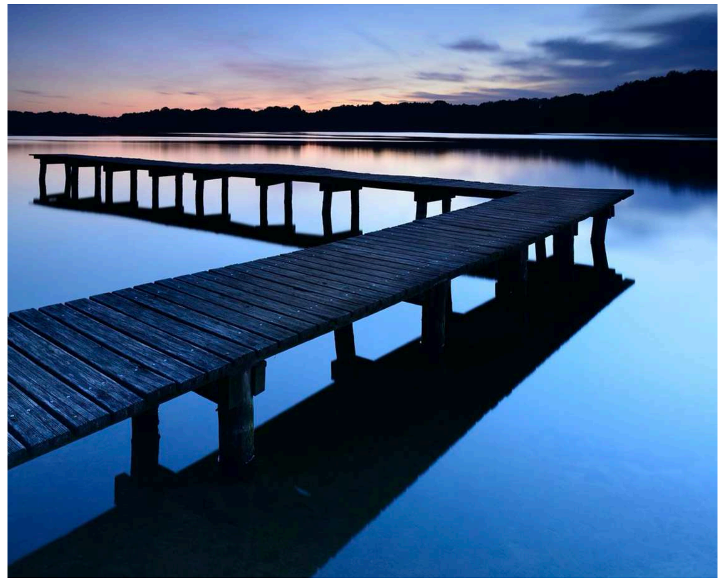
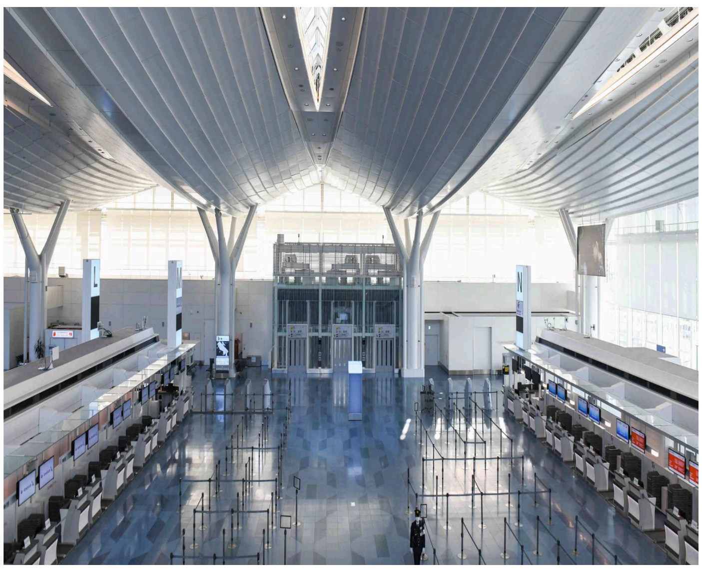
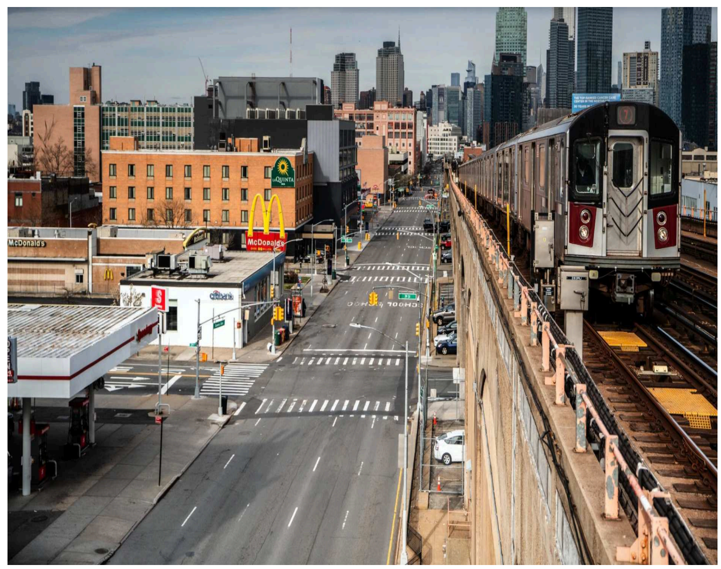
2020 Study of Advancements in Enterprise Risk and Governance



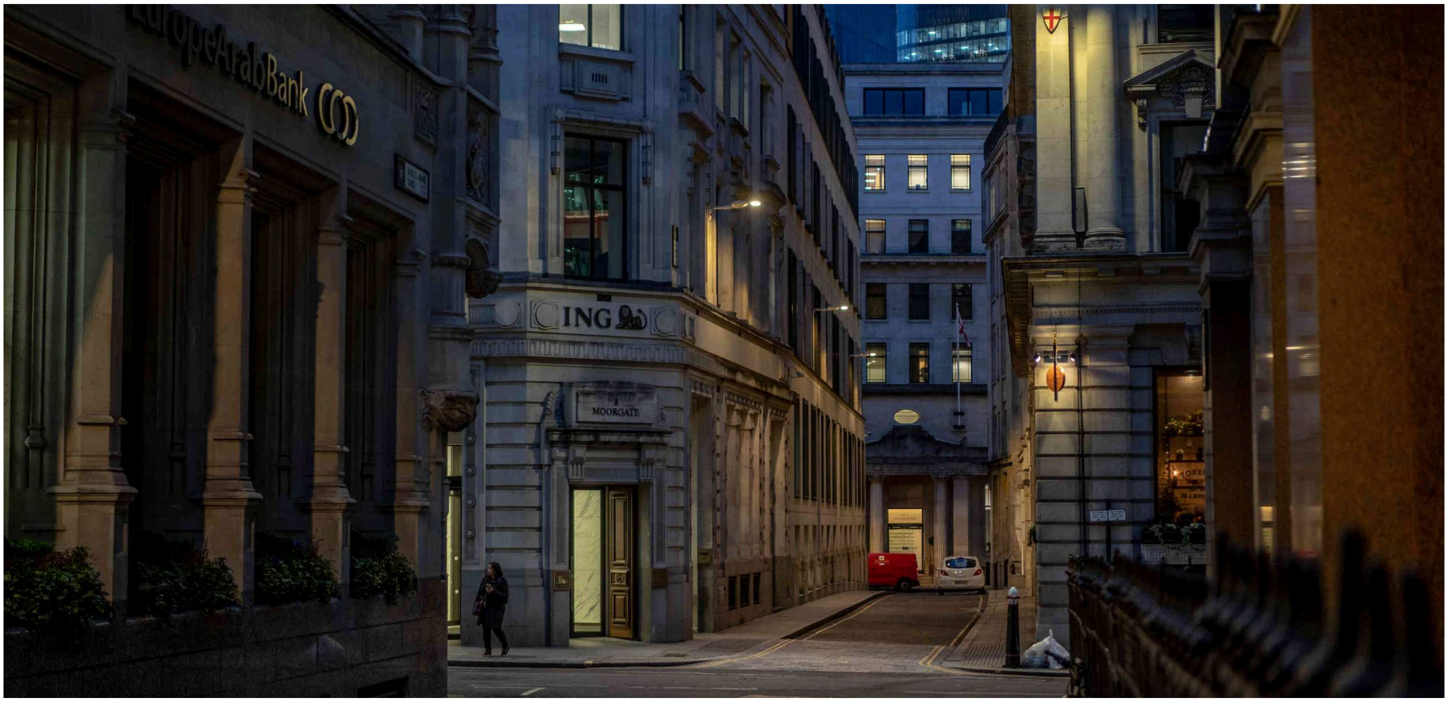




The Future of Risk Management

2020 has been the most disruptive period in recent times and the future of risk management has never been more important

Introduction



In the fall of 2019 - August 2020, a study was initiated to identify advancements in board governance and enterprise risk practice. The study's design included a survey of global risk practice leaders, an extensive literature review and a cursory examination of existing risk frameworks such as NIST CSF, COSO ERM, and ISO 31000. The study's purpose is to develop a profile of risk leadership, the tools of risk practice, and advancements in risk practice as well as uncover innovations in board governance. An ancillary outcome of the study is a better understanding of the current state of board governance and enterprise-wide risk management.

COSO ERM updated its risk framework guidance in 2017, removing the familiar COSO cube, replacing it with principles-based guidance. ISO 31000 revised its guidance in 2018, which included updated risk assessment techniques in 31010:2019. In 2018, the NIST (CSF) Cybersecurity framework was updated to reflect new findings in security practice in the field. This study did not delve further into the ISO and NIST standards. The guidance in COSO ERM was incremental and did not reflect wholesale upgrades conceptually.

In addition, a newly formed consortium of financial services organizations dubbed, The Risk Coalition, published "Raising the Bar", principles-based guidance for financial services' board risk committees, the Chief Risk Officer and the risk function to clarify leading practice in risk governance.

Special thanks to Corporate Compliance Insights' support in conducting the survey and much more.

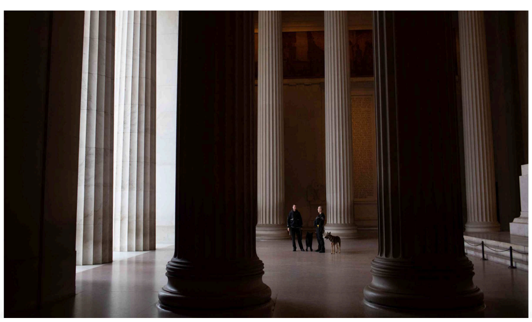
"It is surprising indeed that, until the publication of Raising the Bar, there has been no comprehensive, principles-based guidance for financial services risk committees and risk functions. I therefore welcome and support this initiative."
Professor Michael Mainelli FCCA Chartered FCSI(Hon)
FBCS Alderman & Sheriff of the City of London Executive Chairman, Z/Yen Group

Raising the Bar is timely in that few exhaustive studies exist that contemplate how to enhance board risk or audit committee performance in risk-based outcomes – now a template is available. There is extensive research on corporate governance based on anecdotal evidence such as board composition, size, and generalized financial results. Much of the research is dated with incomplete evidence on Board processes that lead to better risk performance outcomes.

