Exploring Enterprise Risk Management: A Case Study with a Global Manufacturer of High Technology Products with Operations in Sweden

- Popular Abstract

Running an organization is associated with risks. The risks can be of various kinds: currency fluctuations, cyber-attacks, logistics constraints, halts in production, and so on. The purpose of Enterprise Risk Management (ERM) is to enable organizations to achieve their objectives by managing all risks they are facing. Managing a few risks is something most of us can imagine. But how do you manage all these various types of risks? How do you manage hundreds or thousands of identified risks? Is there a way to aggregate risks to make the number of risks manageable?

The thesis explores ERM by conducting a systematic literature review and by investigating how ERM is conducted in practice, with emphasis on aggregation of risks, in a case company. Lastly, improvement suggestions are provided by comparing the findings in the case company with findings in the literature. The case company is a global manufacturer of high technology products with operations in Sweden, among other countries.

The findings in the case company show that numerous aspects align with aspects that are considered essential to ERM in the literature. For example, top management should be involved in ERM, there should be a central team working with ERM, and that ERM should be integrated with strategy and objectives of the company.

Risk aggregation is covered to a limited extent in the literature on ERM that was reviewed. However, available literature on risk aggregation was found but in other contexts than ERM. The findings in the literature on risk aggregation was considered applicable in an ERM context as well and hence used for the thesis.

The findings show that hundreds, and likely thousands, of risks are identified in the case company. It is hence necessary to aggregate risks to understand the total risk exposure. The findings further show that the case company utilize risk aggregation in combination with risk selection, i.e., selecting what risks to prioritize, to reduce the number of risks into manageable amounts.

One of the central aspects to consider when risks are aggregated is the risk information that is provided with each risk when it is reported. Providing background knowledge of the risk is one of the important types of information to provide. It was discovered in the case company that reported risks varied in terms of the risk description where background knowledge is explained. If information is presented differently, it is difficult to aggregate risks. It was also discovered that several of the reported risks had weak connection to events.

One of the proposed improvement suggestions is aimed at the process of selecting what risks to prioritize. Additional improvements are suggested regarding risk descriptions since they impact risk aggregation. This includes to increase their commonality by creating clearer guidelines and to include events connected to the risks. Connection to events is suggested as it is central in numerous definitions of risks. Stronger connection to events facilitates the understanding of risks, identification of vulnerability- and risk reduction measures, impact on other functions in the company and aggregation of risks.

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