



## THE CONFERENCE BOARD

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### **MORE COMPANIES USING ENTERPRISE RISK MANAGEMENT TO HANDLE RISKS**

*But New Report from The Conference Board Shows Most Companies Have a Long Way to Go*

An overwhelming majority of companies have started to use enterprise risk management as a strategic business tool to more effectively manage a variety of risks that can impact their firm's capital and earnings--but most firms say they still have a long way to go, according to a report released today by The Conference Board.

The report, based on The Conference Board/Mercer Oliver Wyman survey of 271 risk management executives, found that more than 90% of executives say they are building or want to build enterprise risk management processes into their organizations but only 11% report they have completed their implementation.

Enterprise risk management (ERM) is a framework, instituted by a firm's board of directors and management, applied strategically and across the enterprise, designed to identify potential events that may impact the firm, manage risks within defined parameters and provide reasonable assurance regarding the achievement of the firm's business objectives.

The study includes executives based in a wide variety of industries throughout North America and Europe and insight gleaned from top executives at conferences held recently by The Conference Board. The study is sponsored by Mercer Oliver Wyman, a leading financial services and risk management consulting firm which also provided key data for the report.

Companies continue to face increasing pressures to implement ERM processes. Both industry and government regulatory bodies, as well as investors, are increasingly examining these policies and processes. Boards of directors in a rising number of industries are now required to review and report on the effectiveness of ERM frameworks in their companies.

"Most companies are in the process of adopting enterprise risk management to contribute to the value of the organization, to meet rising corporate governance challenges and regulatory actions particularly

in the U.S, and to meet the challenges arising from external and internal risks,” says Ellen Hexter, Senior Research Fellow and Program Director for The Conference Board’s ERM conferences and author of the report with Stephen Gates, Principal Researcher at The Conference Board. “Enterprise risk management is clearly gaining ground.”

Says Michael Chagares, Director, Corporate Risk Consulting at Mercer Oliver Wyman: “Corporations are seeking to build on this better understanding of critical risks to support the strategic and operational decisions that the company has to make and to enable them to evaluate business returns on a consistent basis.”

The survey results indicate that more than two-thirds of both boards of directors and senior management staff consider risk management to be an increasingly important responsibility. At the financial/operational levels, especially among Chief Financial Officers, there is an even higher awareness of the importance of ERM. Behind this trend: pressures to reduce the unexpected volatility of earnings and a need to implement internal mandates demanded by the Sarbanes-Oxley Act and other similar regulatory frameworks globally.

### **HOW ERM IS PAYING OFF**

Companies that have already implemented ERM report a significantly higher level of value added than companies that have not yet fully implemented these measures. This level of value is true for all the benefits attributed to ERM, including the top three: better-informed decisions (86% of companies with fully-implemented ERM; 58% of all other companies); greater management consensus (83% of companies with fully-implemented ERM; 36% of all other companies); increased management accountability (79% of companies with ERM; 34% of all other companies).

The study finds that companies fully embracing ERM are better able to improve management practices, such as strategic planning, and have a greater ability to understand and weigh risk-reward equations in their decisions.

Better understanding of operational and strategic risks was cited as the second most important driver for implementing ERM. “There is clearly a heightened awareness of the need to manage risks more strategically in order to achieve expected shareholder value,” says Chagares.

“Over the past five years, the 9/11 attack, two wars, corporate scandals and failures, it is not surprising that more than 60% of those we surveyed believe that there will still be at least a significant increase in external risk during the next five years,” says Hexter. “Although it might not be possible for businesses to control external risks, understanding how such risks are interrelated can help companies anticipate major surprises.”

Another important reason for pursuing an improved understanding of risk is the recognition that rating agencies and debt providers are also taking risk management into consideration.

## **THE DRIVE TO AVOID SURPRISES**

ERM is also gaining ground as a framework for corporate business practices. When asked to rank their highest priority objectives for their ERM program, survey participants place the greatest emphasis on “ensuring risks are considered in decision making” and “avoiding surprises and predictable failures,” reflecting companies’ interest in their ability to discover and use critical risk information.

Despite the clear objectives cited for ERM, few companies have fully implemented the practices needed to achieve these aims. Particularly in the U.S., few companies say they have fully implemented even basic elements of ERM, such as establishing a business risk inventory.

Only 16% of respondents report that their companies have integrated ERM practices into corporate practices, such as strategic planning and the annual budget process. However, the fact that just under a third say their companies’ ERM is integrated with internal audit illustrates that risk management efforts often begin within the internal audit area. But once the company has achieved a certain level of ERM sophistication, risk oversight is often moved to an independent status or another area, since there are inherent conflicts in having audit units establish ERM objectives and then use them to determine operating managers’ performance.

Some techniques used to evaluate risks include key risk indicators, individual self-assessments, group assessments and industry benchmarks. More quantitative techniques involving statistical and scenario analyses are rapidly beginning to emerge to support the inclusion of risk in corporate decision making. The use of these ERM techniques varies depending on the industry and the stage of ERM implementation.

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Source: *From Risk Management to Risk Strategy*  
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### **About The Conference Board**

Non-partisan and not-for-profit, The Conference Board is one of the world’s leading business membership and research organizations. The Conference Board produces The Consumer Confidence Index and the Leading Economic Indicators for the U.S. and other major nations. These barometers can have a major impact on the financial markets. The Conference Board also produces a wide range of authoritative reports on corporate governance and ethics, human resources and diversity, executive compensation and corporate citizenship. Our conference and council programs bring together more than 10,000 senior executives each year to share insights and learn from each other. Visit The Conference Board’s award-winning website at [www.conference-board.org](http://www.conference-board.org).

### **About Mercer Oliver Wyman**

Mercer Oliver Wyman is a leader in financial services and risk management consulting. The firm is comprised of two consulting groups. The Financial Services Consulting group includes practices focused on Corporate Strategy, Finance and Risk, Corporate and Institutional Banking, Retail and Business Banking and Insurance. The Corporate Risk Consulting group includes practices in Enterprise Risk, Actuarial and Strategic Finance. The firm was formed in April 2003 from a merger of Oliver, Wyman & Company (est. 1984) and the financial services strategy and actuarial consulting practices of Mercer Inc. The firm now employs more than 800 staff working out of 32 offices in 13 countries throughout North America, Europe and Asia. [www.merceroliverwyman.com](http://www.merceroliverwyman.com)