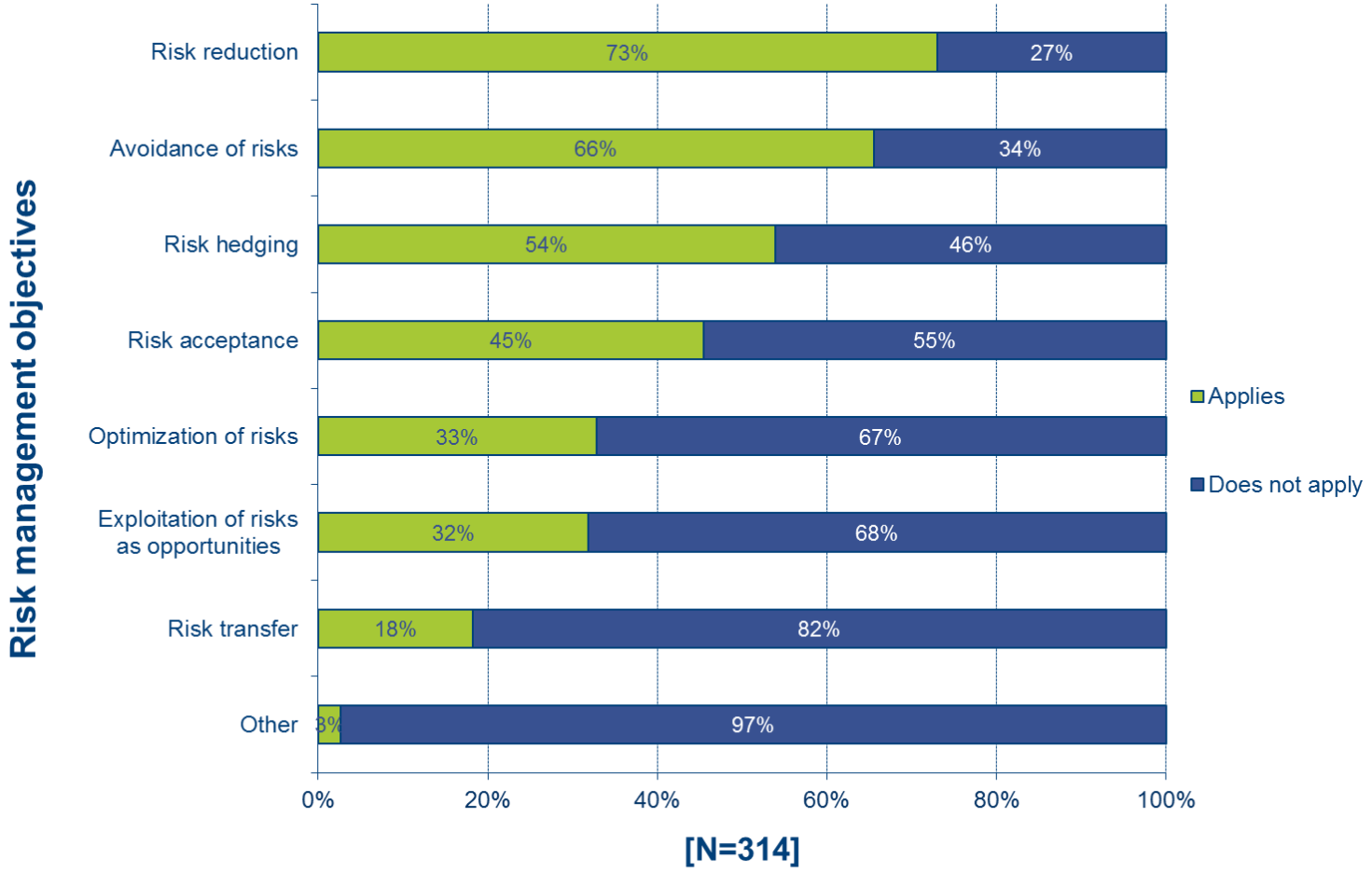