The Risk Coalition's contributors include leading financial services organizations such as Chartered Banker, European Risk Management Council, Chartered Institute of Internal Auditors, and the Chartered Insurance Institute. Supporters and sponsors of Risk Coalition are represented by industry leaders Hermes, Euroclear, Institute and Faculty of Actuaries, NEDA among other esteemed institutions.

Raising the Bar provides insight "to meet the need for coherent, principles-based good practice guidance for mature board risk [audit] committees and risk functions", according to The Risk Coalition's white paper. The guidance in Raising the Bar is non-prescriptive providing room for attaining leading practice but leaves it to each organization to engage in forward-looking dialogue on risk governance. The guidance in Raising the Bar is rare in its simplicity and clarity in what "good looks like" in risk governance.

Literature Review – Board Governance



Studies of board governance are extensive yet existing research offers limited insights into the operations of the Audit Committee (Turley and Zaman, 2007). Existing research on Board Governance and Audit Committees focus on anecdotal attributes of the board such as board size, composition, and dual role of the CEO as chairman. Board performance is generally viewed in hindsight based on measures of financial performance, shareholder value and the ability to acquire debt at lower rates as implied factors that demonstrate good governance. Good risk management may be implied by these measures but is seldom evaluated in empirical studies of board governance.

Researchers found that insurance company's board risk committees were positively correlated with higher financial strength ratings and performance but only after the financial crisis of 2008. Prior to that period of time there was little to no correlation in performance between insurance companies and their board risk committee activities (Ames, Hines, & Sankara 2018). Research on audit committees has conceptualized addressing agency risks with little empirical evidence to support correlations with enhanced financial performance. To a certain extent these studies have inevitably relied on relatively crude proxies, for example, the number and duration of meetings as indicators of how “active” an audit committee is (see for example, Abbott et al, 2004, Bedard et al, 2004, Krishnan, 2005).

A separate study set out to investigate the relationship between attributes of corporate governance and performance of companies listed on the Ghanaian Stock Exchange (Kyereboah-Coleman, Adjasi & Abor, 2006 – 2007). The study of corporate governance and firm performance of Ghanaian listed companies between 1998 – 2003 consisted primarily of a regression analysis to determine correlations between variables such as board size, debt financing, external directors and other factors with corporate performance. Much of the analysis is mixed or inconclusive. “Though it has been argued (Fama & Jensen 1983, Baysinger and Butler 1985, Baysinger & Hoskinsson, 1990, Baums 1994) that the effectiveness of a board depends on the optimal mix of inside and outside directions, there is little theory on the determinants of an optimal board composition (Hermalin & Weisbach 2002).”

The study also revealed a likely optimal board size range where mean ROA levels ranging from board size 8 to 11 are higher than overall mean ROA for the sample. This signals a range of optimum board size (8-11) feasible for good firm performance. A majority of the firms in the study also had a board structure that follows a two-tier structure [separate executive and non-executive boards]. Significantly, firm performance (using ROA or Size) is found to be better in firms with the two-tier board structure (Kyereboah-Coleman, Adjasi, Abor 2006 – 2007).

Although the analysis in this study found an “optimal” board size for good corporate performance researchers did not include exogenous factors such as candidate selection bias, economic business cycles, tempo of regulatory change or include an empirical analysis of risk processes used by the board(s) to achieve “good” corporate performance. Corporate governance involves responding to a range of internal factors as well as external stakeholders who bring influence on board performance. The limitations of this study demonstrate that a correlation of variables alone does not prove causation of performance.

Additional research is needed to better define predictive measures of enhanced corporate governance and risk performance. These topics exceed the scope of this study however limited empirical research on board risk committees and the risk function presents an opportunity for further advancements in board governance and enterprise-wide risk management.

Literature Review – Enterprise-Wide Risk Management

Modern corporations face a myriad of risks across disparate fields of business and complex financial arrangements as well as expectations from external stakeholders to increase value. Legal constructs require corporations to be under the supervision of board of directors. Corporate directors are generally not required to have any particular skills or expertise other than being a "natural person" (Simkins & Ramirez, 2008).

In the wake of successive corporate financial fraud, Sarbanes-Oxley of 2002 required "independent auditors" of public companies must report to an audit committee which generally must include, at least one "financial expert". Nevertheless, the audit committee alone cannot anticipate or respond to all of the risks facing a contemporary organization. "It seems axiomatic that today the public corporation too often fails to identify and manage the risks [it] faces" (Ramirez & Simkins, 2008) historically leading to a lack of confidence in corporate risk management functions.

The Emergence of Enterprise-Wide Risk Management

In one critical study of corporate governance and enterprise-wide risk management, researchers from the Loyola University Chicago, School of Law (Ramirez & Simkins, 2008) lay out the barriers in effective board governance and specifically address systemic failings in current legal framework that fail to facilitate effective enterprise-wide risk management.

Early evidence of risk management dates to around 2000 B.C. from documents of commodities futures trading in India. Ancient records from Greek and Roman markets as well as Japanese trading merchants drafted forward contracts promising future delivery of goods as far back as 1600 A.D. (Ramirez & Simkins, 2008). By the turn of the century more sophisticated financial instruments necessitated advanced mathematics to address growth in options markets, contracts and other derivatives. The fields of finance and economics have contributed to a deep and rigorous practice of risk quantification in financial markets.

Enterprise-wide risk management did not emerge until the 1990's and has continued to grow in importance albeit without wide spread adoption. Enterprise risk management continues to be practiced in silos and fragmented across different organizations. COSO (committee of sponsoring organizations) is widely credited with defining ERM. COSO ERM is intentionally broad with a foundation built on internal controls over financial reporting and strategic risks. Other organizations, such as the Casualty Actuarial Society (CAS) offers a narrow definition of enterprise-wide risk management that encompass processes that lead to increases in stakeholder value creation. These two divergent views represent a lack of consensus on ERM as well as the fact that there is no "one size fits all " approach that uniformly addresses risk profiles across industry type or operating models. Neither of these definitions of ERM has materially advanced risk practice.

Nonetheless, the strategic importance attributed to good ERM practice has led to hurdles in future advancements in practice. At the same time as ERM has become more strategic, financial risk professionals have requested training to support growing demand for predictive risk intelligence. There is also no consensus on the proper structure of the risk function. Some organizations have a Chief Risk Officer (CRO), many do not. Board directors express increased support for ERM and spend more time focused on risk issues yet fail to respond in a timely manner. Results show 20% of firms suffered significant loss from a failure to manage risks and 56% of firms had a near-miss in the previous year of the study (Ramirez & Simkins, 2008).

The literature is clear on the aspirational goals of good ERM practice nevertheless there is little evidence that board governance has uniformly adopted pro-active risk best practice, particularly before adverse events arise. Examples abound of poor board governance prior to the 2002 Sarbanes-Oxley Act and after that serve as stark reminder that enterprise-wide risk management and strong board governance represent opportunities for enhanced performance. Successive failures in board governance begs the question, "what is the appropriate means of managing the risks inherent in a business environment on a comprehensive basis (Ramirez & Simkins, 2008)?

If enterprise-wide risk management (COSO ERM) is the best approach to managing risks why aren't more firms using it? Evidence from studies and surveys indicates that, to date, only about 10% of major companies claim to have implemented many aspects of ERM, while almost all the others claim that they plan to do so in the future (Tonello, 2007) (Gates, 2006) (Schoening-Thiessen, 2005). In order to understand why ERM has not lived up to its promise we must examine the structural and cultural impediments to effective corporate governance and enterprise-wide risk management.

Structural impediments to advancements in corporate governance and enterprise-wide risk management

A Loyola University of Chicago Law study found that Sarbanes-Oxley (SOX) is fundamentally flawed and has failed to reform corporate governance and empower risk management (Ramirez & Simkins, 2008). The study goes further describing how state "corporate governance law and regulation largely fails to take modern financial science on board." Boards are given the autonomy to choose to operate with or without an ERM program or enterprise risk expertise.

SOX regulation was designed to address only the audit function and legal compliance, consequently failing to address risk management. SOX is a compliance mandate of internal controls over financial reporting disclosures and does not address or require a fulsome disclosure of all key risks that threaten the firm.

Sarbanes-Oxley fails to contemplate behaviors that lead to fraud beyond internal control weakness such as withholding critical risk data from the board.

An exhaustive review of corporate financial statements find wide disparity in the disclosure of risks and the processes for managing risks at the enterprise level. Boiler plate legal disclosures, common in financial statements, fail to fully inform stakeholders of a spectrum of risks facing the firm. In a recent public statement from SEC commissioner, Allison Herren Lee (January, 2020) stated, "investors are overwhelmingly telling us, through comment letters and petitions for rulemaking, that they need consistent, reliable, and comparable disclosures of the risks and opportunities related to sustainability measures, particularly climate risk."

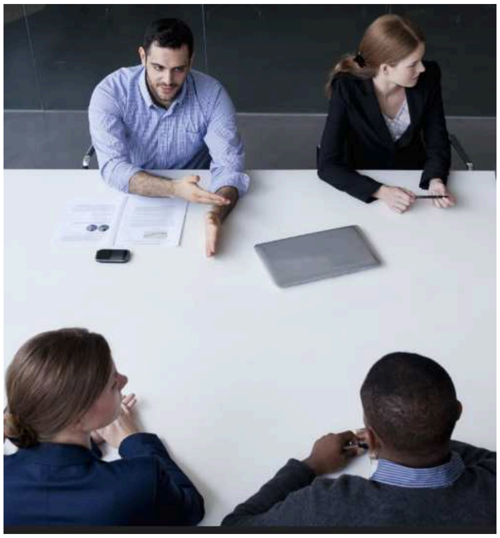
"Investors have been clear that this information is material to their decision-making process, and a growing body of research confirms that. And MD&A is uniquely suited to disclosures related to climate risk; it provides a lens through which investors can assess the perspective of the stewards of their investment capital on this complex and critical issue."

"It is also clear that the broad, principles-based "materiality" standard has not produced sufficient disclosure to ensure that investors are getting the information they need—that is, disclosures that are consistent, reliable, and comparable. What's more, the agency's routine disclosure review process could be used to improve disclosure under the materiality standard, but in recent years there's been minimal comment on climate disclosure."

