



The
RISK
INSTITUTE
*Enterprise Risk, Insurance,
Capital Management*

The Risk Institute
Second Annual Survey on
Integrated Risk Management

Spring 2016

THE CONVERSATION ABOUT RISK STARTS HERE.

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Welcome to the Second Annual Risk Institute Survey on Integrated Risk Management

This second annual survey conducted by The Risk Institute at The Ohio State University Fisher College of Business is a comprehensive research initiative designed to better understand how U.S. companies structure their risk management functions and how they integrate risk management into business decisions. Firms are facing increasing and ever-evolving risk, thus the conversation about risk and risk management also must be ongoing. This survey is one of the ways The Risk Institute is creating a dialogue with those on the frontlines of risk management.

Focusing on three pillars – research, outreach and curriculum – The Risk Institute operates at the intersection of academia and industry. The Institute, which became operational in 2013, seeks to advance the field of risk management by generating new insights through scholarly research and by influencing the adoption of leading risk management strategies. The Risk Institute also seeks to inform and shape the future by cultivating the next generation of risk-aware business professionals who are equipped to face the challenges of an evolving world.

To highlight the collaborative mission of the Institute, this survey was created by academic scholars associated with The Risk Institute and Advisory Board Members who represent the Institute’s founding partners – Aon, Battelle, EY, Huntington, Nationwide and The Ohio State University. They have partnered to create a survey, and the findings add depth to last year’s results and explore new insights into how senior executives consider disruption, and its potential to create positive or negative impact.

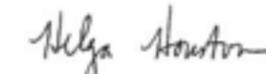
We hope the results of The Risk Institute’s survey provide you and your colleagues with new insights on how to structure risk management function/framework and how to integrate risk management in business strategies, so you can better leverage risk, meet corporate objectives and create value. We invite you to read, discuss, and share the following insights with colleagues throughout your organization. To continue the conversation about risk management, or to explore ways to engage with us on our mission, please feel free to contact us.

Sincerely,



Anil K. Makhija

Dean and John W. Berry, Sr. Chair in Business,
The Max M. Fisher College of Business
The Ohio State University



Helga Houston

Chief Risk Officer
Huntington National Bank
Advisory Board Chair, The Risk Institute

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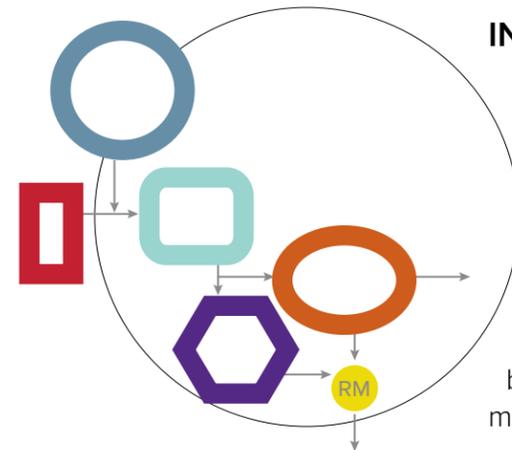
THE EVOLUTION OF RISK MANAGEMENT INTO CORPORATE STRUCTURE

The Risk Institute Second Annual Survey on Integrated Risk Management results highlight that risk management efforts over the last year in U.S. firms continue to evolve. More firms are engaging in activities to create holistic and organization-wide risk management functions.



TONE AT THE TOP

More than 40 percent of the respondents in financial firms recognize risk management as a value creation tool used across the firm, mostly in a fully integrated way.



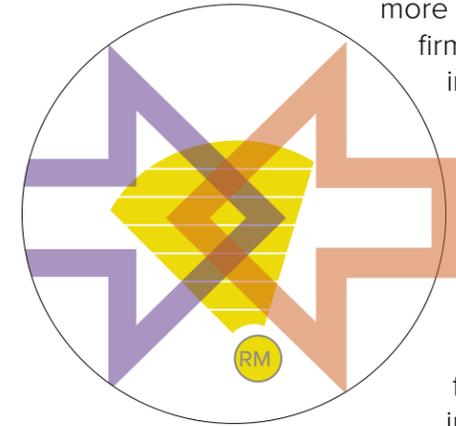
INTEGRATION OF RISK MANAGEMENT INTO DECISION MAKING

The three leading business processes influenced by risk management are compliance, strategic planning, and operations business planning and management.



ORGANIZATIONAL STRUCTURE AND RISK MANAGEMENT EFFORTS

50 percent of firms reporting have increased their risk management support and focus over the last year, allocating additional funds to both external and internal resources. Also, more than 40 percent of the firms reporting anticipate increasing the size of the risk management function during the next 12 months.

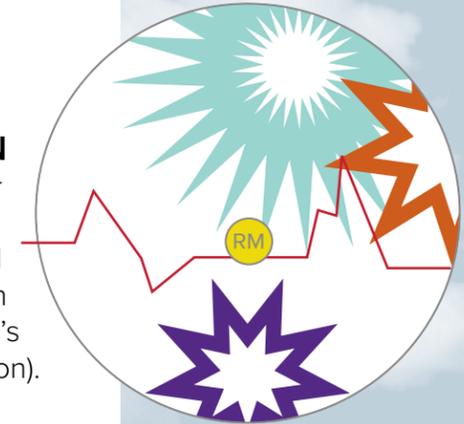
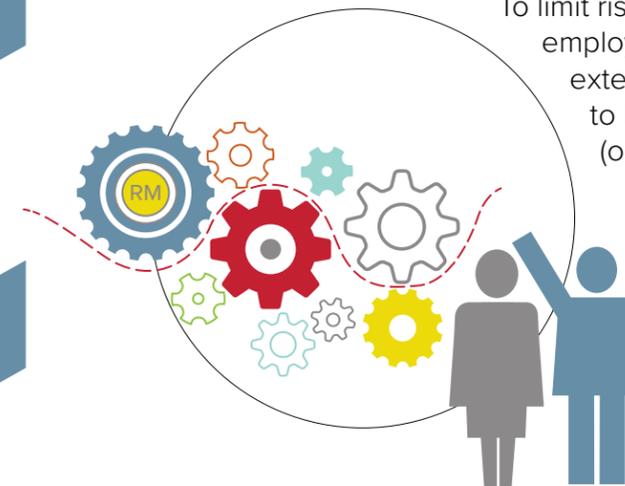


DISRUPTION

The most disruptive events for firms, which reported a disruption in the last 12 months, were related to regulation and innovation (enhancing or worsening firm's competitive position).

RISK MANAGEMENT PROCESS

To limit risk taking by employees, management extensively takes steps to limit sales-at-risk (or cash-flow-at-risk).



ABOUT THE RESEARCH

The second annual survey* by The Risk Institute at The Ohio State University's Fisher College of Business was conducted to further our understanding of how U.S. companies view the role of risk management in their firms, how they structure their risk management functions and how they integrate risk management in business decisions to support this view. Additionally, this year we sought to understand how firms perceive recent disruptions to their organizations and potential disruptive events during the next year.

The survey is comprised of 17 questions (some with multiple parts) that focus on five key areas:

- PART A **Organizational Structure: Tone at the Top**
- PART B **How Risk Management is Integrated into Business Processes**
- PART C **The Scope of Risk Management**
- PART D **Risk Management Processes**
- PART E **Disruption**

There are many nuanced interpretations of the terms risk management and risk integration. Therefore, we asked participants to keep the following definitions in mind while completing the survey:

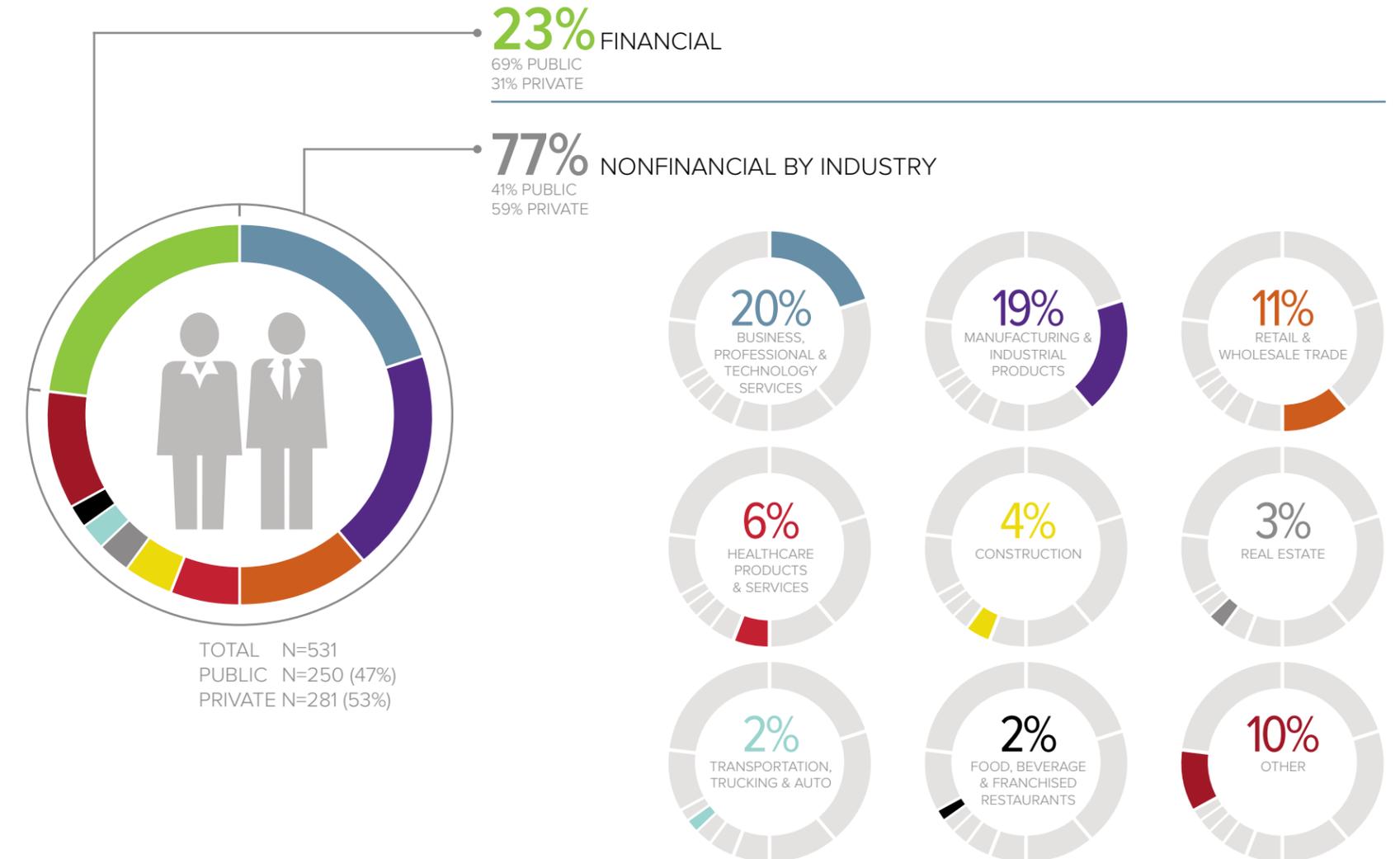
Risk management: In this survey, risk management is a broadly defined concept that deals with the management of various risks to the firm. Considerations include, but are not necessarily limited to, risks entailed in strategy, quality, compliance, regulatory requirements, financial, logistics/supply chain and legal aspects.

Risk integration: Risk integration is the firm's recognition of risks faced by the firm and how they are incorporated into the decision-making process at the functional level.

This report is based on survey responses by senior executives from 531 U.S. Figure 1 reports the industry distribution for the responding firms.

*The survey was administered by RTI Research and was conducted during Q3 and Q4 of 2015.

FIG 1. Respondents by Industry



EXECUTIVE SUMMARY

Just as financial and investment decisions are common at many firms, risk management policies and their supporting infrastructure play increasingly integral roles in a firm's ability to remain competitive and create sustainable value in the current business and economic environment. Firms are finding that a comprehensive and integrated risk management approach that leverages collaboration across business functions increases their abilities to achieve corporate objectives and enhance shareholder value.

