



Enterprise Risk Management

Stefan Hunziker

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Modern Approaches to Balancing
Risk and Reward

Stefan Hunziker
Rotkreuz, Switzerland

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Preface

Now more than ever, students, junior staff, instructors, managers and decision-makers have to understand the value-creating aspect of modern Enterprise Risk Management (ERM).

Welcome to the world of enterprise risk management (ERM), one of the most popular and misunderstood of today's important business topics. It is not very complex. It is not very expensive. It does add value. We just have to get it right. Until recently, we have been getting it wrong (Hampton 2009, p. vii).

This is a quote from Professor Hampton, director at St. Peters' College and former director of the Risk and Insurance Management Society (RIMS). His statement is representative of what still applies to many companies today: ERM is considered as an expensive and unprofitable "business inhibitor". Traditionally, it does only embrace a few areas of the company (in many cases the finance department). Usually, there is no equal company-wide management of all risk categories in a consistent framework and risk management is often an independent stand-alone process, which is not linked to decision-making processes and business planning. In this way, traditional risk management is unable to generate any benefits and unnecessarily ties up resources in the company. A positive risk culture, which considers information provided by risk management as being supportive to management, is often wishful thinking. Modern risk management aims to be a strategic management tool that creates value for the company. In order for the risk manager to be welcomed at the strategy table, a rethinking from traditional risk management to modern ERM is required.

Didactic Philosophy and Learning Objectives

Amongst other, ERM is a powerful tool that enhances a manager's and board's ability to make better decisions under uncertainty. Pure learning of ERM definitions, theories and techniques by heart is much less important for students than being able to apply relevant ERM concepts to practical situations. For this reason, *Enterprise Risk Management—Modern Approaches to Balancing Risk and Reward* embraces theory, concepts and practical examples so that students get a sound understanding of how ERM can be

implemented in practice. I encourage students to make use of the offered learning materials at the very end of each chapter.

The content of *Enterprise Risk Management—Modern Approaches to Balancing Risk and Reward* is applicable to all business sectors, including non-profit, service, selling, manufacturing, retail and administrative situations. The focus of the textbook is clearly on improving decision-making under uncertain situations, not on operational risk management or internal control at very low organisational levels.

My goal is to encourage students to apply modern approaches to good ERM and to link ERM to decision-making processes. Students begin their understanding of why ERM matters in today's complex business environment and progress to more complex questions of how assessing risk and opportunities by the means of consistent and effective assessment techniques and how to create a risk culture that enables effective ERM. To support the student's learning success, my approach is to introduce concepts accessibly and to complement them with practical examples from diverse companies.

The textbook has been primarily developed for training and continuing education at university level in German-speaking countries. However, it is also of high practical relevance. Based on concrete cases of medium-sized and large companies, concepts presented in *Enterprise Risk Management—Modern Approaches to Balancing Risk and Reward* of ERM are transferred into practice. It serves students and practitioners alike as a source of ideas on how ERM can generate value to all stakeholders. The novelty of this textbook is reflected primarily in the fact that theoretical and psychological findings relevant to decision-making situations will be explicitly incorporated.

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Stefan Hunziker

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