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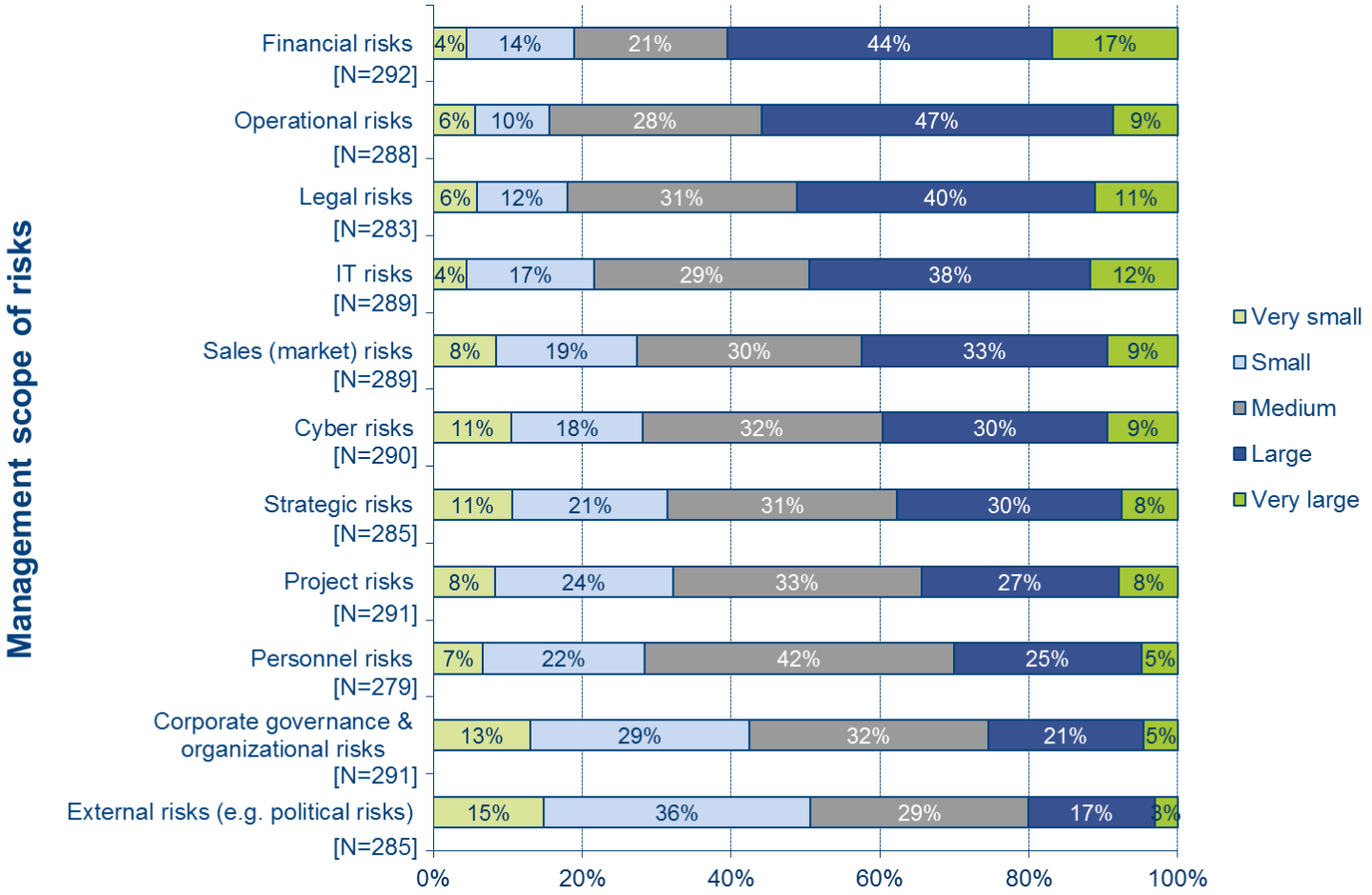