One of the key objectives for The Risk Institute is to create a greater understanding of how organizations can proactively leverage risk management to create shareholder value. Given the varied roles risk management plays in different organizations, for our second annual survey on integrated risk management our objective was to gather opinions from leadership in financial and nonfinancial industries as well as from public and private firms about:

- How risk management's role is viewed in their organization.
- How, if at all, risk management is integrated into business decisions.
- How risk management as a function is

organized to support its role in the firm.

- How leadership views recent disruptions to their organizations and any potential disruptive events during the next year.

How is risk management evolving and being integrated in business decision-making?

The structure of the risk management function continues to evolve. 74 percent of firms have a corporate unit that is primarily responsible for risk management, with the percent reaching about 90 percent in public firms. In financial firms, the Chief Risk Officer (CRO) and Risk Management Committee of the Board have primary responsibilities for risk management. In nonfinancial firms, it is less clear. Participants indicate that either the Chief Executive Officer (CEO), Chief Financial Officer (CFO) or CRO lead the risk management function, while the Risk Management Committee has this responsibility at the board level. Importantly, in almost all firms, the senior executive charged with risk management reports to the Board and if not the Board, the CEO.

What is fueling the evolution of risk management?

Firms ranked external factors as the most important catalysts, especially regulation

and an increasingly volatile business environment. Yet, internal factors also are increasingly important catalysts. The recognition of risk management as a tool for growth and value creation as well as the availability of better risk management tools, were mentioned as significant opportunities for risk management.

The Tone at the Top also reflects this evolution of risk management.

Previously risk management was only being done to meet regulatory requirements and to protect the firm against the negative effects of volatility in firms' business environments. While these views are still a common practice, more firms recognize risk management as a source of both growth and value, and emphasize its use in certain, if not all, areas of the firm. Consistent with these views, firms are moving toward a more centralized approach to risk management. Evaluating the impact of these risks is done in aggregate across the firm and is managed by or under the direction of the C-suite.

Senior leadership has provided the resources to support these views, with about 50 percent of firms allocating more funds for external and internal resources. Interestingly, no firm has decreased its dollar resources towards risk management. The role of technology

also continues to evolve as an integral part of risk management, yet there is no clear preference for third-party and/or in-house risk management software. About half the firms reporting identified using each source.

Firms are selectively integrating risk management in business decision making and are experiencing improved business outcomes as a result. This integration involves three steps:

- The risk management function must recognize the business process.
- Risk management must affect the analysis undertaken in the business process.
- The analysis must feed back into the risk management of the firm.

Firms indicate that their risk management functions recognize almost all key business processes in the firm but to varying degrees. Specifically, firms most often recognize compliance, strategic planning and operational business planning, and management.

What, if anything, do firms gain from integrating risk management into business processes and decisions?

Firms indicated that they experience improved results in those units and improved corporate objectives, especially those related to meeting

regulatory and compliance requirements and protecting the firm against negative events. This last improvement is consistent with firms that view risk management as a defensive strategy.

While many firms in our sample believe risk management

is being integrated across the firm, they also report that only a subset of business functions are actively involved in identifying, measuring and managing major risks impacting the firm. Not surprising, the C-suite and finance; audit, accounting and tax; operations; strategy; and legal and compliance functions are all actively involved in identifying, measuring and managing major risks to some degree.

When analyzing risks, all firms rely on

both qualitative and quantitative methods and view best-case/worse-case scenario analysis and extreme case analysis (e.g. stress tests) as having the greatest potential to impact the management of risk in their firm going forward.

How do firms set the scope of risk?

The structure of the risk management function and mechanisms to set the scope of risk-taking continue to evolve as firms integrate risk management into business processes and develop risk aware employees. Firms report that they use a variety of mechanisms to set the scope of risk taking with most of them limiting or not encouraging risk taking.

Finally, in the last part of our survey, we asked participants to consider the two sides of disruption. Some cause disruption by creating a new business model for which its competitors' revenues and cost infrastructures do not allow for the competitor's quick response. In this case, the disruption has the potential to create value. Or the firm's business strategy, activities, process or infrastructure, for example, can be interrupted by an unexpected event. In this case, disruption has the potential to negatively impact the firm.

About 80 percent of firms participating

did not experience a disruptive event in the last 12 months, but if they did most reported that the disruptions were related to regulation or innovation events. Looking over the next 12 months, firms did not believe a disruptive event was very likely or extremely likely. Yet if a cyber event, regulatory event or catastrophic event did occur, most indicated that the event would have a major impact on the firm.

What does this mean for the evolving role of risk management?

First, in order for firms to transition to a more integrated risk management approach that is viewed as a source of value-enhancing opportunities, it is important to choose a senior executive who embraces this view to lead the risk management function. That executive should have a direct reporting line to the Board and should effectively collaborate with other C-suite executives to leverage risk and enhance shareholder value.

Second, for firms that want a more integrated risk management approach, it is important to include more business

Talent acquisition and retention and succession planning are key risks for firms, yet results suggest the HR/Talent Management function is rarely involved in risk management processes.

units/functions in risk management processes, and not only rely on those functions primarily responsible for strategic planning and compliance. For example, similar to the results of our 2014 survey, talent acquisition and retention and succession planning are key risks for firms, yet results suggest that the HR/Talent Management function is rarely involved in risk management processes. Similarly,

corporate objectives related to product or geographic expansion or product innovation have inherent risks but marketing/brand management, R&D, and sales are also rarely involved. Emerging risks and opportunities, such as those related to disruptions in technology,

mobile consumer payments, alternative energy sources and the changing workforce demographics, are areas where these functions play important roles. Aligning risk management strategy with these key organizational functions will aid an organization in successfully developing a fully integrated risk management function that can leverage these disruptions, achieving corporate objectives and enhancing growth and shareholder value.

Third, given the changing nature of risks impacting firms, continued effort should be made to increase and explore the use of new risk management techniques and risk software that assist with effectively evaluating risks. Firms should continue to not rely solely on one technique or measure or to be motivated only by mandated requirements. Best-case/worse-case and extreme scenario analyses, as well as more qualitative methods, were viewed by respondents as being impactful, and can assess risks impacting various parts of a firm, especially those not financially oriented.

Fourth, as firms move toward an integrated holistic approach to risk management, senior executives and the Board must develop mechanisms to set the scope of risk-taking that are consistent with this view as well as the firms' culture. Firms will hamper their ability to use risk management as a growth tool and source of value if they rely solely on mechanisms that limit and or hinder measured and responsible risk taking.

What do the results mean for The Risk Institute?

The Risk Institute is dedicated to leveraging the collaboration between academic scholars and practitioners to

advance the adoption of leading risk management strategies. With this goal in mind, the survey results, which yielded insights about how firms structure their risk management functions and how they integrate risk management in business processes, also raised a number of questions. Among those are:

1. Are firms' risk management approaches really as integrated as the survey would indicate?
2. Why are business functions like marketing, sales, HR or R&D not involved in risk management processes? These functional areas have large amounts of data that can help understand risks to a firm's corporate culture and objectives as well as help identify emerging risks.
3. If balancing risk to create value means mitigating risk at times and leveraging risk other times, why are firms not using mechanisms to set the scope of risk-taking consistent with this view?

We look forward to continuing our conversation about risk management with you in the future as we work to provide insights into these questions through new areas of research, translations of completed academic research for practical

business applications, and educational programs for business professionals, undergraduate and graduate-level students. Through these dialogues, we can collectively advance our knowledge of risk management and influence adoption of leading risk management practices.

Bernadette A. Minton

Professor of Finance and Arthur E. Shepard Endowed Professor in Insurance Chair, Department of Finance
Founding Academic Director, The Risk Institute
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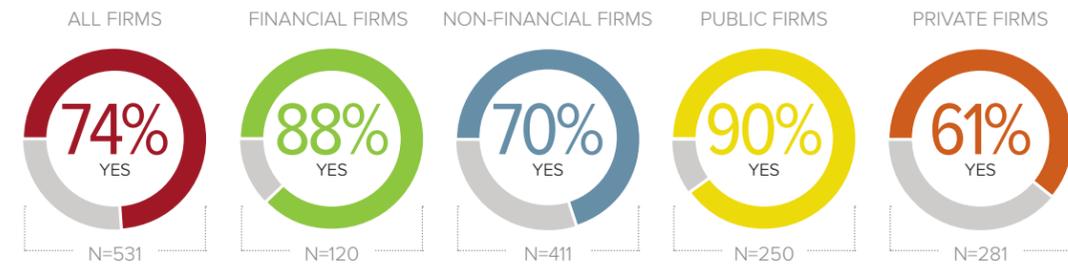
PART A:
**ORGANIZATIONAL STRUCTURE:
 TONE AT THE TOP**

Our study has identified that a majority of firms have a corporate unit that is primarily responsible for risk management.

In financial firms, 88 percent of firms reporting have a function that is primarily responsible for risk management. In non-financial firms, 70 percent of firms reporting have a function primarily responsible for risk management. Almost all public firms (90 percent), allocate a corporate function to risk-management practices, likely due to their regulation and disclosure requirement. However, only 61 percent of private firms dedicate a corporate function to risk management, likely due to their size constraints. With risk management becoming a central point of discussion for every firm, especially after the recent crisis, we expect statistics to improve for private firms in the following years.



FIG 2. Firms Having a Corporate Unit That is Primarily Responsible for Risk Management.



It is important to note that during the following 12 months, almost 50 percent of the financial as well as 50 percent of public firms reporting anticipate increasing the size of the risk management function. For nonfinancial firms it is not trivial either, with almost 40 percent of them anticipating to increase their risk management function.

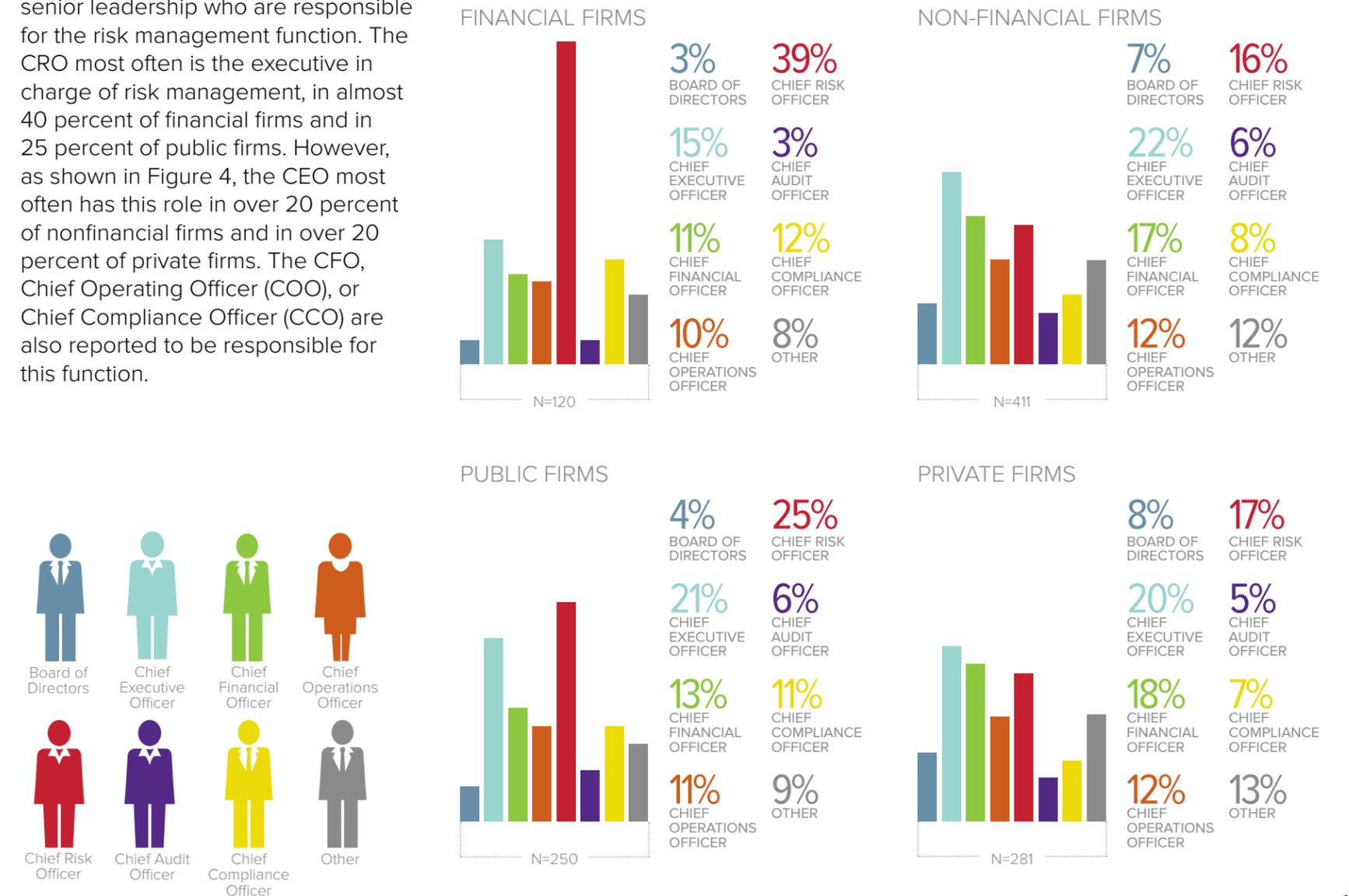
FIG 3. In the Next 12 Months Firms Anticipate the Size of Their Risk Management Unit to:



1. Leading Risk Management

Firms reported variations in the level of senior leadership who are responsible for the risk management function. The CRO most often is the executive in charge of risk management, in almost 40 percent of financial firms and in 25 percent of public firms. However, as shown in Figure 4, the CEO most often has this role in over 20 percent of nonfinancial firms and in over 20 percent of private firms. The CFO, Chief Operating Officer (COO), or Chief Compliance Officer (CCO) are also reported to be responsible for this function.

FIG 4. Executives in Charge of Risk Management

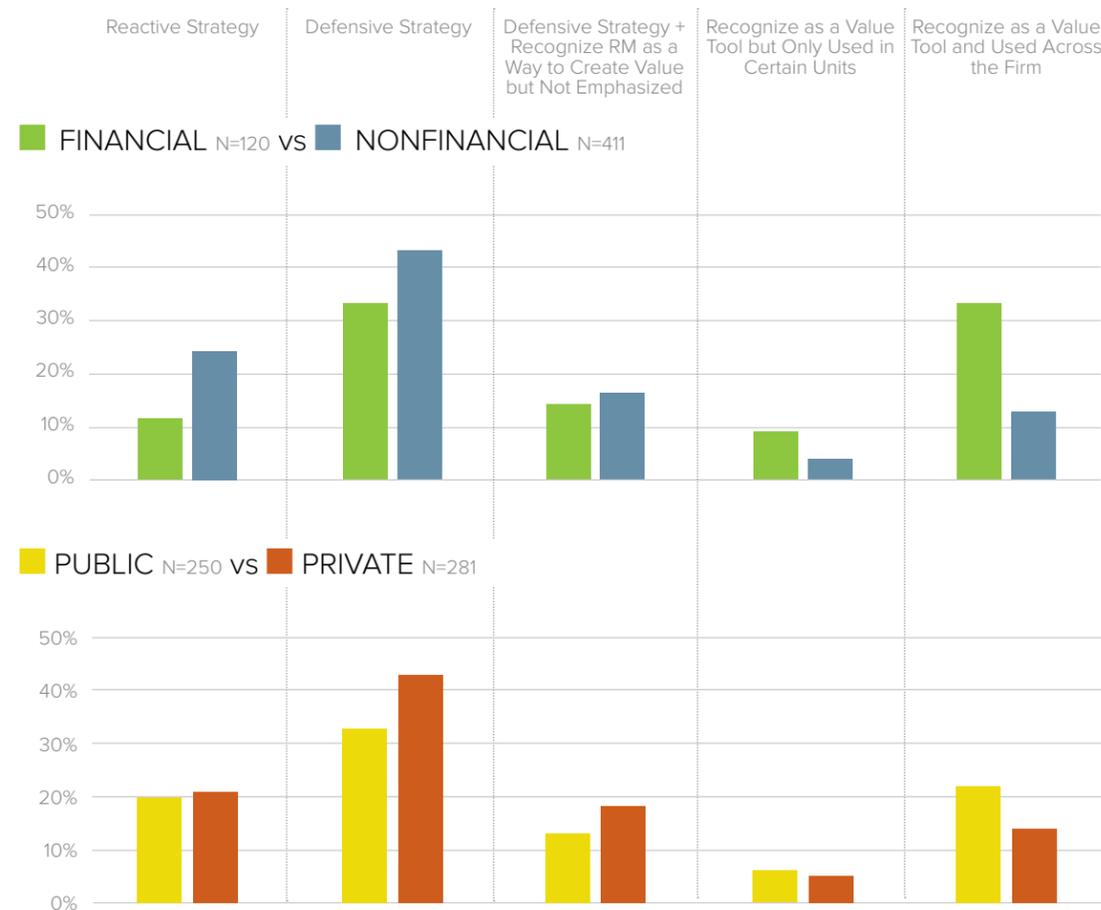


2. Tone at the Top

When asked what best describes the “tone at the top” regarding risk management at their company, about 45 percent of respondents in financial firms report that it is reactive or defensive, reflecting a necessity for mandated requirements or for protection against negative outcomes, respectively. However, more than 40 percent of the respondents in financial firms recognize risk management as a value creation tool used across the firm, mostly in a fully integrated way.

In contrast, in nonfinancial firms, 67 percent of respondents see risk management as a reactive or defensive strategy, while about 20 percent of respondents believe that this strategy creates value in a partially or fully integrated way. Given the heavy regulated aspect of financial firms, it is interesting to see the difference in response between financial and nonfinancial firms with regard to this question. Although less dramatic, similar differences appear between respondents in public and private firms.

FIG 5. Risk Management as Strategy



3. Risk Management Efforts

50 percent of firms reporting have increased their risk management support and focus over the last year, allocating additional funds to both external and internal resources. The remaining firms kept their risk management efforts constant.

The most important catalysts for their increased efforts have been external factors, such as regulatory requirements and or a perceived increase in the general volatility of the business environment. Internally, the most important catalyst for the firm’s increased efforts is the recognition of risk management as a tool for growth and value. In particular, nonfinancial and public companies each reported an increase in risk management effort in this area that was 10 percent higher than that reported by financial firms.

FIG 6. Effort Factors

	All Firms (N=531)	Financial Firms (N=120)	Non-Financial Firms (N=411)	Public Firms (N=250)	Private Firms (N=281)
INDICATED EFFORT INCREASE	50%	63%	46%	58%	42%
EXTERNAL FACTORS (NET)	60%	79%	53%	59%	62%
A catastrophic incident	6	4	6	5	6
The general increase in volatility of business environment	20	16	21	16	24
Shareholder pressures	5	3	5	3	7
Regulatory requirements	30	56	20	34	26
INTERNAL FACTORS (NET)	37%	21%	44%	39%	35%
Change in leadership	8	3	10	8	8
Recognition of risk management as a tool for growth and/or to create value	20	13	23	23	17
Availability of better risk management tools	9	5	11	8	10
OTHER	2%	-	3%	2%	3%

4. Organizing Risk Management:

Participants reported that 70 percent of public companies decided to move toward centralizing the risk management function. In contrast, only 12 percent of public firms moved toward decentralization. Given the increasing complexity of the risks that both financial and nonfinancial firms are facing, a move toward centralization makes sense from a strategic viewpoint.

Respondents indicate that the impacts of risk are evaluated in the aggregate across the firm and managed by (or under the direction of) the C-suite. In financial firms, the impact of risk is evaluated and managed by the business unit and C-suite together more often than in nonfinancial firms.

FIG 7. Movement Toward Centralizing Risk Management

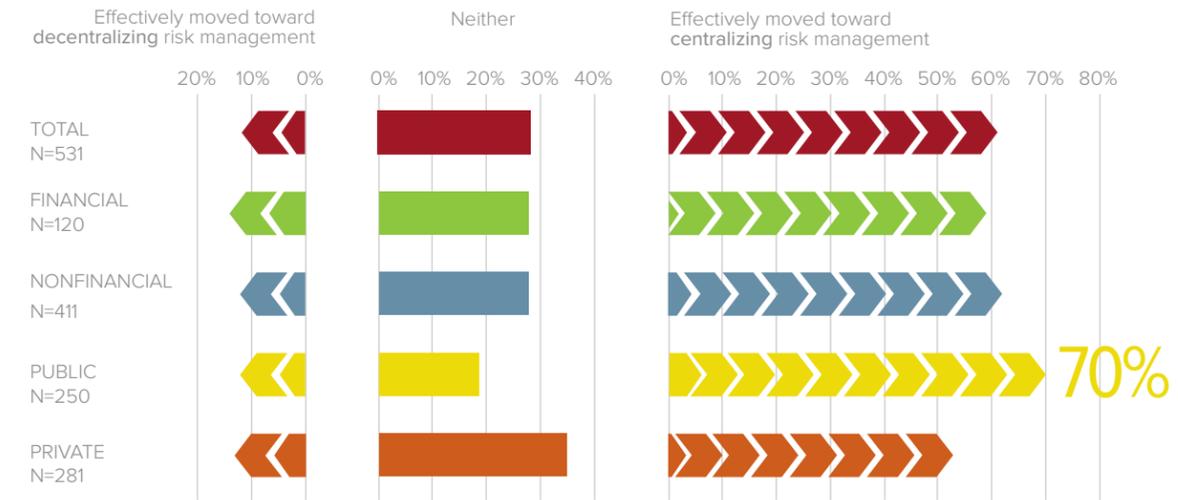
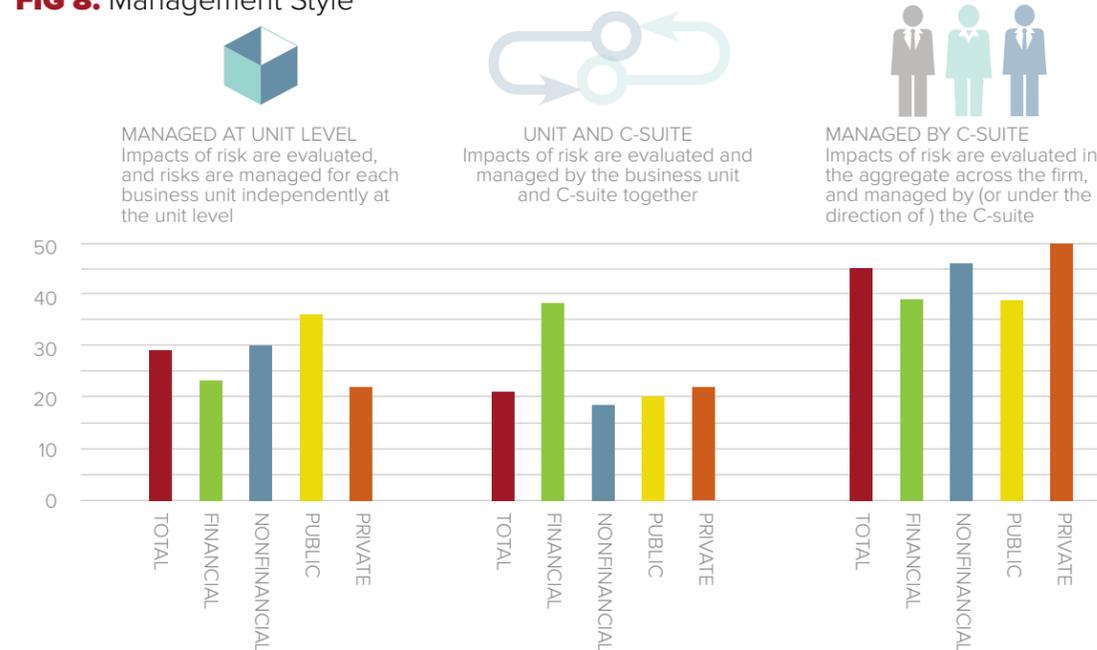
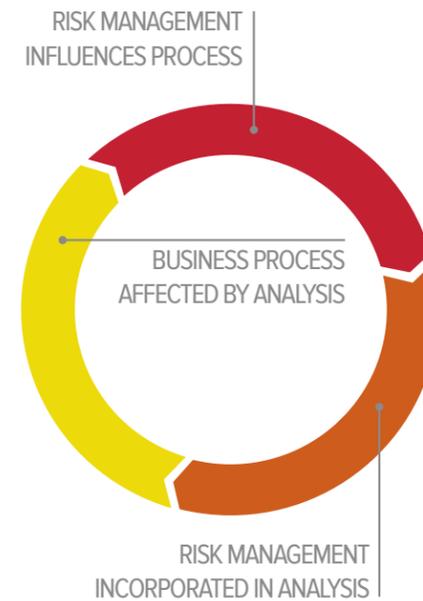


FIG 8. Management Style



PART B: HOW RISK MANAGEMENT IS INTEGRATED INTO BUSINESS PROCESSES

Survey participants were asked how risk management was integrated into various business processes. The graphic below illustrates what we were trying to determine.