In organizations with no risk committees or CRO office the CEO becomes the risk manager by default as a result of the broad powers that accrue to the office of the executive. This is the natural result of broad public ownership combined with the CEO's power over board selections and the very minimal duties of board members under the law to supervise CEOs. Thus, under current corporate governance practices, the CEO is usually a risk silo (Ramirez & Simkins, 2008). Board governance has routinely failed to detect and prevent fraud formulated and executed by powerful CEOs as evidence of proof of the ineffectiveness of SOX regulation.

The conclusion of the study? Corporate governance is flawed by virtue of gaps in Sarbanes-Oxley, corporate law and regulatory financial disclosure that mandates compliance of accounting standards without equal weighting of risk management requirements and accountability at the board level. Sarbanes-Oxley provides internal audit and the board audit committee independence but fails to make risk management independent inclusive of disclosure of material risks beyond weakness in internal controls over financial reporting. Information processing of key risks is cited as an opportunity to improve board governance in more than one study. Similar findings were noted in a second study by researchers examining the financial crisis of 2008 (Pirson & Turnbull, 2011).

In a (Pirson & Turnbull, 2011) study of the causes of the financial crisis of 2008 researchers noted that "hierarchical structures – as reflected in unitary boards – do not function well in dynamic and complex environments, partly because they are inflexible and do not support information processing as well as, for example, network structures”.[1] Network governance is "interfirm coordination that is characterized by organic or informal social system, in contrast to bureaucratic structures within firms and formal relationships between them. The study goes further to examine the root cause of inefficiencies in hierarchical structure through a focus on information processing at the board level defined as “systematic information processing problems.”



The research in the (Pirson & Turnbull, 2011) study identified two reasons boards failed to manage risks in the 2008 mortgage financial crisis: (1) board members did not have access to relevant information of the risks incurred because they had no control over information supply; and (2) board members were unable to process the available risk-related information, and lacked incentives or power to influence managerial decision making.

The paper found a systemic misfit between the information processing needs and the information processing capabilities in risk-related decision making at the board level during the crisis. Fligstein and Goldstein (2009) “observe that, in 2007, the US market for prime and sub-prime mortgages became highly concentrated with 25 firms being responsible for 90 per cent of the combined prime and sub-prime market. All 25 firms operated as centrally controlled hierarchies with a unitary board.”

The study provided several examples where risk information within a firm was intentional withheld from the board by management. In one example, risk reports of violations exceeding the firm’s risk appetite [mortgage securities] was withheld by the firm. In another example, disagreements between the CEO and the chairman of the board about risk taking was not shared with the board. The argument being that senior executives have great power to filter information from the boards about their activity and risk taking that could be instrumental to oversight. Boards do not have the power to compel risk information if they do not know it exists.

In a novel approach, the study (Pirson & Turnbull, 2011) noted behavioral science findings juxtaposing the supply of information with the ability of boards to absorb the complexity of the information presented to them. “Nevertheless, real-life time constraints would decrease the transmission rates even further, as humans are limited in their ability to transmit and receive information of any type (Williamson, 1975; Williamson, 1979). Furthermore, there are few incentives for communicating risks in command and-control hierarchies.”

The researchers conclude that there are structural problems in information processing between the board governance process and oversight of management. The information problems are described as: 1) Insufficient

1 https://en.wikipedia.org/wiki/Network_governance#:~:text=Network%20governance%20is%20%22interfirm%20coordination,are%20defined%20in%20this%20context.%22

information access; 2) Insufficient information supply; 3) Information overload increases the risk of relevant information not being processed; and, 4) Information bias and group dynamics distort rational information processing.

The remedies to these and other structural challenges to improving board governance and efficacious risk management practice is similar - independent risk committees and better risk information. Legal structures allow accumulation of power and decision-making at the executive level creating friction in risk information transmission between the board and senior executives. As noted earlier, boards are social constructs based on trust and information sharing. Boards operate efficiently during normal business conditions however during periods of financial crisis or significant uncertainty the social constructs on the board may become fragile and dysfunctional.

"Good" risk management is often cited by researchers, scholars and risk professionals as a process that improves decision-making. Risk management assists the organization achieve its goals and objectives by providing relevant information in a timely manner. When information flows are disrupted or disintermediated between the risk advisor(s) and decision-makers the process of good risk governance is circumvented.

A third study commissioned by COSO evaluated whether ERM as devised by the organization is an effective enterprise-wide risk framework.

Institutional studies of enterprise risk are scarce and to date centered on qualitative methodology comprised of political, cultural and technical activities (Lawrence & Suddaby, 2006; Perkmann & Spicer, 2008). "Drawing insights from the emerging literature on institutional work (e.g., Hwang & Colyvas, 2011; Lawrence & Suddaby, 2006; Lawrence, Suddaby, & Leca, 2011; Perkmann & Spicer, 2008; Suddaby & Viale, 2011)", evaluated innovations in management through enterprise risk practice. The Committee of Sponsoring Organizations (COSO) formulated a broadly adopted enterprise risk management framework in 2004.

This study, to the best of our knowledge, is the first to fully elaborate the notion of institutional work in accounting research (Hayne & Free 2014). The study suggests that COSO's ERM framework is an innovation in accounting, similar to cost accounting, the balanced score-card or risk-based auditing, a branch of management accounting. "In spite of these contributions, research on institutional work remains in its infancy; there are significant opportunities to describe and explain the details of the 'work' involved. To this end, Hwang and Colyvas (2011, p. 62) conclude that institutional work is "... an umbrella concept and a rallying point" rather than a coherent framework."

"COSO Board members themselves struggled to classify the organization in precise terms: COSO is kind of an odd organization, not just in terms of being a virtual organization but, you know, what is it? It's not really a standard setter and yet it is kind of a standard setter. It's not a company; it's not a for-profit organization. And

[so] I think, when COSO comes out with guidance, it carries a pretty unique credibility because you can't attribute their actions to a profit motive per se. (Douglas Prawitt, Interview 5)."

COSO filled a gap in formalizing accounting and audit work to detect, correct and mitigate internal control weakness across the enterprise. The granularity of audit work tended towards assessing internal controls, compliance and risks at the operational level. A concentration on internal controls remediation should be recognized as a major contribution by COSO and is fundamental to a strong foundation on which to build a robust enterprise-wide risk framework.

On the other hand, after 35 years of focus on internal controls, where does the emerging field of risk professionals draw guidance and direction for the next generation of risk practice? What are the right tools to manage risks at the enterprise level? How does the risk function add value beyond compliance to standards? This study asked those questions in the 2020 Advancements in Enterprise Risk and Governance survey.

2020 Advancements in Enterprise Risk and Governance Survey Summary

Observations about risk management

Risk management does not have a central governing body that defines and encourages its members' professional training. Risk professionals have organically developed disparate disciplines in risk management without formal certification or standards from a unifying body or continuing education to maintain standards of professional care. Risk training and development is either ad hoc or delegated to independent nonprofit associations who provide education depending on how the groups are organized. Financial service firms typically have the most disparate grouping of risk disciplines historically driven either by product type, regulatory mandate or past precedent typically the last risk failure in memory.

There are no peer review panels of risk practice nor are risk professionals required to submit risk research to a peer panel for efficacy. Collaboration among and between risk professionals across firms or industry is infrequent depending on geography. Risk management is multidisciplinary by design yet few risk professionals' cross risk disciplines even with transferrable skills.

In other words, risk management has developed into a diverse and robust professional discipline but still struggles with a credibility issue with senior executives. These observations are generic and do not reflect on the vast majority of risk professionals. With that said, risk performance varies by organization and industry with a great deal of confusion concerning what "good looks like."

The purpose of the survey endeavored to understand risk leadership, the tools of risk management and advancements in risk practice. Approximately 150 risk professionals participated in this survey across diverse risk disciplines, industry type, and represented approximately 12 different countries. The survey may understate advancements in large sophisticated organizations due to sample size.

Survey Questions:

The results are straightforward and listed in the order of questions in the survey.
The outline is listed below:

- ❑ Risk Leadership Participation
- ❑ Adoption of Risk Frameworks
- ❑ Adoption Rate (Maturity of Adoption) of each Risk Framework*
  - ❑ COSO ERM (pre-2017) versus (post-2017)
  - ❑ ISO 31000 (pre-2018) versus (post-2018)
  - ❑ 2018 NIST CSF
- ❑ Measures of Risk Program Performance
- ❑ Tools of Risk Management
- ❑ Risk Governance Profile
- ❑ Risk Management Alignment with Business Strategy
- ❑ Risk Program Contribution to Corporate Culture
- ❑ Enhancements in Risk Management
- ❑ Enhancements in Cybersecurity Risk Management
- ❑ The Risk Coalition – Raising the Bar
- ❑ Observations & Summary

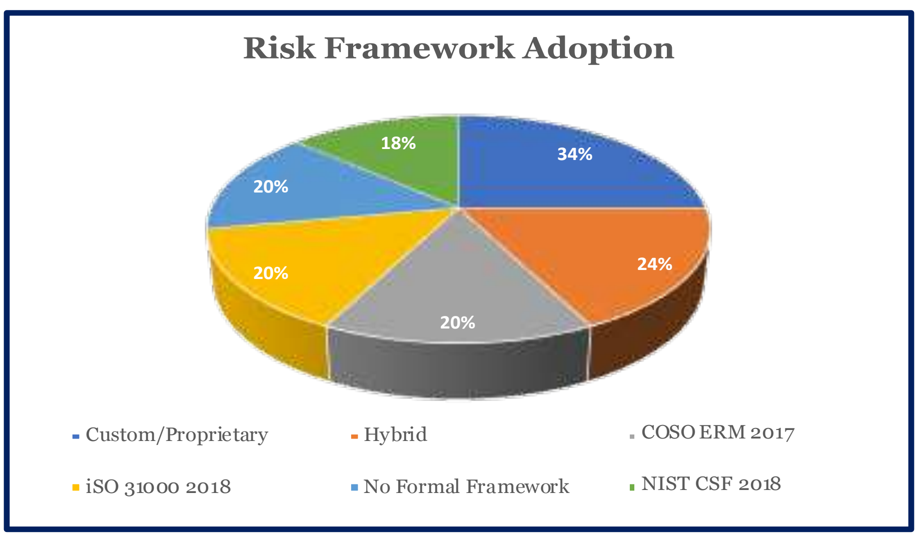
Highlights of the findings follow in summary form:
Survey size 140 participants in 12 countries

Risk Leadership is expanding

Results approximate 100%

In this survey, respondents with the title, Chief Compliance Officer, were the most frequent individual respondents, however grouped together risk executives are the largest grouping. Notable in this survey is the presence of Board and senior executive risk leadership followed by operations, IT security and audit. Risk management has captured the attention and garnered more importance at every level of the organization. Risk leadership has become more diffuse across organizations in recognition of the importance organizations have given to managing a spectrum of risks.

