

Enterprise Risk Management (ERM): Assessment of Environmental and Social Risks from ERM Perspective

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Introduction

Research Objective

- This research aims to fill the gap appears in the ERM literature research.

Gaps

- None of the ERM frameworks discusses environmental (E) and social (S) risks and how they can counter operational risks, financial risks and create opportunities.
- Researchers are concerned that ERM practices are implemented on superficial level to meet corporate governance and regulatory requirements.
- No guidance in the ERM frameworks for assessing the nature and extent of risks faced by organisations, whether these risks are appropriately managed and appropriately communicated to the stakeholders.
- ERM frameworks use different and inconsistent measures and indicators. It's difficult to compare "apple to apple" and arrive at convincing conclusions.

Contribution

- This study contributes to the both the ERM literature as well as the E and S risk analysis, management and reporting literature by analyzing a company's E and S risk assessment, management and reporting policies, processes and practices from an ERM perspective.

ERM Historical Background

1800

- According to Watson and Head (1998) the development of probability calculations in the insurance business during industrial revolution impacted upon ideas of risk management.

1956

- The earliest known reference to risk management was said to have appeared in 1956 in an article by Russel Caltgar in the Harvard Business Review magazine.

Early
1980s

- Emergence of the need for integrated framework for RM. Stephen Ward (2013), Miller and Waller (2003)

Mid-1990s

- Evolution of ERM.

2000s

- The ERM field becomes a serious topic with scholars and academic

Evolution of ERM

Corporate Failures, Financial Scandals, academician urgings, insurers and shareholders demands, expressed need for a more professional approach to RM.

DRIVERS: Regulators and government agencies such as:
Turnbull Commission, Treadway Committee and Cadbury which sought a formal organization and wide INTEGRATED framework for RM.

Emergence of ERM Frameworks

- COSO – Sponsored by Financial and Audit organizations
- CAS – promoted by Actuaries
- RIMS- promoted by Insurance professionals
- AZ/NZ 4360-1994
- ISO 31000-2009- Designed on the pattern of ISO Quality systems

New Dimensions in ERM

- Emphasis on management of **environment and social risks** rather than only economic risks; and
- Impact on sustainability;

KEY DRIVERS:

- Corporate Governance Laws
- UN Global Reporting Initiatives
- Business continuity management

According to Kytle and Ruggie (2005) CSR is related to ERM in 2 ways – one, by providing intelligence about what those risks are and two, by offering effective means to respond to them. In both cases, it leads to effectively managing stakeholder relationships by addressing environment protection, human resources management, work health and safety, local community relations and customer/supplier relationships.

Stakeholders Theory

In an article “new approaches to CSR”, R.E.Freeman and .R. Velamuni introduced the concept and application of “stakeholder theory”. Stakeholder theory affirms that those whose lives are touched by a corporation hold a right and obligation to participate in directing it. The theory describes those individuals and groups who will be affected by or will have an impact on the company’s actions.

A conscious attempt to shift from 3-tiered approach of Corp. governance (AGM, Board of Directors, Audit Committee) geared towards maximization of shareholder interests and directed to offering protection to other stakeholders.

- Environment Protection;
- Human Rights;
- Employee Protection;
- Customer Protection;
- Vendor Protection, and
- Community Welfare

Current Gaps in ERM Litreture

The word “RISK” is associated with hazards, threats, harm..etc and is considered negative. Risk management and **Environmental & Social risk management** provides opportunity to enhance reputation of companies and improves credibility and transparency of its reports and raise additional capital when required.

None of the ERM frameworks discusses **Environmental and Social risks** and how they can counter operations, financial results and create opportunities.

Researchers are concerned that ERM practices are implemented on superficial level to meet corporate governance, regulatory requirements and stakeholders expectations.

No guidance in the ERM frameworks for assessing, managing and communicating the nature and extent of risks faced by the organization to the stakeholders and whether these risks are appropriately managed.

Research Questions

- Is the company's environmental and social risk management and performance communicated to stakeholders through the company's official disclosures and reports?
- By reviewing the archival and current data to facilitate a comprehensive study of the company's risk management system, is the company's adopted ERM framework e.g. ISO31000 or COSO, being effectively utilised in the management of environmental and social risks?

Contribution to Knowledge

While many papers studied the link between environmental and social risks with financial performance, there are no studies linking environmental risks, social risks and risk assessments with disclosures and communications with stakeholders.



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