



Best Practices Series

Enterprise vs. Traditional Risk Management



All organizations are faced with risks that challenge the business. Successful firms are employing a cohesive team and infrastructure to address the strategic, financial, operational, and hazard risks that they face.

Recent Findings

In a traditional risk management service structure, the effort is departmentalized and focused primarily on hazard risks. Using this approach, an organization rarely makes relative comparisons among its risks to determine how they interact with one another or to evaluate their cumulative effect on the organization.

Conversely, in an ERM environment, there is a senior executive or Chief Risk Officer who compares and evaluates all of the risks the organization faces in a more holistic way.

Key Differences and Solutions

Enterprise risk management is an extension of traditional risk management, and differs in the following ways.

Strategic application.

An ERM approach is integrated into an organization's business decisions. Because the effort is enterprise-wide, it supersedes any departmental or functional autonomy to encourage continuous review and support of the organization's most value-based objectives.

Risks considered.

ERM involves managing all of the risks affecting an organization's ability to meet its goals, regardless of the types of risks being considered. This carefully reviewed and benchmarked approach allows organizations the ability to stay focused on key areas of prosperity and survival.

Performance metrics.

ERM emphasizes results-based performance measurement throughout the organization. Results indicate whether a risk management technique helped to achieve a business goal, such as return on investment or return on assets.

All forms of risk management, including ERM, are intended to help minimize the adverse effects of missed opportunities and losses.

The specific benefits of ERM include maximizing the

possible opportunities for growth, minimizing the expected organizational losses and therefore increasing the expected income and asset value, and reducing the residual uncertainty in all areas of the enterprise.

While many organizations have qualified representatives who are capable of managing their individual functional risks, it is the unique and highly profitable organization that manages risk across the entire enterprise.

About Blackburn Group

Blackburn Group is an enterprise risk management professional service firm specializing in a variety of industries. Our partners have over 30 years experience delivering advanced product and service solutions for the risk and insurance industries.