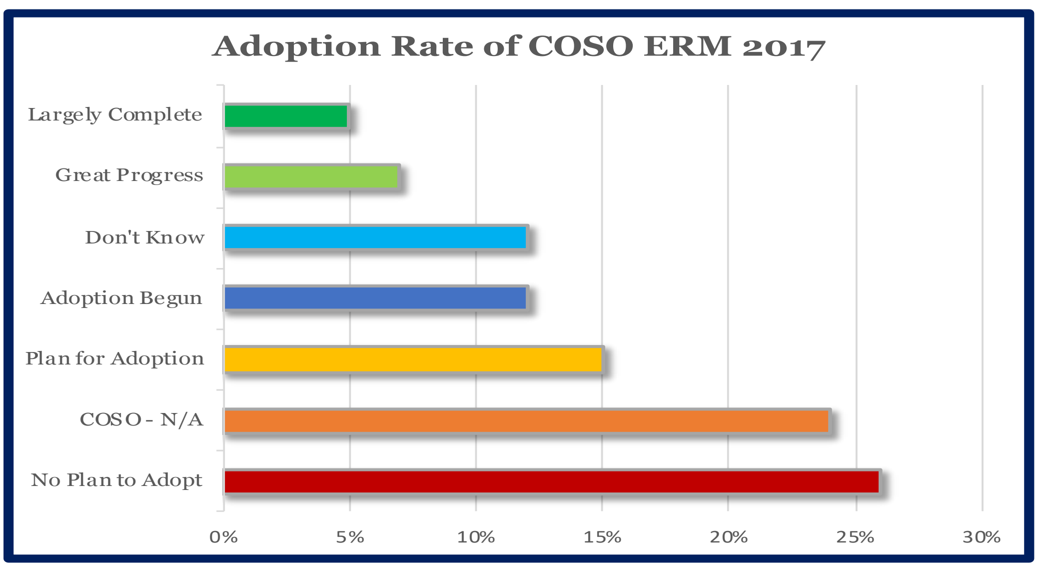
Adoption of Risk Frameworks is evolving toward hybrid and custom models



Multiple choice options allowed; results exceed 100%

Risk professionals are increasingly customizing hybrid risk frameworks (24%) to fit their business and address risks specific to their organization. Almost two-thirds of respondents are updating guidance across COSO ERM (20%), ISO (20%), NIST CSF (20%) guidance with only 8% still using earlier versions of COSO ERM and ISO 31000. Information security professionals use a variety of frameworks including NIST. Basel Capital Accord represented 8% of responses but does not represent an ERM framework. Customized risk frameworks are considered an innovation or advancement in risk framework adoption.

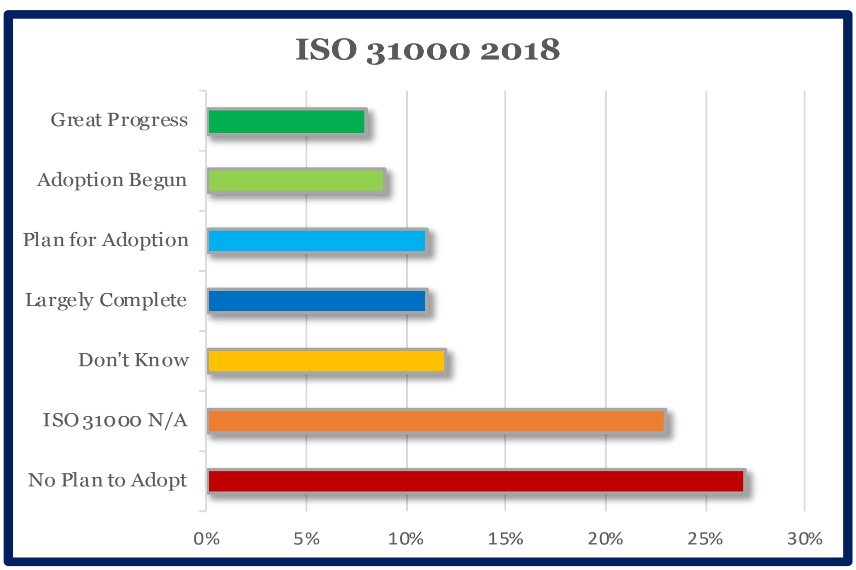
Maturity of Adoption - COSO ERM 2017



Results approximate 100%

COSO ERM 2017 is a fairly recent update however almost 50% of respondents have no plans to adopt the change or believe the changes are not applicable to its risk program. 39% of respondents have plans to adopt the updated COSO ERM guidance and are making good progress.

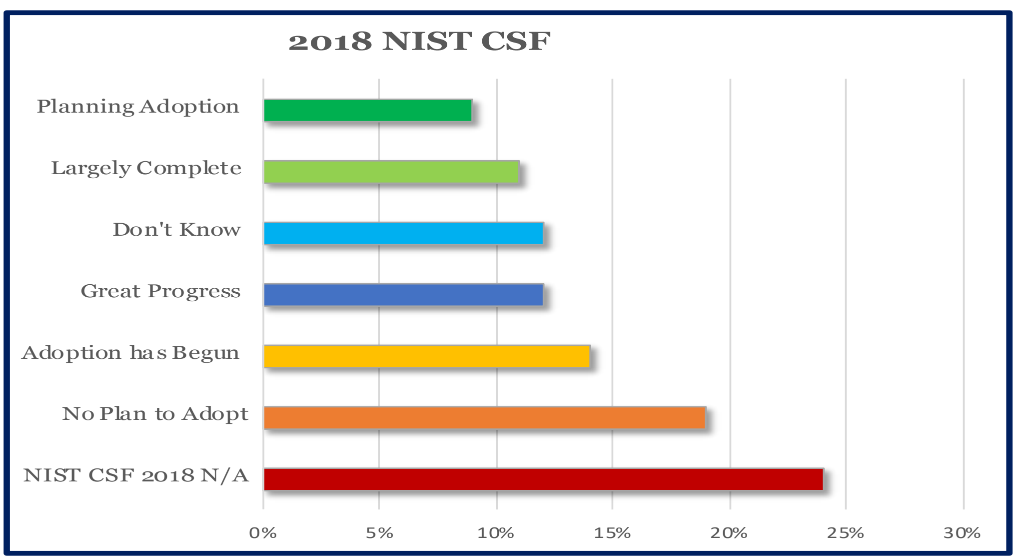
Maturity of Adoption - ISO 31000 2018



Results approximate 100%

ISO 31000 2018 updated its technical risk assessment guidance in 31010:2019. As a result, these recent changes may not fully reflect adoption rates. Almost 50% of respondents either have no plan to adopt the ISO 31000 update or have decided the changes are not applicable to their programs. However, ISO shares the same rate of adoption as COSO ERM at 39% adopting the new guidance.

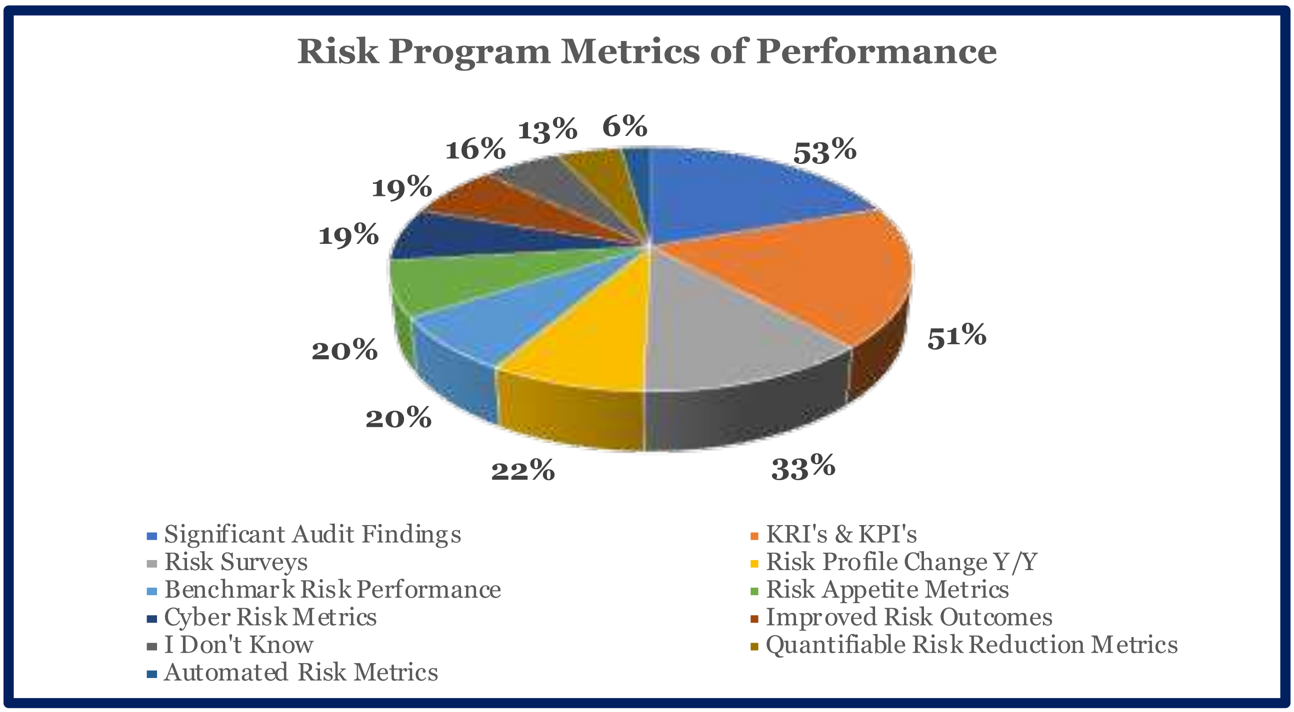
Maturity of Adoption - 2018 NIST CSF



Results approximate 100%

43% of respondents have no plans to adopt 2018 NIST CSF guidance or is not applicable to their information security program. However, 46% of respondents have plans that are well underway. IT risk professionals have several IT security frameworks to choose from therefore NIST would be additive.