Most firms reported that the three leading business processes influenced by risk management are compliance, strategic planning, and operations (Ops) business planning and management. The second-tier business process influenced by risk management is different in financial and nonfinancial firms. Audit planning and portfolio management have a high risk management influence in financial firms, while quality control has high risk management influence in nonfinancial firms.

FIG 9. The Business Process/Unit is Influenced by Risk Management



a. **FINANCIAL FIRMS:**

In the top five business processes/ units influenced by risk management in financial firms, we note a very high correlation between the analysis undertaken in the risk management process and results of the analysis feeding back into risk management.

Firms also indicated that when they integrated risk management into business processes they are able to improve corporate objectives. 33 percent of financial firms reported an “exceptional improvement” in their ability to meet regulatory and compliance requirements when they integrated risk management to improve achieving corporate objectives. 23 percent of the surveyed financial firms also reported improved disclosure; 20 percent report to protect customers and clients; and 20 percent report to protect and enhance company’s reputation.

FIG 10. Top 5 Business Processes That are Influenced by Risk Management

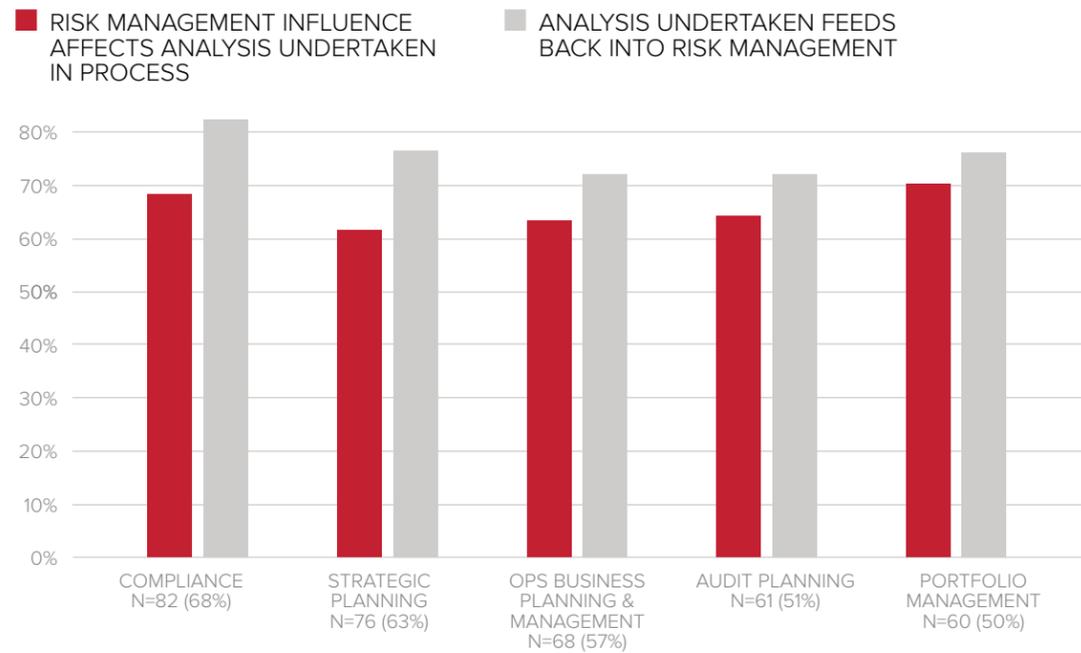
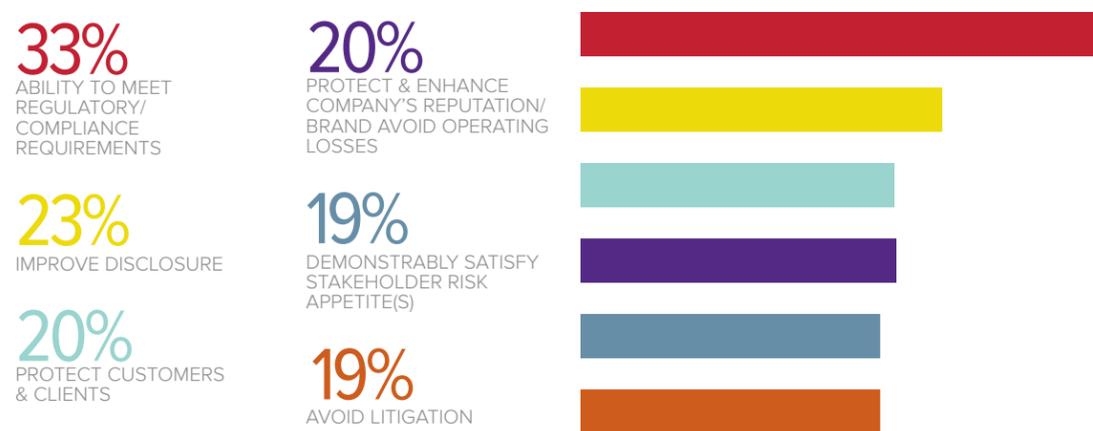


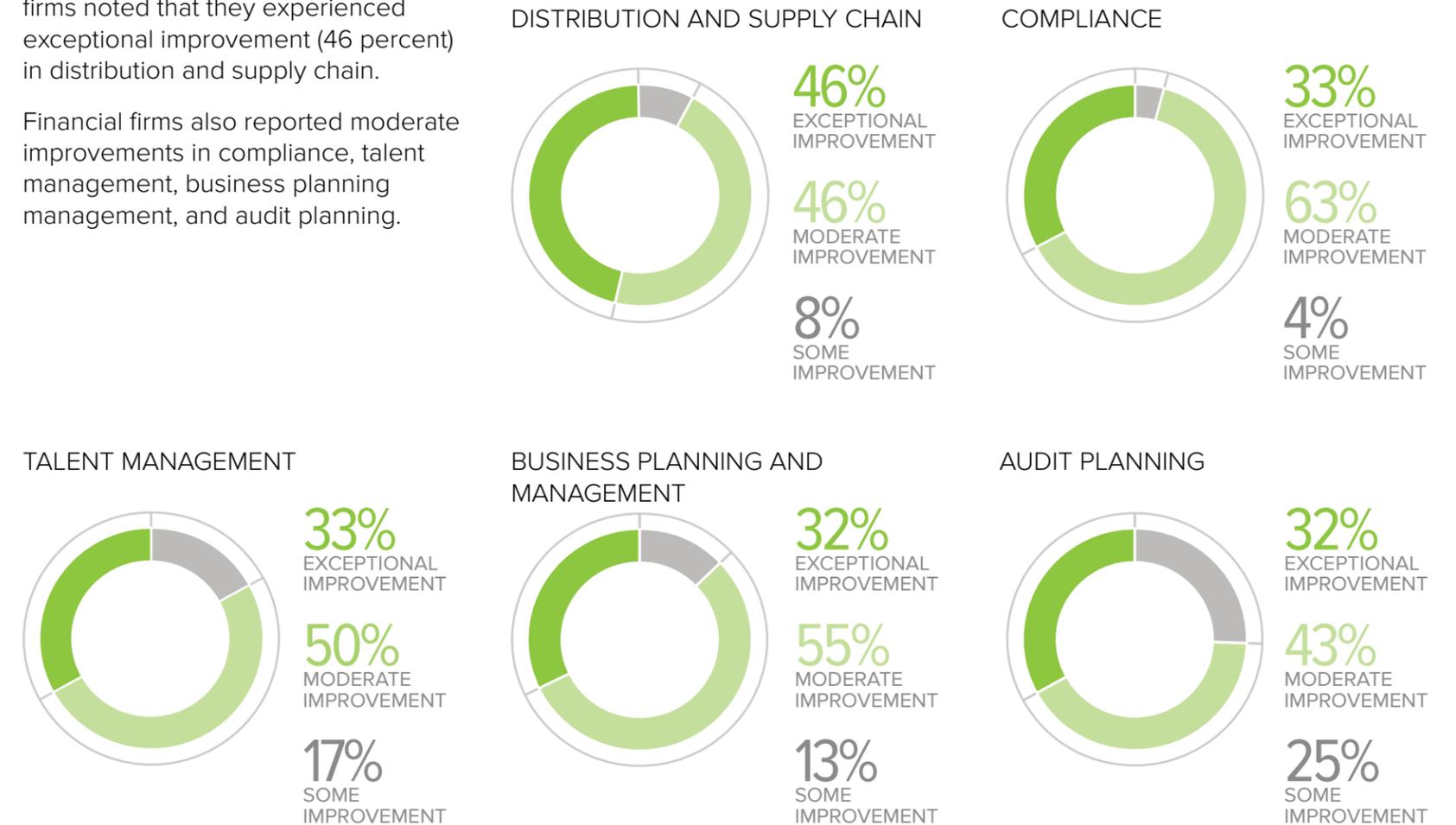
FIG 11. Does Integrating Risk Management into Business Process Improve Corporate Objectives?



When asked if integrating risk management into business process improved results, executives in financial firms noted that they experienced exceptional improvement (46 percent) in distribution and supply chain.

Financial firms also reported moderate improvements in compliance, talent management, business planning management, and audit planning.

FIG 12. Does Integrating Risk Management into the Business Process Improve Results?



b. NONFINANCIAL FIRMS:

In nonfinancial firms, we saw a similar relationship to recognition and feeding back into risk management processes. Nonfinancial firms are seeing a higher adoption rate in operation business planning and management, compliance and quality control.

Firms also indicated that when they integrated risk management into business process they were able to improve corporate objectives. Similar to financial firms, nonfinancial firms reported exceptional improvement (30 percent) in the ability to meet regulatory and compliance requirements and that an ability to avoid litigation and protect the firm against negative events is important. This is consistent with most firms that view risk management as a defensive strategy.