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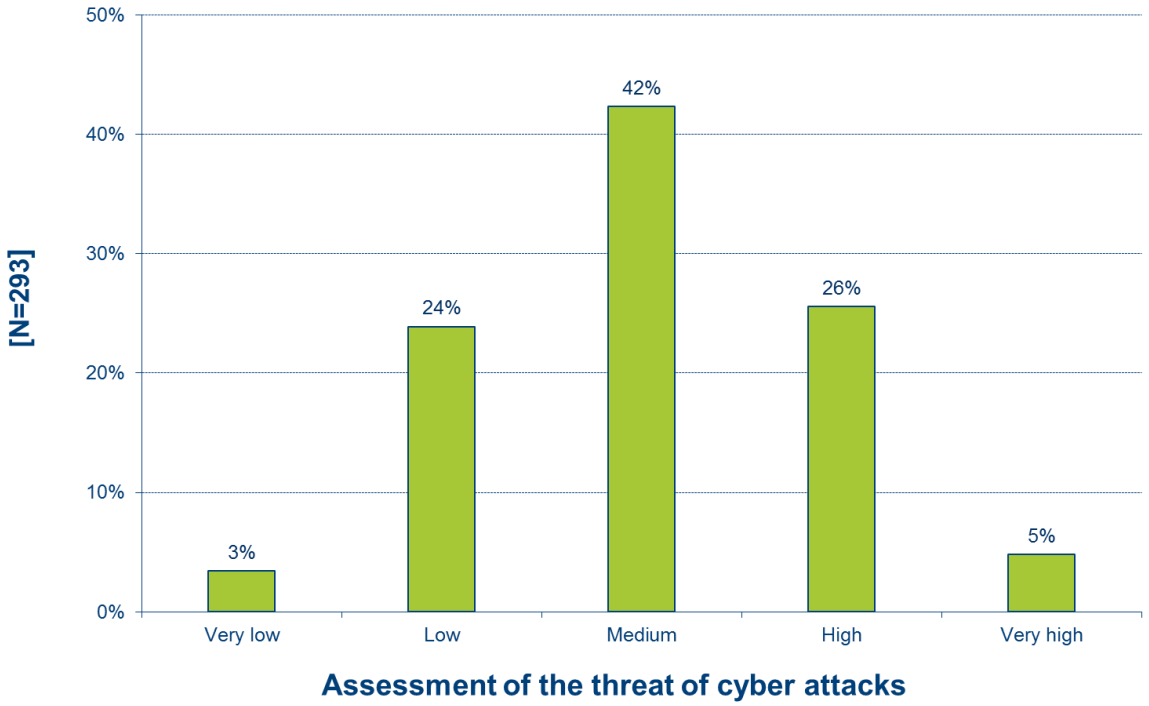
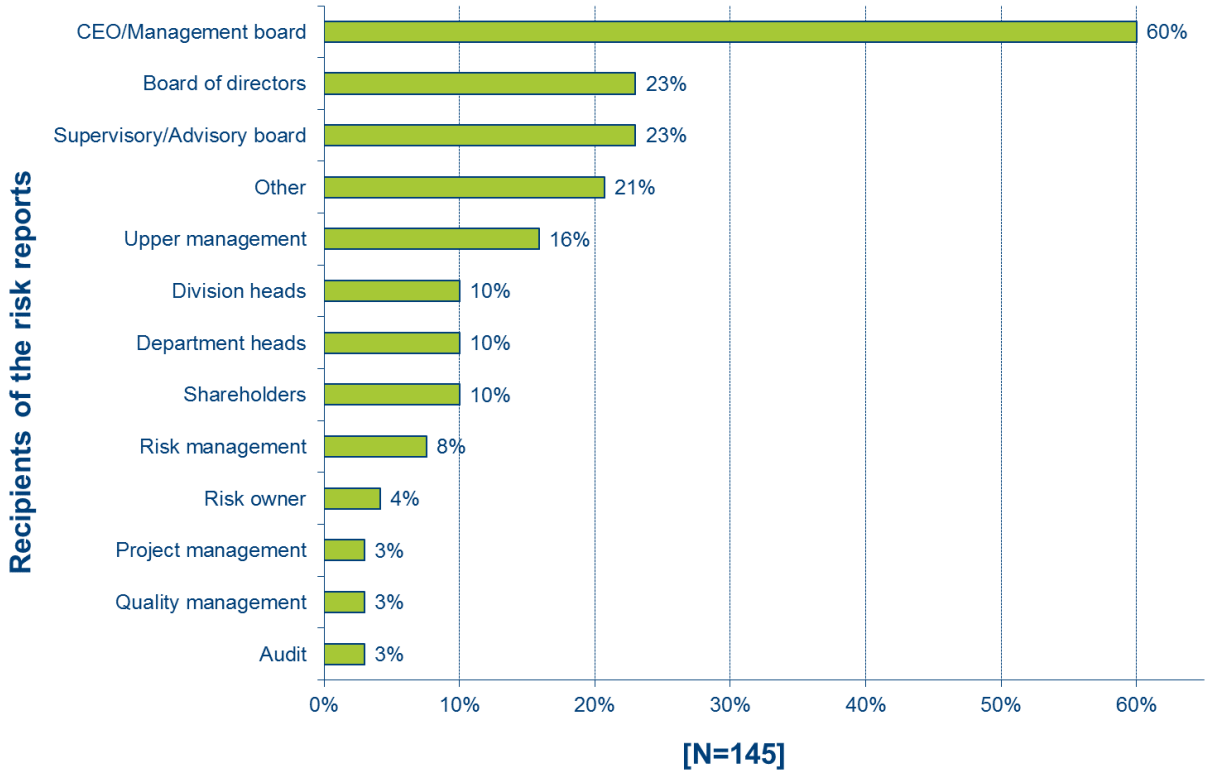