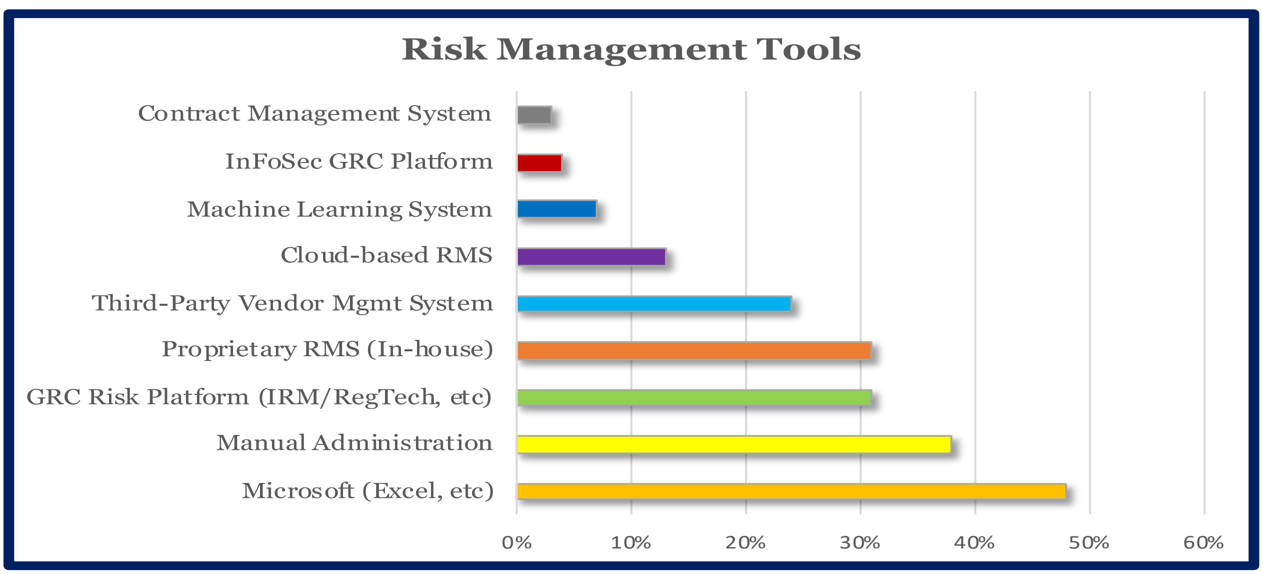
Risk Performance Self-Assessment



Multiple choice options allowed; results exceed 100%

73% (8 out of 11) of the risk management program metrics represent deterministic risk measures. Deterministic risk assessment methods result in a single risk value each time an assessment is conducted. Stochastic or probabilistic measures produce a distribution of risk values with varying degrees of confidence. Dynamic risks require constant monitoring with real-time data; however qualitative risk assessments such as audit findings (53%), KRI's (51%), Risk Surveys (33%) and benchmarking risk (20%) programs may serve as a basis for comparing perceived risks against actual risk event trends. Risk and audit professionals could benefit from independent, objective, and unbiased assessments of their risk program performance.

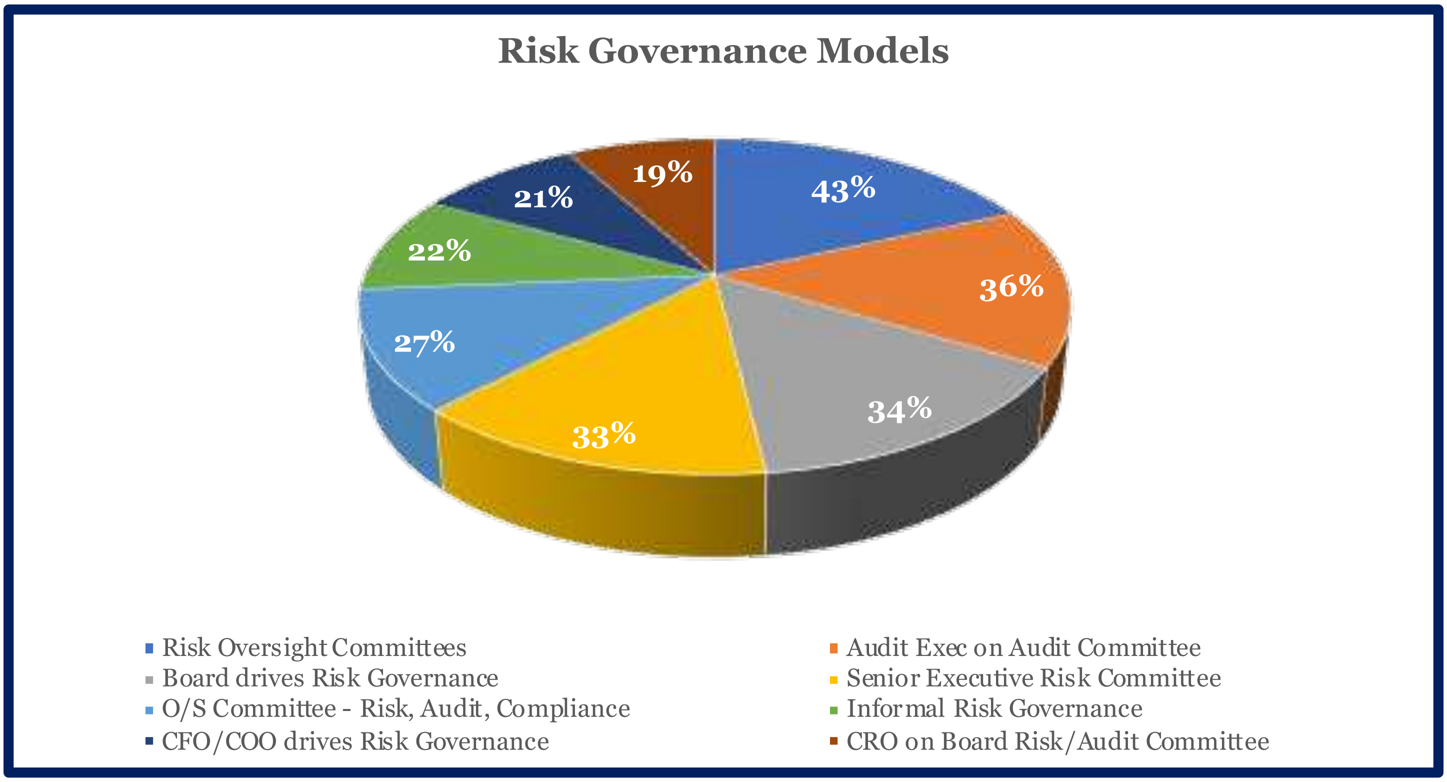
Insights in Risks



Multiple choice options allowed; results exceed 100%

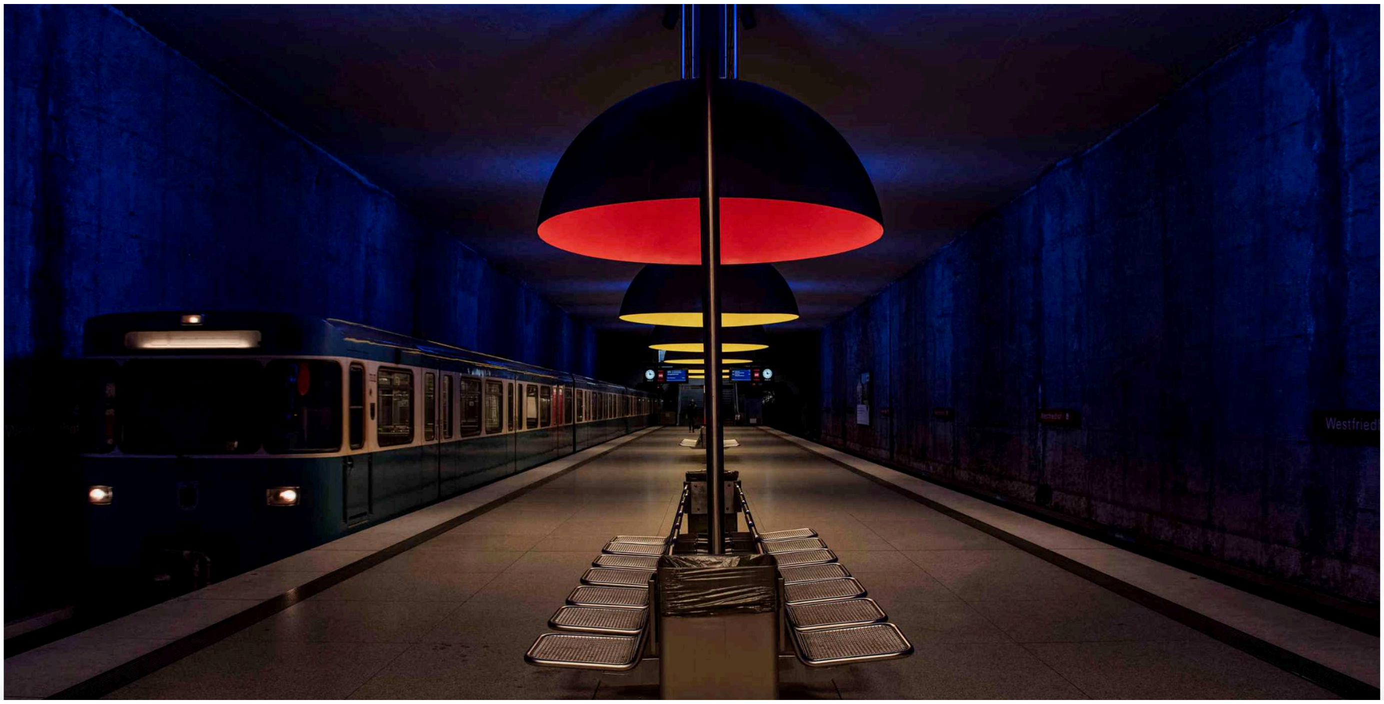
The tools of risk management have evolved over the last 20 years with the adoption of GRC risk platforms. However, GRC risk platforms have plateaued at 30% market penetration after two decades since market introduction. Remarkably, Microsoft's office [Excel, others] (48%) still represent the tool of choice in risk management. 38% use manual processes. Recent advances in machine learning (7%), cloud-based tools (13%) and third-party vendor management (24%) suggest risk professionals are beginning to seek new technologies to manage risks.