FIG 13. Top Five Business Processes That are Influenced by Risk Management

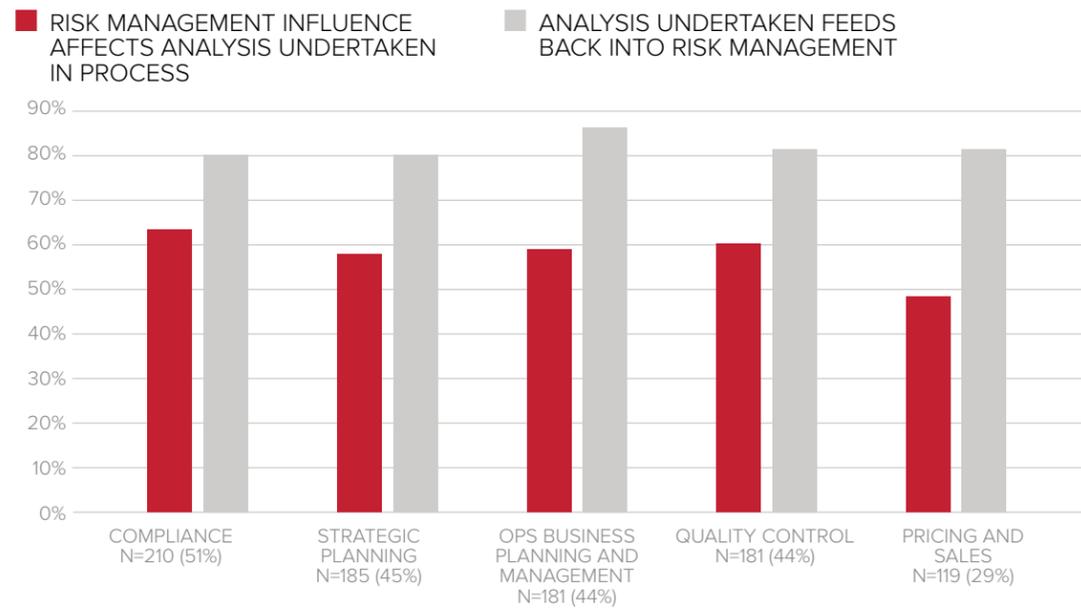
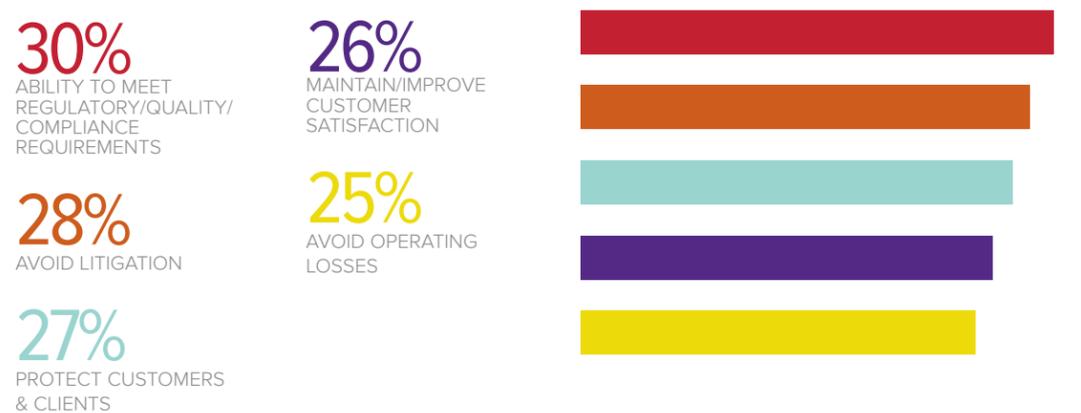
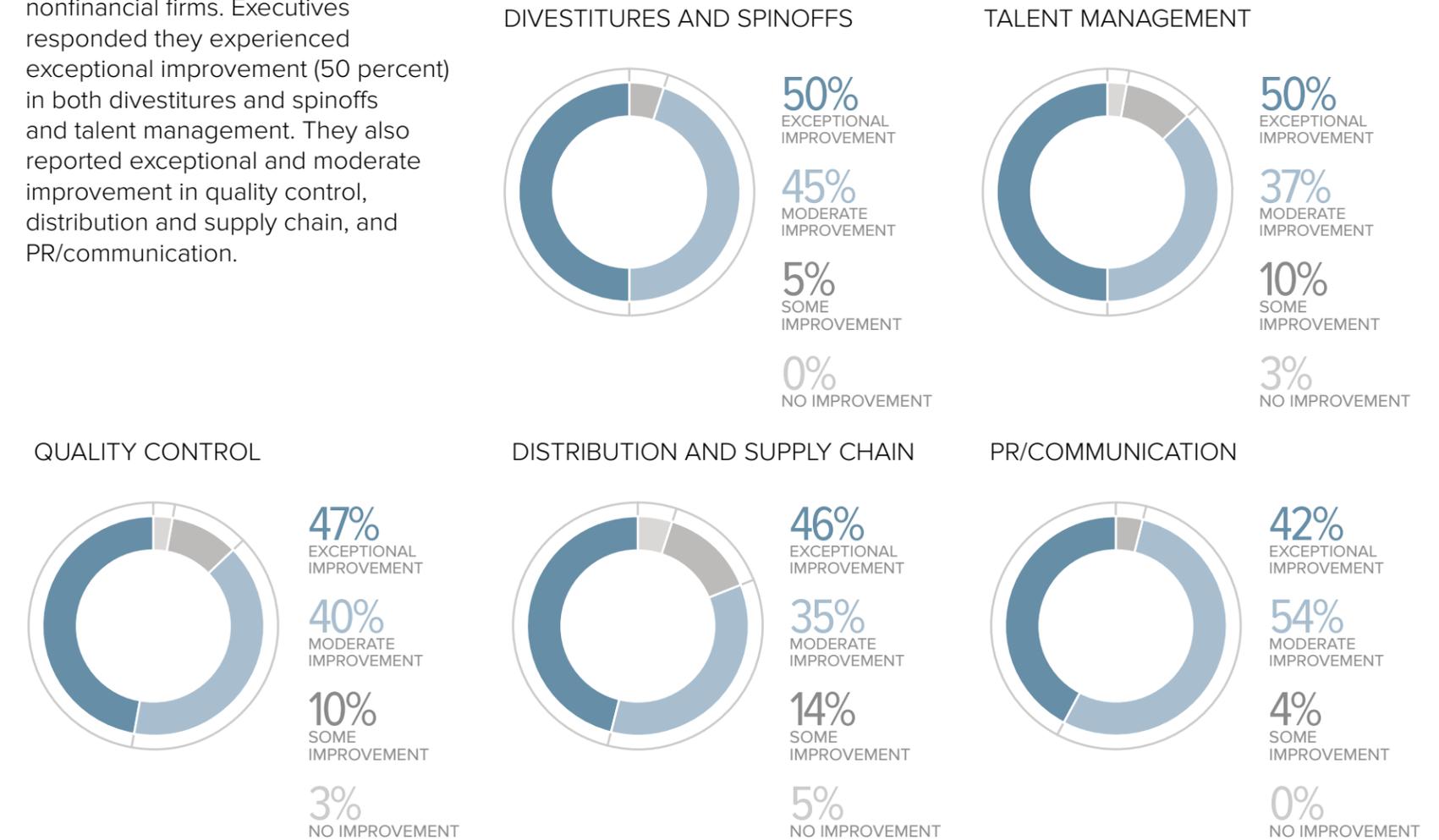


FIG 14. Does Integrating Risk Management into the Business Process Improve Corporate Objectives?



Results also indicated that integrating risk management into business processes improved results for nonfinancial firms. Executives responded they experienced exceptional improvement (50 percent) in both divestitures and spinoffs and talent management. They also reported exceptional and moderate improvement in quality control, distribution and supply chain, and PR/communication.

FIG 15. Does Integrating Risk Management into Business Process Improve Results?



PART C:
THE SCOPE OF RISK MANAGEMENT

We asked how involved various business functions are in the following risk management processes:

- Risk identification
- Quantitative measurement
- Qualitative measurement
- Managing risks impacting firm

1. Risk Identification

Within risk identification, survey results reported a higher involvement by:

- Legal/Compliance
- Operations
- Business Strategy
- Accounting, Audit/Tax
- Board of Directors

Also, finance as a function/unit is very involved in risk identification within nonfinancial firms.

FIG 16. Functions/Units Very Involved Risk Identification

FINANCIAL FIRMS

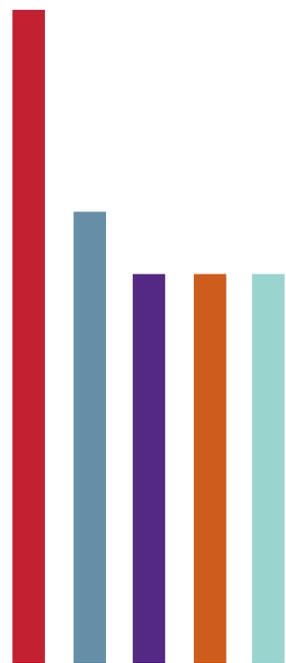
42%
 LEGAL/
 COMPLIANCE

29%
 BOARD OF
 DIRECTORS

25%
 ACCOUNTING/
 AUDIT/TAX

25%
 OPERATIONS

25%
 BUSINESS
 STRATEGY



NONFINANCIAL FIRMS

39%
 LEGAL/
 COMPLIANCE

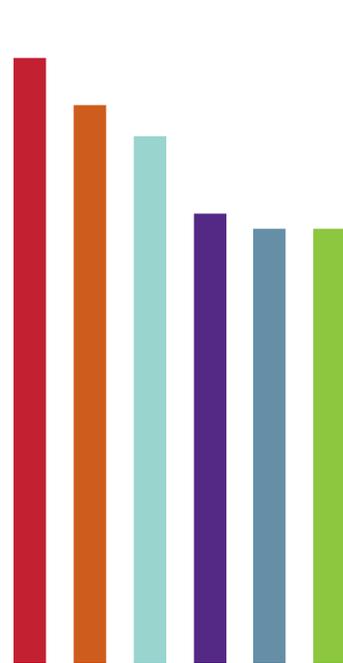
36%
 OPERATIONS

34%
 BUSINESS
 STRATEGY

29%
 ACCOUNTING/
 AUDIT/TAX

28%
 BOARD OF
 DIRECTORS

28%
 FINANCE



2. Quantitative Measurement

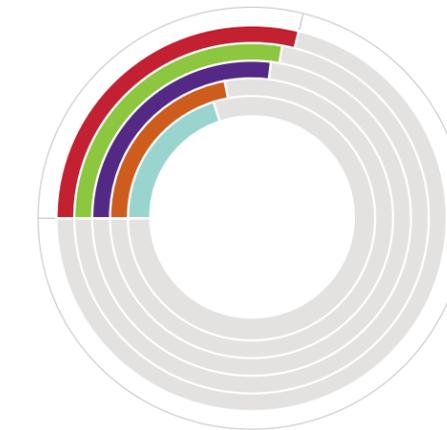
Both financial and nonfinancial firms reported distorted attention to the following key functions as being very involved in quantitative measurement:

- Legal/Compliance
- Finance
- Operations
- Business Strategy
- Accounting/Audit/Tax

Nonfinancial firms placed a somewhat heavier emphasis on the involvement of business strategy and operations in regards to quantitative measurement than what was reported by financial firms.

FIG 17. Functions/Units Very Involved in Quantitative Measurement

FINANCIAL FIRMS



29%
 LEGAL/
 COMPLIANCE

28%
 FINANCE

27%
 ACCOUNTING/
 AUDIT/TAX

22%
 OPERATIONS

20%
 BUSINESS
 STRATEGY

NONFINANCIAL FIRMS



30%
 FINANCE

30%
 LEGAL/
 COMPLIANCE

29%
 OPERATIONS

29%
 BUSINESS
 STRATEGY

27%
 ACCOUNTING/
 AUDIT/TAX

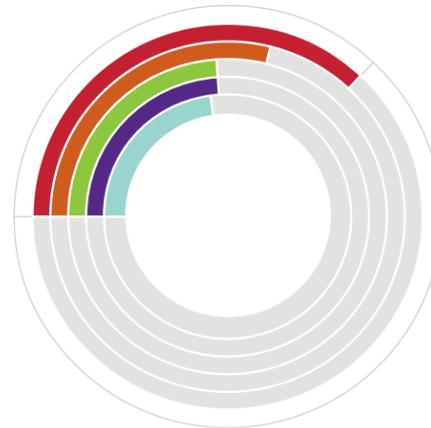
3. Qualitative Measurement

In qualitative responses, financial firms ranked legal/compliance, operations, finance, accounting/audit/tax and business strategy as having a very high correlation in measuring risk that impacts the firm.

Nonfinancial firms ranked operations, finance and business strategy, legal/compliance and board of directors as being very involved in qualitative measures.

