

Enterprise Risk Management for Nonfinancial Companies:
From Risk Control and Compliance
to Creating Shareholder Value

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Abstract: In the current environment of global competition, the question of how much, and in what way, the enterprise risk management (ERM) function contributes to the creation of shareholder value will only increase in importance and urgency. Since ERM is a conscious management process, it requires the development of a clear and specific understanding of whether, and how, current and new activities of the ERM function can create shareholder value. To create shareholder value, a company has to take on the right risks, to retain them and to manage them within its boundaries. To achieve all that, it has to maintain the following risk management capabilities: risk-tested strategy, strategic flexibility, operational flexibility, financial flexibility and full risk incorporation in performance management and new investments selection. We argue that the ongoing optimization of those capabilities—so that over time they create more net savings, reduce the volatility of the company’s cash flow and reduce the likelihood of bankruptcy—are the risk management activities which can create shareholder value. We also briefly illustrate how these activities can be carried out in practice.

Keywords: Enterprise Risk Management, Shareholder Value, Strategic Risks, Strategic Flexibility, Operational Flexibility, Financial Flexibility, Performance Management, Capital Allocation