Oversight Engagement

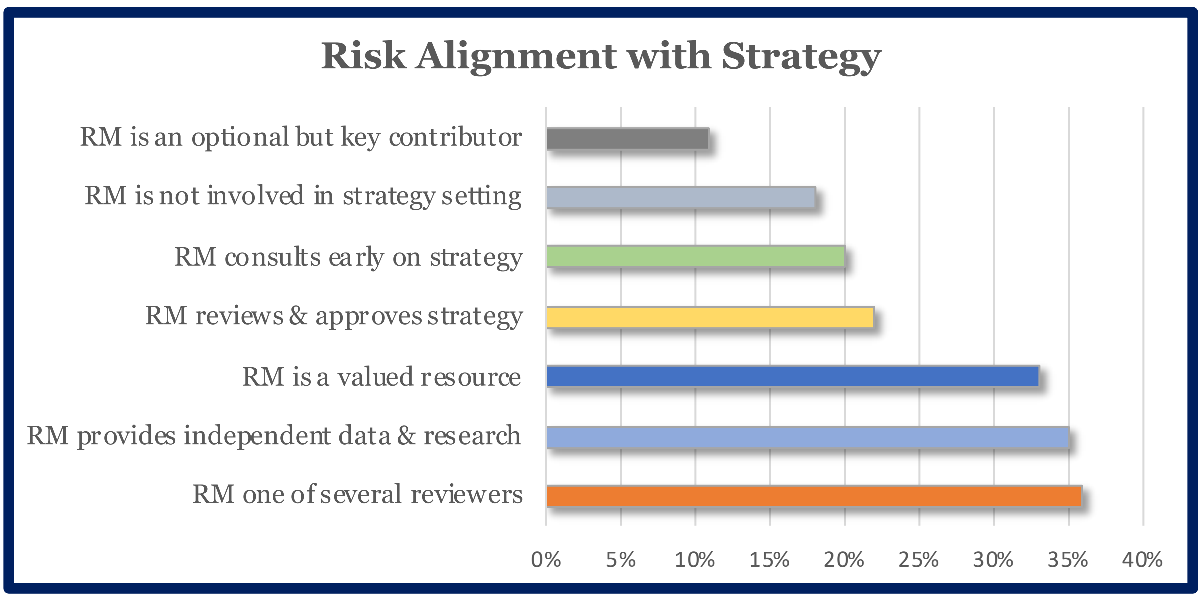


Multiple choice options allowed; results exceed 100%

The dominate driver of risk governance is a mix of committee work at different levels of the organization and board committee. The Chief Risk Officer is the least cited driver of risk governance among the options in the survey. This finding confirms that risk governance is a collective exercise of stakeholders inside and outside the organization to capture and understand the diversity of risks facing the organization.

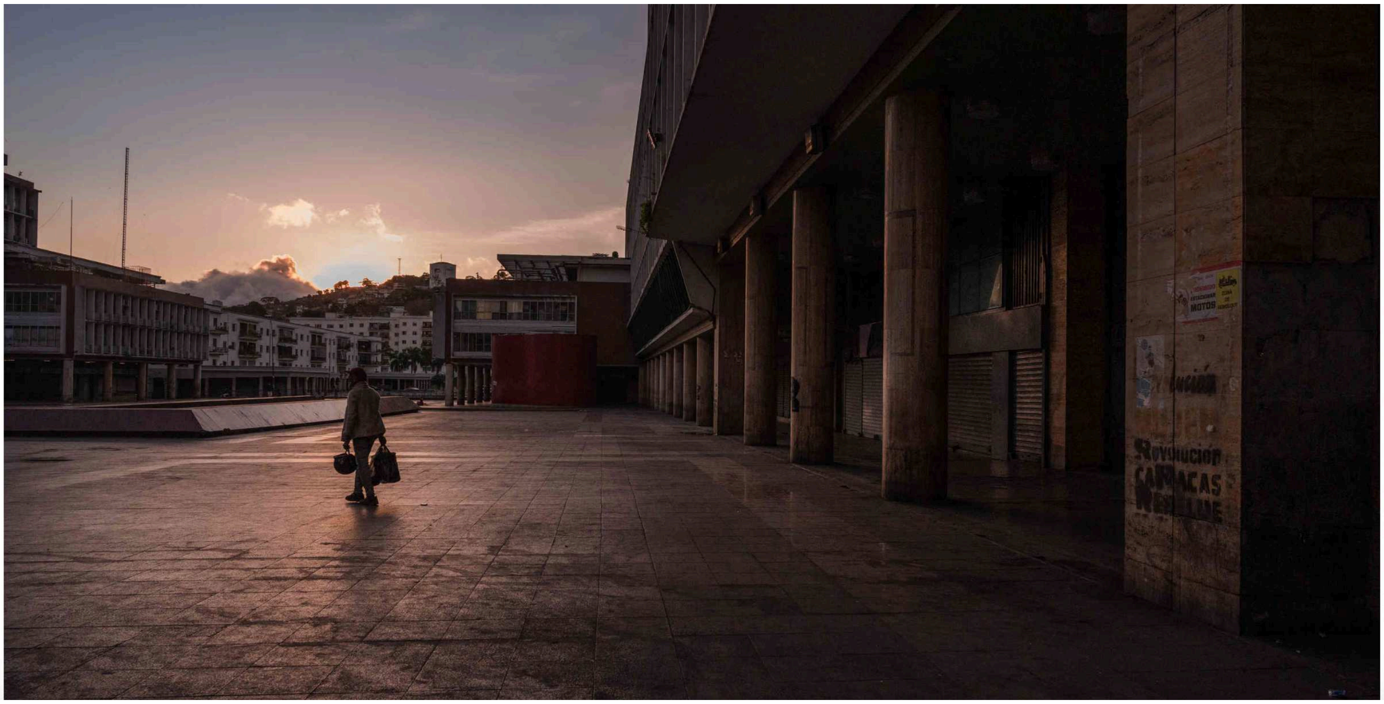


Risk Alignment Beyond Business Strategy

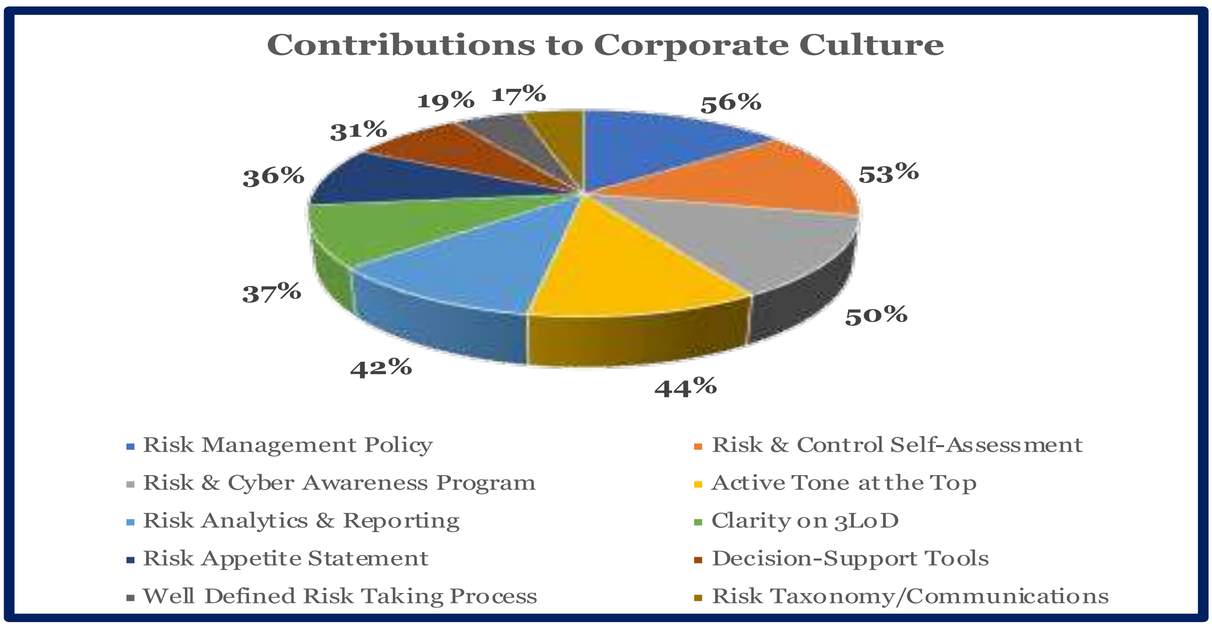


Multiple choice options allowed; results exceed 100%

Survey responses reveal different models are leveraged to align risk management with strategy. Risk engagement as advisor/reviewer/approver of strategy-setting represent incremental progress in risk practice. Independence in the risk function advocates for risk management to separate itself from strategy setting and instead provide constructive challenge to the impacts to the organization that result from the strategy.