FIG 18. Functions/Units Very Involved in Qualitative Measurement

FINANCIAL FIRMS



37%
LEGAL/
COMPLIANCE

29%
OPERATIONS

24%
FINANCE

24%
ACCOUNTING/
AUDIT/TAX

23%
BUSINESS
STRATEGY

NONFINANCIAL FIRMS



33%
OPERATIONS

31%
FINANCE

31%
BUSINESS
STRATEGY

30%
LEGAL/
COMPLIANCE

27%
BOARD OF
DIRECTORS

4. Management of Major Risks Impacting the Firm:

Both the financial and nonfinancial firms reported the following four key functions as being very involved in managing major risks:

- Legal/Compliance
- Operations
- Finance
- Board of Directors

Reporting very high involvement, financial firms also included accounting/audit/tax, and nonfinancial firms included business strategy.

FIG 19. Functions/Units Very Involved in Managing Major Risks Impacting Firms

FINANCIAL FIRMS

38%
LEGAL/
COMPLIANCE

30%
FINANCE

30%
ACCOUNTING/
AUDIT/TAX

30%
OPERATIONS

26%
BOARD OF
DIRECTORS



NONFINANCIAL FIRMS

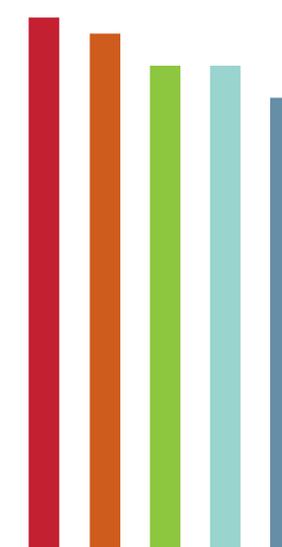
33%
LEGAL/
COMPLIANCE

32%
OPERATIONS

30%
FINANCE

30%
BUSINESS
STRATEGY

28%
BOARD OF
DIRECTORS

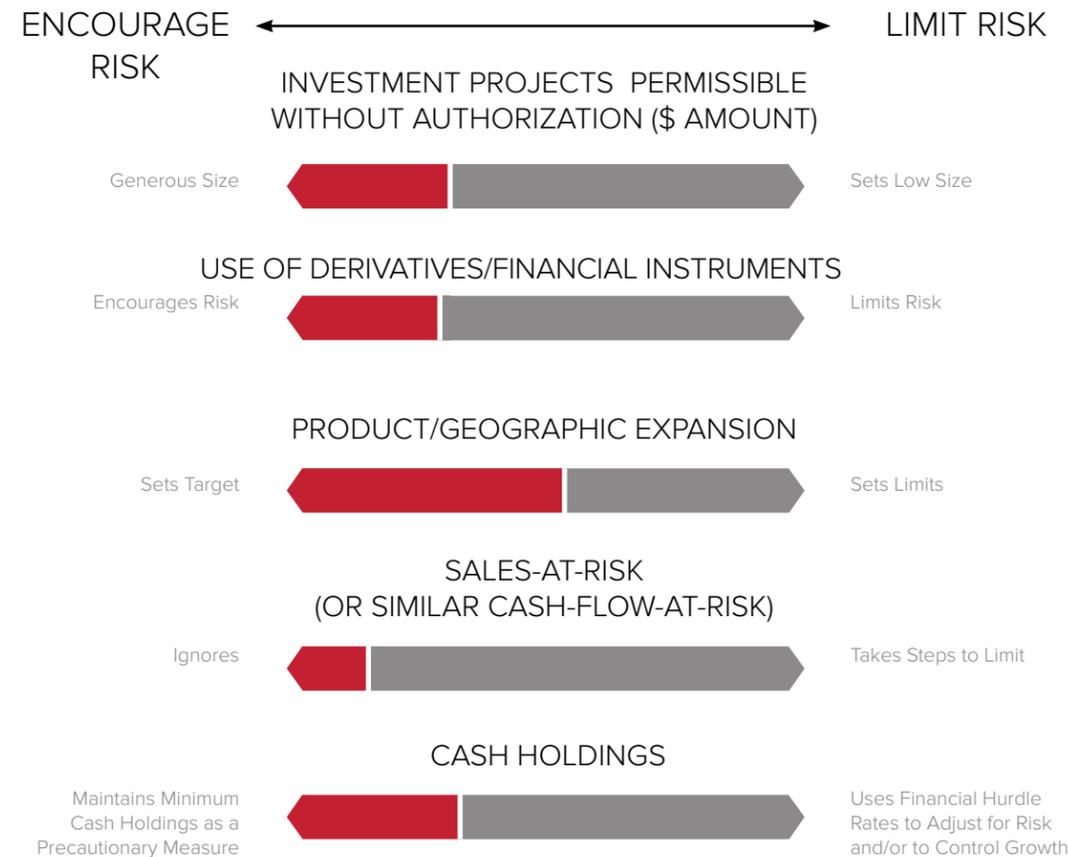


PART D:
RISK MANAGEMENT PROCESSES

In this section, we asked survey participants about the mechanisms in place to set the scope of risk taking within the firm.

To set the scope of risk taking by employees, participants used a sliding scale to choose the point that best describes their firms' culture and senior management's attitude towards risk. To limit risk taking by employees in both financial and nonfinancial firms, management extensively takes steps to limit sales-at-risk (or similar cash-flow-at-risk). They also require use of financial instruments (e.g., derivatives) as hedges rather than as speculative tools, set size limits on projects permissible without limits, and use financial hurdle rates to adjust for risk.

FIG 20. Setting the Scope of Risk Taking
**Includes all responses.*

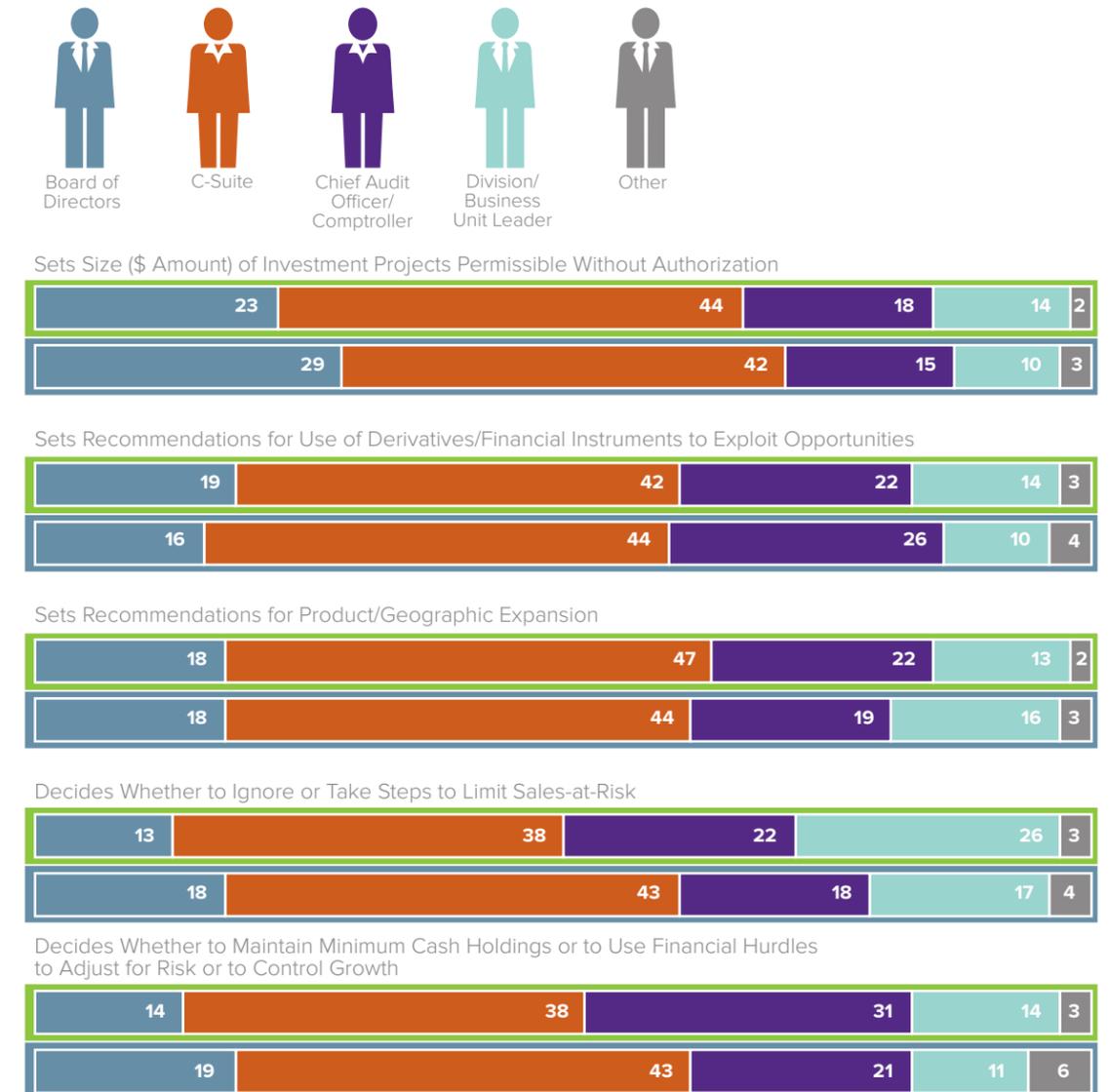


Results show that in both financial and non-financial firms, the Board and the C-suite are intimately involved in reviewing responsibility for setting a mechanism for risk taking. In this section, we focused on five distinct areas for responsibility.

- Set size (\$ amount) of investment projects permissible without authorization
- Sets recommendations for use of derivatives/financial instruments to exploit opportunities
- Sets recommendations for product/geographic expansion
- Decides whether to ignore or take steps to limit sales-at-risk
- Decides whether to maintain minimum cash holdings or to use financial hurdles to adjust for risk or to control growth

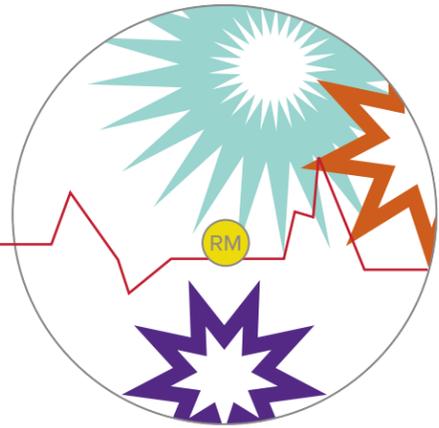
Results are similar for financial and nonfinancial firms, with the exception of Boards at nonfinancial firms having a larger level of involvement for setting the size of investment projects permissible without authorization.

FIG 21. Responsibility for Setting the Scope of Risk Taking
FINANCIAL & NON-FINANCIAL



PART E:
DISRUPTION

Within this section on disruption, we asked participants about various potential disruptive events which may or may not have impacted their firms in the last 12 months.



In addition, we asked survey participants to identify whether their firms were in a position to capitalize on various types of disruptions. We asked participants to consider the following definition of disruption.

Disruption: An interruption or disturbance to a firm's business environment, activities or processes.

Consider two sides of disruption:

1. A firm can cause disruption by creating a new business model to which its competitors, due to revenues and cost infrastructures, cannot respond quickly. In this case, the disruption has the potential to create value.
2. A firm's business strategy, activities, process or infrastructure, for example, can be interrupted by an unexpected event. In this case, disruption has the potential to negatively impact the firm.