89 percent of the companies protect against cyber risks, using at least one of the following protection measures**:**

- 99 percent technical protection
- 33 percent insurance
- 21 percent legal protection
- 10 percent social protection

Survey results

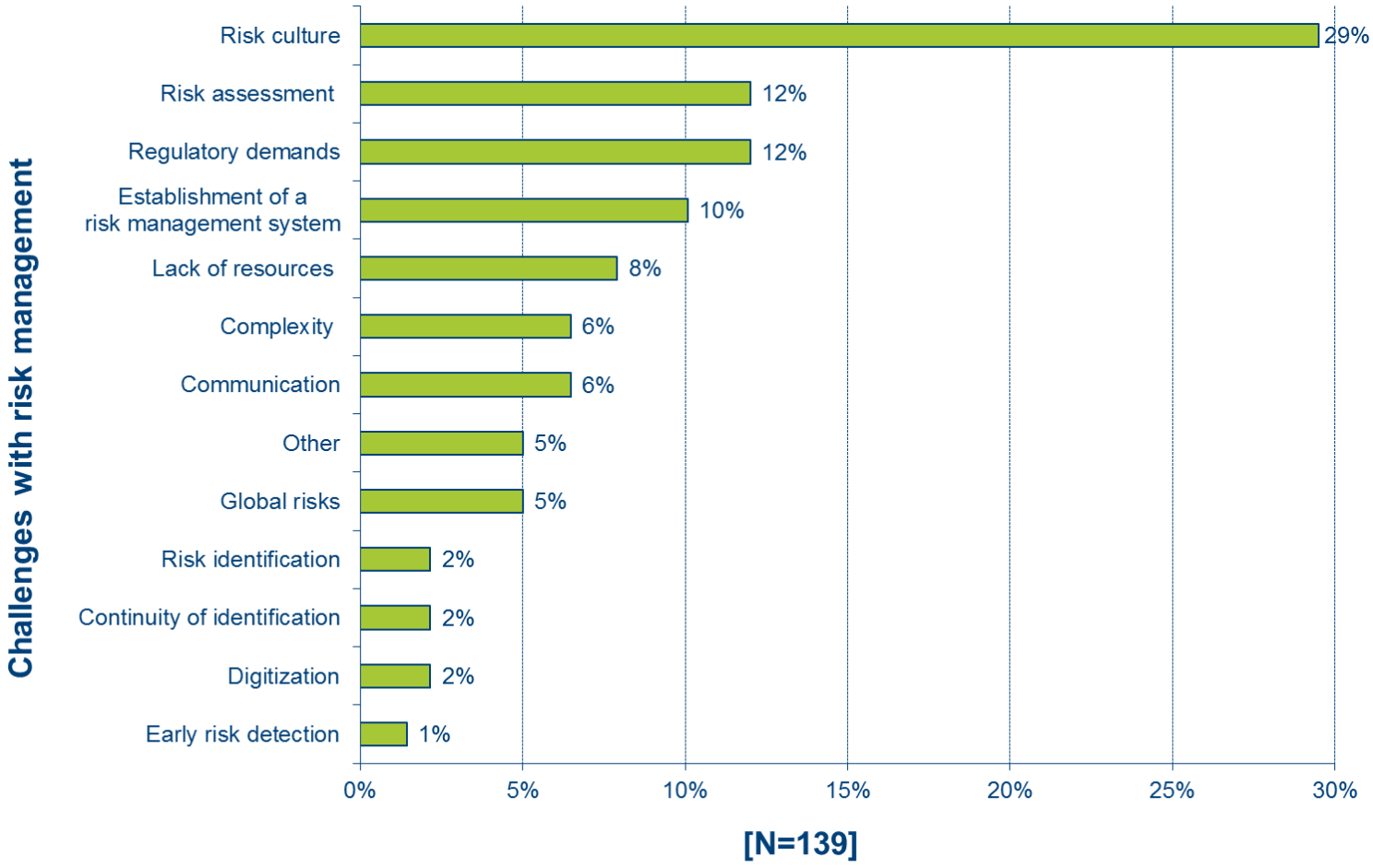
In 54 percent of the companies, regular risk reports are created:



In addition, in 59 percent of the companies an annual overall risk report is created, which is addressed to the following stakeholders:

- 44 percent internal stakeholders
- 28 percent supervisory board
- 10 percent other external stakeholders

Survey results



Survey results

Evaluation

- The **current relevance** of risk management for the company is mostly assessed as **medium** (44 percent), followed by a **high** relevance (30 percent).
- 53 percent of the respondents think that the **relevance will increase in the future**, 46 percent that it **will stay the same**.
- Most respondents (44 percent) **are satisfied with their risk management**, followed by 33 percent who are neither satisfied nor unsatisfied and 15 percent who are unsatisfied.
- 69 percent of the respondents see a **need for improvement in the company's risk management system**, above all regarding the holistic nature of the system (33 percent) and risk culture (23 percent).
- With respect to **value added** that risk management provides **for the company's management decisions**, 44 percent assess it as **medium** and 40 percent as **high**.

Conclusion and recommendations

In many companies, risk management is little formalized and handled as a separated topic.

- → The integration into the overall context of **governance, risk and compliance (GRC)** is necessary.
- → Next to negative target deviations, positive deviations have to be identified and assessed as well in order to ensure comprehensive, holistic and integrated **management of risks and opportunities**.
- → **Early warning systems** ease the identification of potential risks and expand the rooms of action.
- → The establishment of solid **risk governance** helps to structure risk management and provide for transparency and accountability.

Conclusion and recommendations

Risk culture is often seen as a critical aspect and challenge.

- → **Risk culture has to be fostered**, e.g. by creating incentive structures and an appropriate “tone from the top” to **build awareness among employees** and to ensure critical and open communication of risk aspects.
- → **Instruction courses and a code of conduct** may help to ensure a rule-compliant handling of risks.

Companies underestimate the danger of cyber attacks.

- → Next to the defense against external threats from the company environment, companies must as well focus on **finding and closing internal vulnerabilities**.
- → To increase internal cyber security, **prevention measures** have to be established and employees of all hierarchical levels have to be **trained** on potential risks and their proper handling.

Questions and comments

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