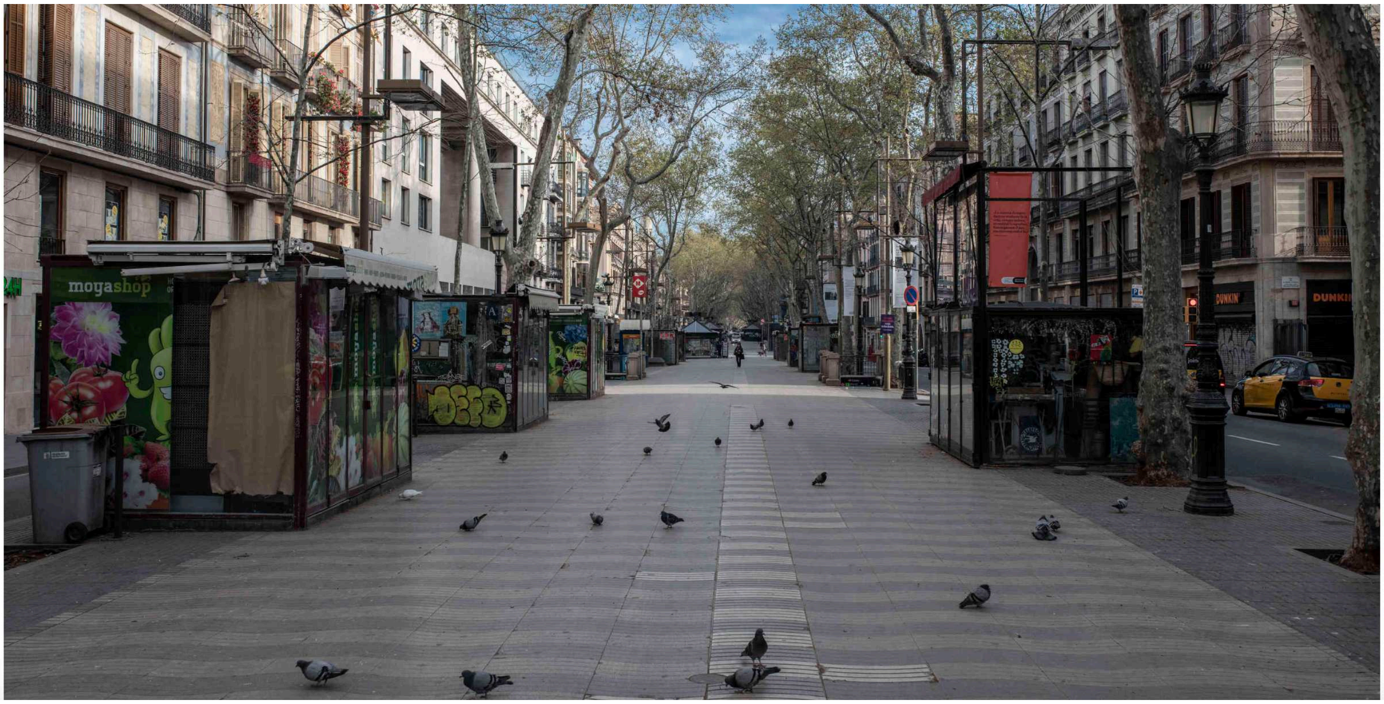


Establishing Risk Culture

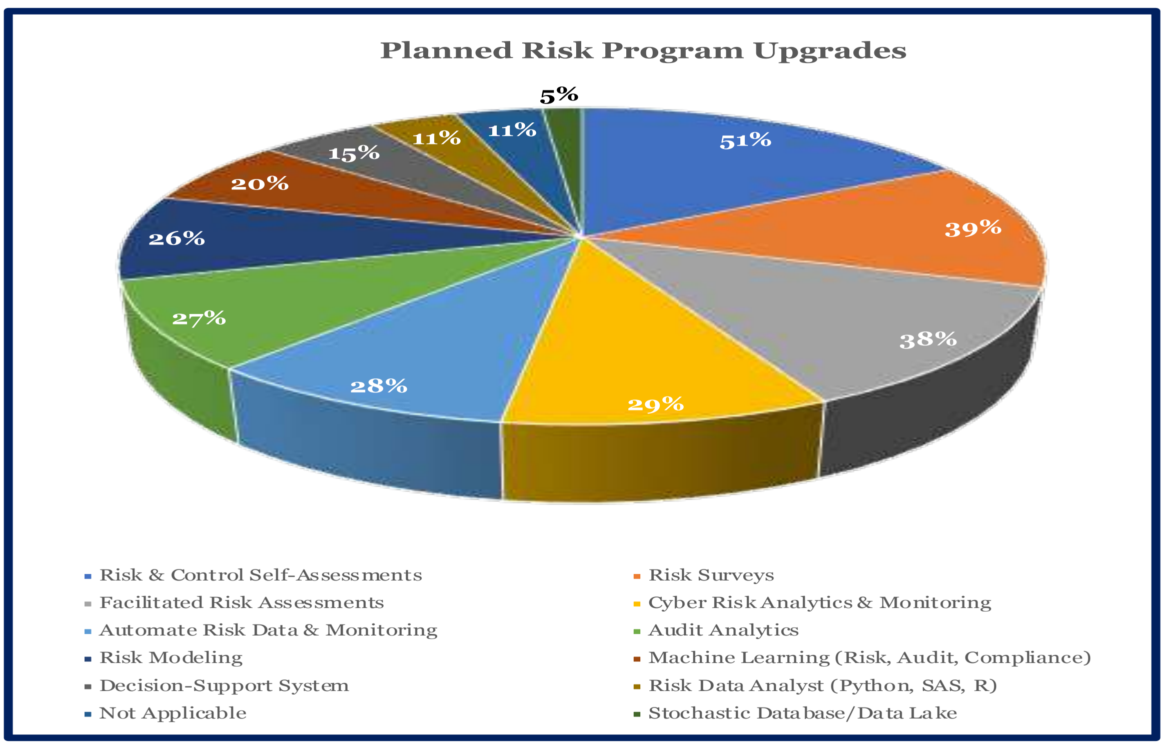


Multiple choice options allowed; results exceed 100%.

Corporate culture is a challenging concept to measure made harder by the need to differentiate how risk processes influence culture in positive ways. The survey findings propose two paths: 1) Risk Infrastructure; 2) Persuasion – Risk Leadership. To build effective risk infrastructure, the risk function must engage the business to establish processes that encourage good risk behavior. Risk tools, policy and awareness program(s) are examples of risk infrastructure. Nonetheless, robust risk infrastructure is the product of good risk leadership which requires a great deal of persuasion across the organization. The tangible and intangible attributes of risk culture are behavioral, operational and efficiency. Tangible contributions are easier to develop and measure but intangible contributions create greater leverage by influencing risk behavior at every level of the organization.