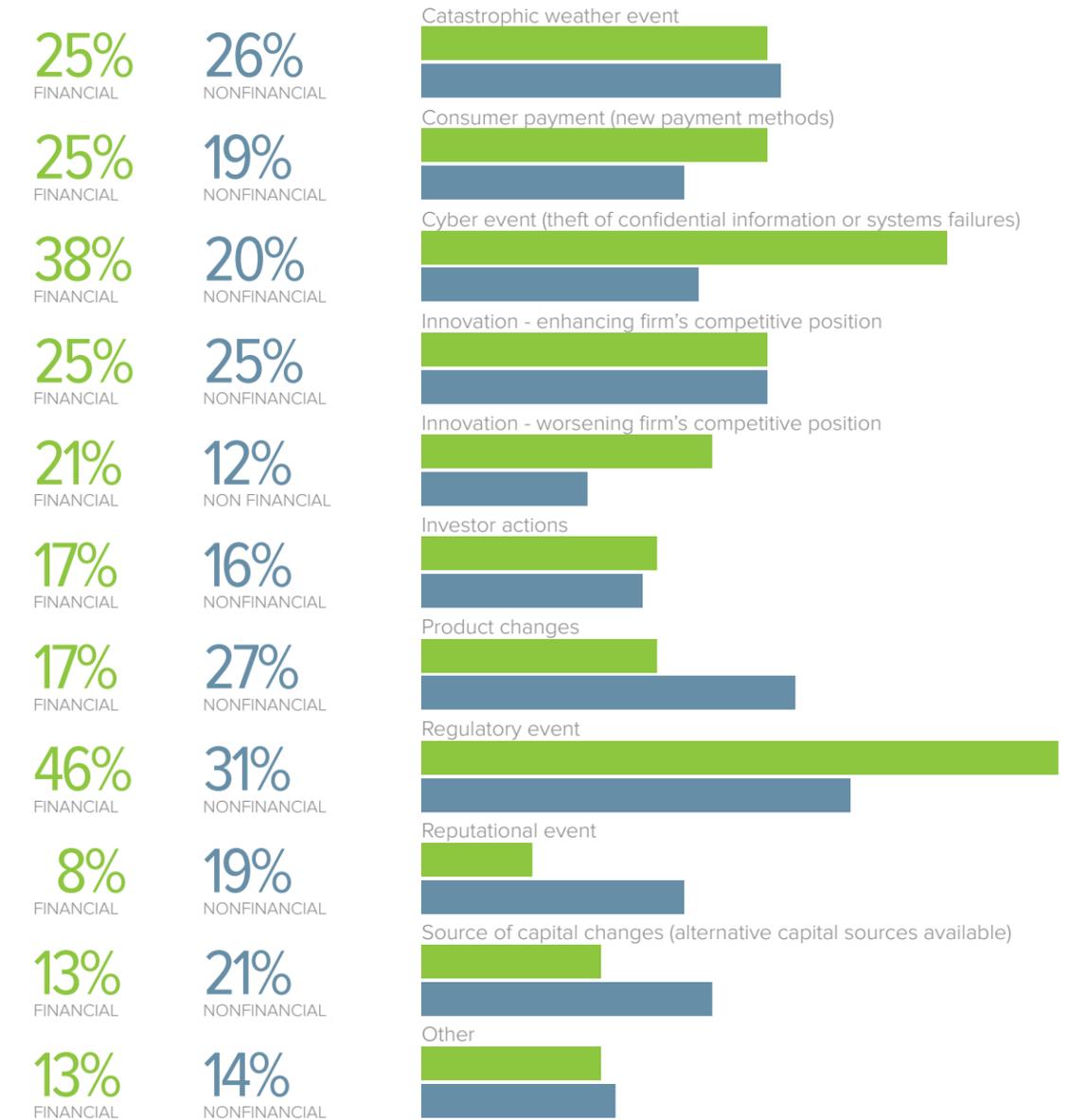
1. Disruptive Events During the Last 12 months.

- a. 80 percent of firms reporting did not experience a disruptive event during the last 12 months. It's important to note that the survey covered the last two quarters of 2015. Firms may have experienced a disruptive event of a larger scale outside of this time frame, and that may have affected the results.

For those financial firms that experienced disruptive events, most reported disruptions were related to regulation and cyber theft of confidential information or systems failure.

For nonfinancial firms, they indicated that innovation (enhancing or worsening firm's competitive position), regulation, catastrophic weather events, and product changes were disruptive events during this time frame.

FIG 22. Disruptive Events Experienced by Firms During Last 12 Months



2. Likely Potential and Resulting Impact of Disruptions During the Next 12 Months.

a. FINANCIAL FIRMS:

During the next 12 months, financial firms indicated that disruptions related to regulation, consumer payment methods and innovation had the potential to disrupt their firm's position. Product changes were very or extremely likely to occur.

At least 50 percent of respondents indicated that if a cyber-related event, a regulatory, or reputational event occurred, it would have a major impact on the firm.

 NL=Not at all Likely
 NVL=Not Very Likely
 SL=Somewhat Likely
 VL=Very Likely
 EL=Extremely Likely

FIG 23. Potential for a Disruptive Event in the Next 12 Months (Financial Firms)

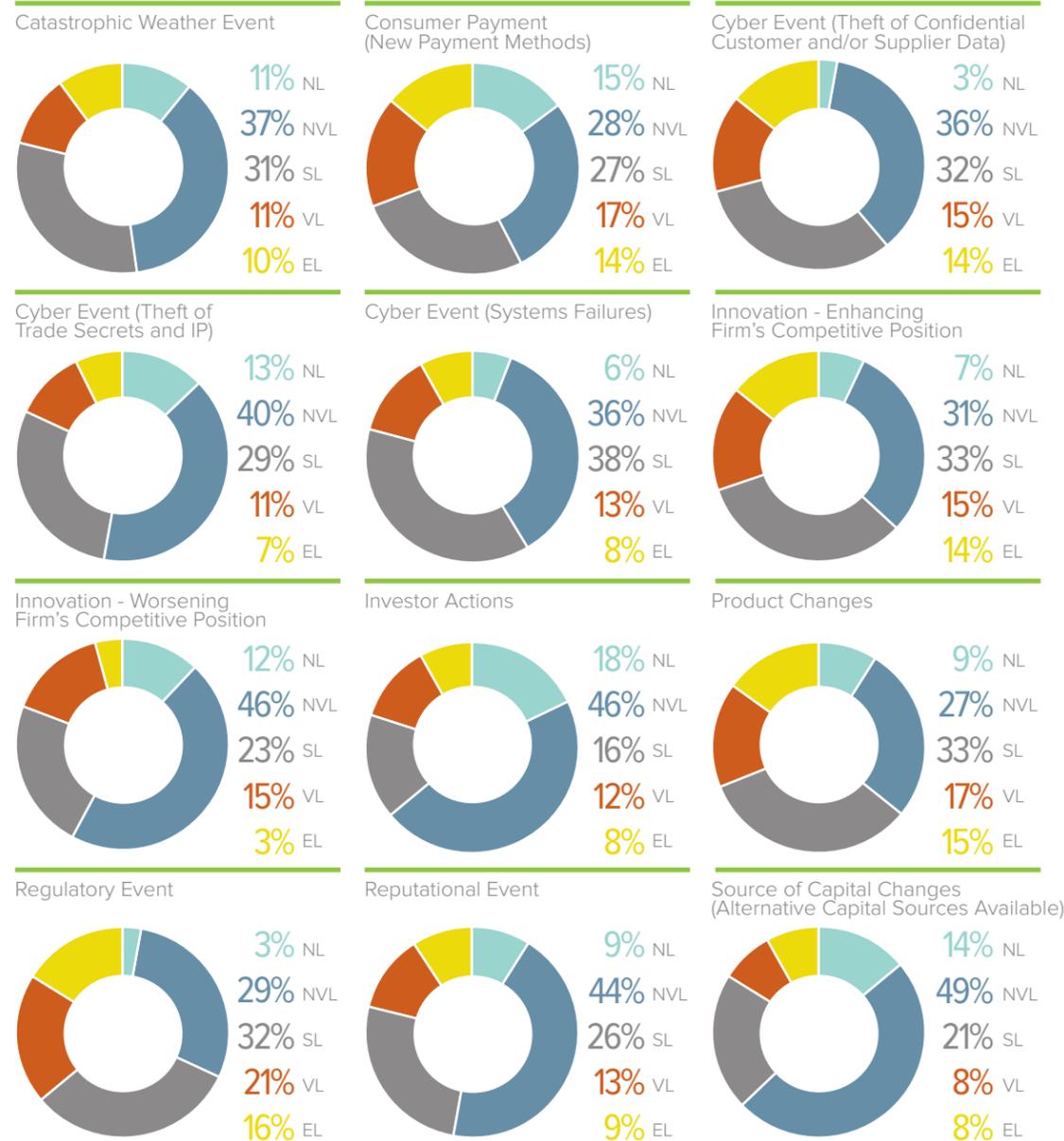
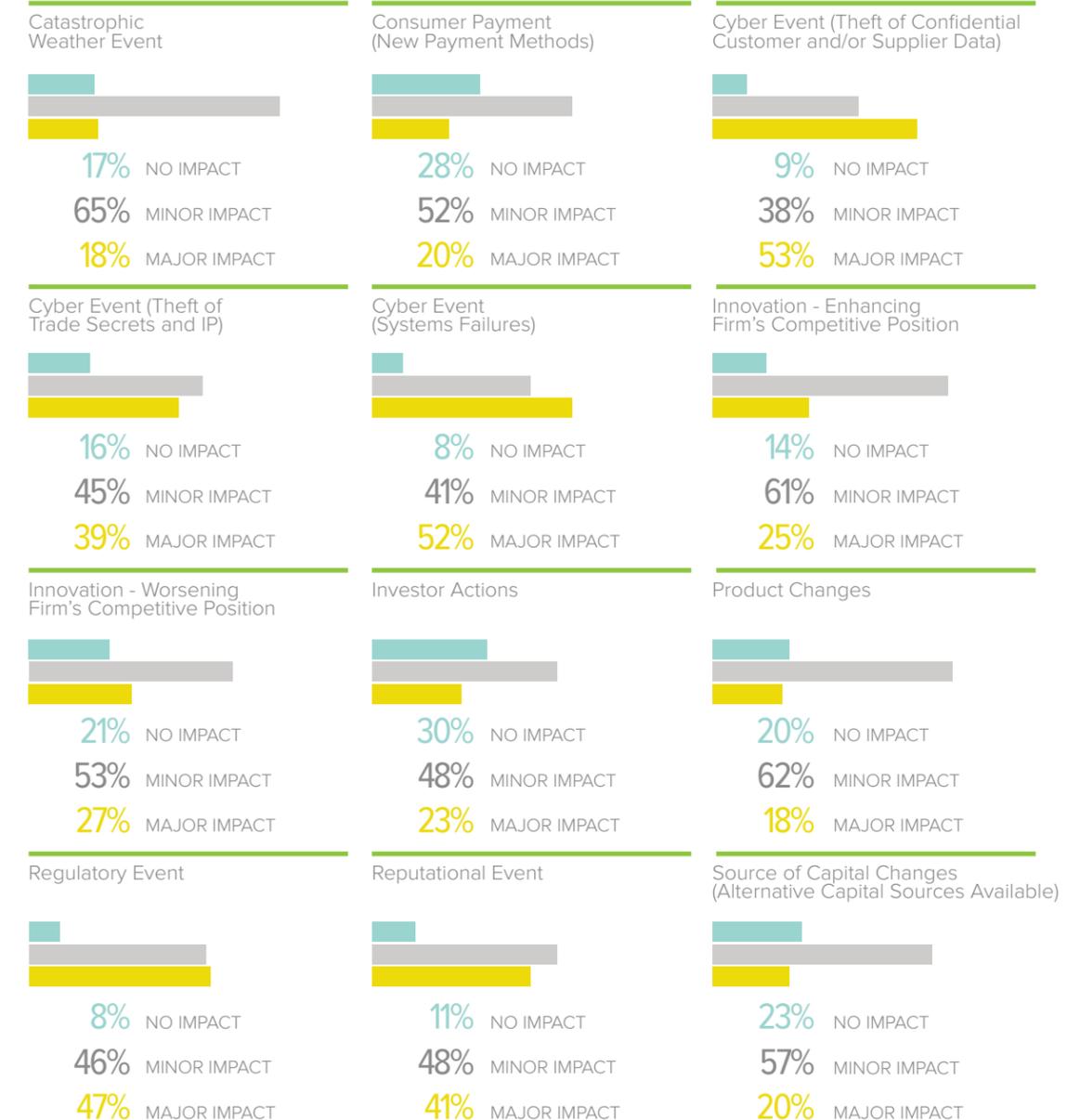


FIG 24. Impact of a Disruptive Event in the Next 12 Months (Financial Firms)



b. **NONFINANCIAL FIRMS:**

Non-financial firms call out, however, that the potential for a disruptive event involving innovation that enhances the firms' competitive advantage is very likely and/or extremely likely to occur. Likewise, they also reported that a disruptive event involving product change and/or regulatory event were either very likely and or extremely likely to occur. These types of disruptive events were also reported to have a major impact on the firm. Of no surprise, cyber, innovation and reputation events were listed as having the potential for the largest impact.