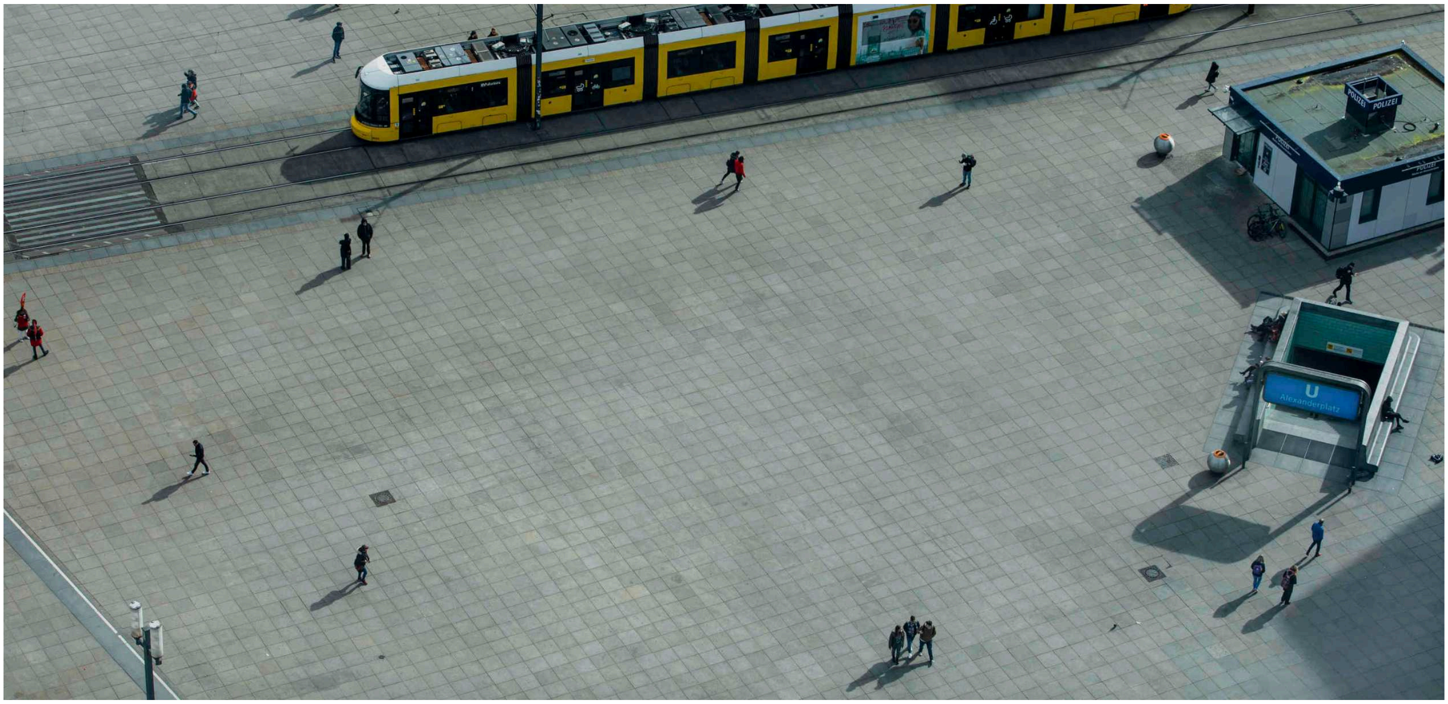


Risk Initiatives Forward-Looking

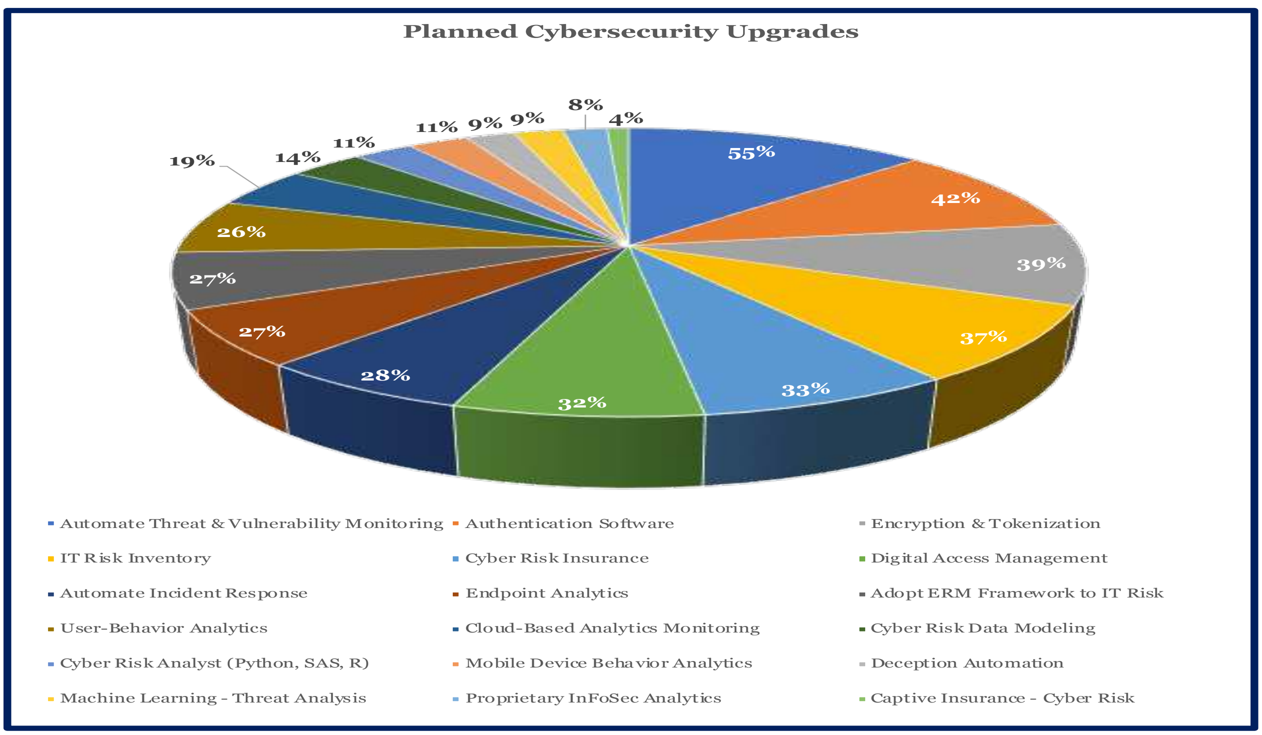


Multiple choice options allowed; results exceed 100%.

Risk program upgrades are incremental for RCSA but also include advancements in risk practice. Risk and Cyber analytics automation and monitoring reflect change in the future state of risk programs. Risk analytics, modeling and data pools reflect progression in the evolution of risk sophistication and experimentation. Qualitative processes still dominate in the form of RCSAs, surveys and facilitated risk assessments however the addition of audit analytics, risk automation and machine learning suggests that change in risk practice may accelerate as the learning curve with more advanced tools improve insights into risks across the enterprise.



Cybersecurity Initiatives Forward Looking



Multiple choice options allowed; results exceed 100%.

Chief Information Security Officers are adept at implementing enhancements to their arsenal of security and risk management tools. Automation is a must in the fast-paced and ever evolving threat environment. IT security professions must keep pace with the right tools. Maintaining a robust security posture is paramount for all CISOs. CISOs also need to become proficient in risk aggregate to make sense of the growing volume of risk data and improve insights into threats. This survey has revealed that these issues are top of mind and will continue to drive upgrades for the foreseeable future as the technology improves.

The Risk Coalition: Raising the Bar

In the introduction of this study, I briefly mentioned the Risk Coalition and the guidance developed by a consortium of leading financial services organizations in the United Kingdom and Europe. In the analysis of advancements in enterprise risk and governance I would like to propose the Risk Coalition's guidance as an innovation that advances and clarifies the role of the board risk committee and the Chief Risk Officer and second line risk function.

Raising the Bar's principles-based guidance is what would be expected of a mature board risk committee and risk function. The guidance is not prescriptive allowing for professional judgement to choose the principles that apply within each firm to select the timing and application of each of the elements that achieve an appropriate outcome. The guidance does not focus on specific risk types but instead is grounded on the exercise of good practice principles.

Raising the Bar proposes Part A guidance for board risk committees and Part B for the role and responsibility of the Chief Risk Officer and the second line risk function. Each part is presented as standalone guidance allowing organizations to implement the principles together, in sequential order or singularly as appropriate. A complete copy of the guidance can be found here.

Why is Raising the Bar included in this study of advancements in enterprise risk and governance? Throughout the analysis of research on risk management and board governance it is clear there is little that informs on these topics as clearly and succinctly as Raising the Bar. Existing research provides very little evidence of good practice at the board risk committee functions and measures that lead to good performance managing risk outcomes. Raising the Bar elevates the Chief Risk Officer and risk function to fill the gaps noted in the study.

To help organisations to self assess against the guidance in Raising the Bar, the Risk Coalition has developed an online Gap Analysis and Benchmarking Insights tool (GABI). All details, including an explanatory video, are available by clicking here. https://riskcoalition.org.uk/gabi.

Existing risk governance is ad hoc and borrows from guidance based on management accounting practice not risk management principles. In other words, Raising the Bar was designed in consultation with risk professionals for risk professionals. The guidance is presented here in the hopes that organizations seeking leading practice in risk governance consider this guidance in their strategic planning.

Closing Comments and Observations

In closing, there were a few surprises in this study that help amplify the current state of risk management. My first observation is risk management is thriving even though the discipline of risk has evolved organically or borrowed from other disciplines that are unrelated to traditional risk practice.

This helps explain why corporate risk management has not advanced to the C-suite in the same manner as business disciplines of accounting, finance, and marketing for example.

Secondly, there is a void in existing academic study on the functions, processes, tools and measures of risk performance at the risk and audit committee level. Additional research is needed to evaluate the processes used by board committees to address key risks for the enterprise.

How can board governance improve financial reporting of the risks that matter to key stakeholders? How is risk information created? Is the information derived purely from internal audit or is there an aggregation of key risks? Are key risks communicated through the CEO, risk/audit committee or senior risk executives? What are the mechanisms to decide how to mitigate key risks or accept them on an on-going basis? How does the board measure its own performance in risk reduction? Does the board use risk-adjusted returns on investments?

These and other questions are not addressed in empirical evidence in existing research suggesting a number of strategies can be deployed to better measure board governance performance beyond trailing metrics of financial results, debt financing or other matters that may be arbitrary to the actual results of the firm. Firms who demonstrate better board risk governance will be better prepared to achieve greater performance for all respective stakeholders .

Enterprise-wide risk management is an emerging discipline of institutional study that lacks a grounding in science. Enterprise-wide risk management could become a branch of organizational science or organizational behavioral science. Organizational science is both a science and a practice, founded on the notion that enhanced understanding leads to applications and interventions that benefit the individual, work groups, the organization, the customer, the community, and the larger society in which the organization operates.[2] [3] Organizational behavior (OB) is the multidisciplinary study of the employee interactions and the organizational processes that seek to create more efficient and cohesive organizations.[4] Both of these disciplines may be good candidates in which enterprise-wide risk management could become a branch of study and research. It is very surprising that ERM is not rooted in the existing sciences of today.

Lastly, I am surprised that one of the most recent advancements in risk practice, Prospect Theory, is not recognized as an innovation in risk management. Behavioral science addresses the one element that all other risk frameworks ignore, intentionally or inadvertently, the human element. The common denominator of all decisions, success or failure rests with the human element. If risk management is about the quality of decisions about strategy, risk, controls and so much more why has the risk management industry missed the one element we should not ignore – the people in the organization? A cognitive risk framework for cybersecurity and enterprise-wide risk management was created by the author to fill the gap in existing risk frameworks.

2020 has been fraught with change and disruption creating a great deal of uncertainty which creates opportunity for good risk management and board risk governance to provide clarity through the fog. Never before have the tools and technology to manage risks been better suited for this time. I hope that this study provides new insights into current risk practice and opportunities to advance your risk program with better clarity as you plan for the future.

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[2] https://orgscience.uncc.edu/
[3] https://definitions.uslegal.com/o/organizational-science/
[4] https://online.usi.edu/articles/mba/what-is-organizational-behavior.aspx

Appendix

Global Compliance Associates, LLC is the corporate owner of TheGRCBlueBook and the sponsor of the 2020 Advancements in Enterprise Risk and Governance survey. The survey was initially created as an academic research study for Columbia University's School of Professional Studies. After the emergence of the COVID-19 pandemic Global Compliance Associates assumed responsibility and sponsorship. What did not change is the researcher, James Bone, who served as Lecturer-in-Discipline in Enterprise Risk Management at Columbia's SPS ERM program and founder of Global Compliance Associates.

Global Compliance Associates, LLC was founded to conduct research in the role of human factors in risk management and cybersecurity. Global Compliance Associates is the owner of "Cognitive Risk Framework" and "Cognitive Risk Framework for Cybersecurity and Enterprise Risk Management", both are trademarks at the USPTO.

GCA is dedicated to the development of a human-centered risk focus in ERM and cyber risk. We believe that existing global risk frameworks have understated the role of human actors in risk management and information security through identified "bounds" in human behavior and analytical capabilities. Consequently, we believe that the speed of a digital economy is a challenge for human actors to keep pace without being assisted by more advanced tools to identify, understand and make sense of the new vulnerabilities that exist across a spectrum of risks.

TheGRCBlueBook, LLC was founded to research the tools that risk professionals use to manage risks in all industries. The goal of TheGRCBlueBook is to bring transparency to the market for risk technology. One of the new initiatives toward this goal will be launched fall 2020 through a 501(c)(3) risk research organization called the GRCIndex.org.

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