 NL=Not at all Likely
 NVL=Not Very Likely
 SL=Somewhat Likely
 VL=Very Likely
 EL=Extremely Likely

FIG 25. Potential for a Disruptive Event in the next 12 months (Nonfinancial Firms)

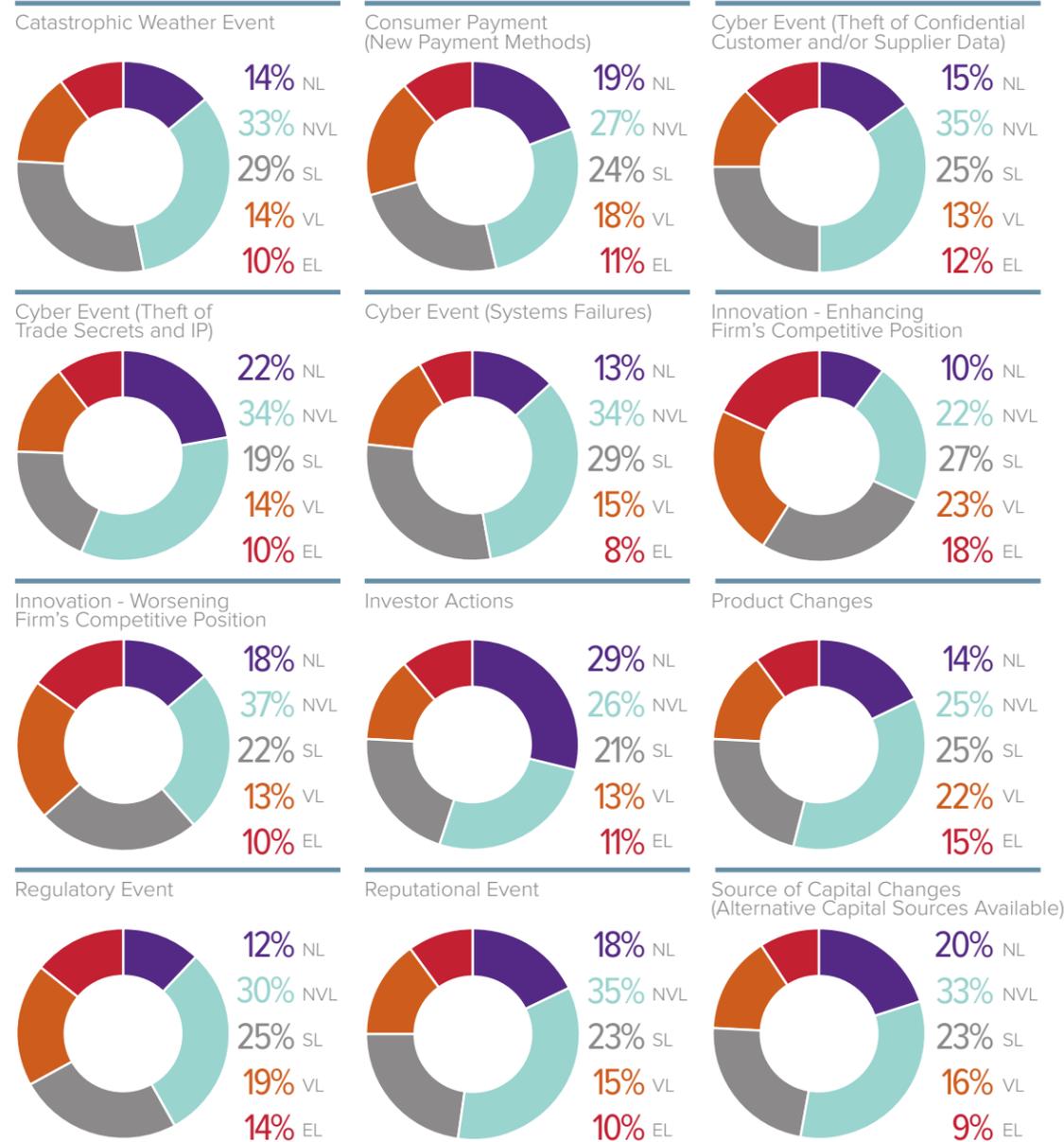
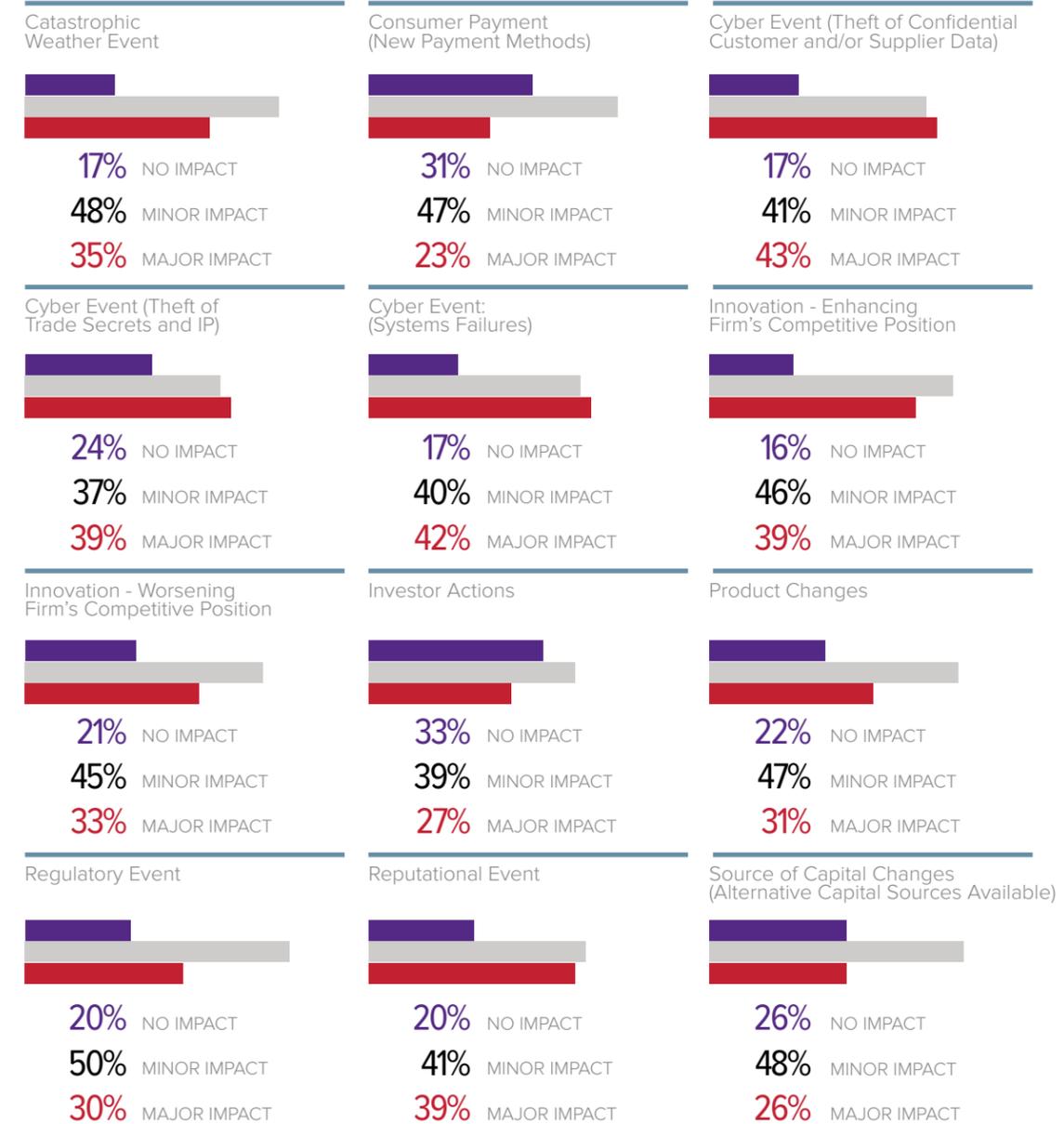


FIG 26. Impact of a Disruptive Event in the Next 12 Months (Nonfinancial Firms)



3. In this section, participants used a sliding scale to choose the point that best describes their firms' culture and senior management's attitude towards the firm's ability to leverage or mitigate the impact of various disruptions. For financial and non-financial firms it is noted that technological innovation, the aging U.S. demographics and alternative forms of financing are more likely to leverage disruption. In addition, a disruption in the energy markets and unexpected turnover in senior leadership were also more likely to leverage disruption.

■ FINANCIAL FIRMS
■ NONFINANCIAL FIRMS

FIG 27. Attitudes Towards Leveraging Disruption



CONCLUSION: How the Risk Management Role is Viewed

Our survey, conducted during the later half of 2015, focused on how U.S. companies view the role of risk management, how those functions are structured and how risk management is integrated to support business decisions. We also sought to better understand how firms perceived recent disruptions to their organizations and the potential for disruptive events in 2016.

Results yielded important observations about structure and tone at the top as well as how risk management as a discipline is integrated into business process. Responses show that about 50 percent of firms reporting have increased their risk management support and focus over the last year, allocating additional funds to both external and internal resources. Also, more than 40 percent of the firms reporting anticipate increasing the size of the risk management function during the next twelve months. However, the survey leaves some unanswered questions. A few of those questions are:

Are business risk management approaches as integrated as the results would indicate? While we did see similar focus and integration effort for financial and nonfinancial firms within compliance, strategic planning and operations business planning, survey results did drop significantly when some other functional areas are considered. For example, R&D, M&A and supply chain, all areas where risk is an important conversation around the table, were reported below integration level expectations.

Risk management is still viewed primarily as a reactive and/or defensive strategy within firms. Within nonfinancial firms, almost 70 percent of respondents see risk management as reactive or defensive. Along that same line of thinking, very few nonfinancial leaders recognize risk management as a value tool to be used across the business. That conclusion is aligned with those responding from financial firms, where 45 percent view risk as a reactive or defensive strategy. The recent financial crisis may have a bearing on results reported within financial firms.

With approximately 50 percent of firms reporting that they have increased risk management support over the last year, that focus has continued to be reactive/defensive and not distorted toward recognition of risk management as a tool to create growth and value. Why is that the case? With continued business volatility, the support dedicated will most likely continue to be distorted toward reactive versus proactive risk management in the near term.

➤ Questions remain with regard to the relatively low involvement of risk management processes in distribution and supply chain, R&D, M&A and pricing and sales. It also begs the question as to the root cause of low integration. Is culture the root cause within those reporting organizations? Is it skill of the risk management professionals within those reporting organizations? It raises the underlying question as to why firms are not looking to leverage the value of proper risk mitigation strategy to differentiate themselves in the marketplace. It will be interesting to delve further into that question in further research and reports.

➤ Cyber risk continues to be a leading disruptive event for firms. That is particularly true for financial firms and/or those touching financial transactions. The fact that weather events disrupted both financial and nonfinancial firms at the same level (25 percent) may indicate that major coastal weather disruptions were not a factor during the time frame when the survey was conducted.

➤ An aging U.S. population is top of mind for the majority of (financial and nonfinancial) businesses reporting. The aging demographic has the potential for leveraging disruption. Certain industries that rely upon a specialized skill set have the potential for much higher disruptive events as retirement could impose labor shortages in certain geographic areas.

The Risk Institute is excited to continue to participate in the conversation around the evolution of risk management within business, from an integrated perspective of academia and practice. The participation will continue to focus on our three pillars of engagement: business collaboration, research and students/curriculum development.

Please contact us to continue the conversation or explore ways to engage with us on this mission.

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