

# [In-depth analysis of the erm technique](https://assignbuster.com/in-depth-analysis-of-the-erm-technique/)

What exactly is ERM?

Several disputes have emerged on the enterprise risk management definition. Nonetheless, it is a quite novel discipline of management that calls for organizations to pinpoint all the risks that they are confronted with so as to come to a decision on which risks they can actively manage (Hoppes, et al., 2014). Afterward they can come up with an available action plan to all stakeholders as part of their yearly reports. The comprehensive approach that illustrates the current risk management trend is focused on dealing with ambiguity for the organization. The rationale behind this approach is that there is the maximization of value when the makers of decisions set objectives and strategies so as to strike the best balance between return goals and growth (Blocher, Stout & Cokins, 2013). Also organization needs balance in the correlated risks and successfully and efficiently assign resources in pursuit of the objectives of the entity. The objective of this novel approach is to establish, enhance and protect the value of the shareholder by managing uncertainties that could impact the organizational objective. Enterprise risk management is known to represent a revolutionary transformation in the discipline of risk management that widens the risk management behaviors scope.

Therefore, the enterprise risk management concept is perceived to be a novel risk management paradigm (Kreitz, 2008). On the other hand, the old paradigm is characterized by evading losses within a restricted scope. However, the novel approach covers both internal and external risks, views and incorporates all risks from a board with the aim of creating, enhancing and protecting the value of the shareholder by reducing risks and seizing chances in a constant process.

In bringing together the initiatives of ERM, firms are supposed to center on both the downside and upside of the risk (Hoppes et al., 2014). The approach in the past focused mainly on the downside of the risk. For instance, in the past, companies only focused on currency losses, fiscal losses that might have been caused by a supply chain disruption or an attack of terrorism that impairs information technology of a company (Blocher, Stout & Cokins, 2013; Peterson & Kaganova, 2010; Hoppes, 2014). Focusing on the upside part, firms should put into consideration the strategic advantages and competitive opportunities that have the probability of arising out of deft risk management.

ERM evolution

ERM is a continuously transforming discipline. Businesses have been managing their risks over time. In the past, the businesses have managed risks by purchasing insurance. However, in recent times, firms have managed risks through commercial markets that aid them to manage the ups and downs from time to time currencies' shifts, commodity equities and prices and rates of interests (Blocher, Stout ; Cokins, 2013). From a mathematical viewpoint, all these risks have been easily measurable with subsequent losses and profits going straight to the bottom line. Enterprise risk management comes in where firms manage the risks that defy simple measurements or a management framework (Lopatina, 2012). These comprise of critical risks such as usual procedures of operations, reputation, management of human and legal resource and also general governance.

Enterprise Risk Management Implementation process

;;;;;;;;;;; Developing a program of ERM needs a disciplined and a systematic approach for implementation. Its essential requirement involves managerial, corporate, cost resources and technical. According to Dafikpaku, Eng ; Mcmi (2011), firms are first required to have a lucid and operational framework that is company-specific and then utilize it to develop an ERM plan of implementation that is also company specific.

;;;;;;;;;;; When the operational framework is in place, then the implementation plan development commences. This further demonstrates the point that this process is not stand-alone. ERM implementation tactically means that if effectual, it will aid in making sure that with the complete understanding of the risks array faced by an entity, it can, therefore, best attain with logical assurance its reporting, operations, strategic and compliance objectives.

;;;;;;;;;;; Nonetheless, implementing ERM has its issues and challenges. While a majority of businesses believe in the ERM model, most are aggravated by the issues of implementation that seems not to have made their practice of ERM valuable as it potentially is (Dafikpaku, Eng ; Mcmi, 2011). Among the most critical challenges in management is the determination of the amount of risk a business an organization is willing to embrace and does acknowledge as it pursues its value creation goal. Enterprise risk management is neither a one-off process nor an end on its own. Nonetheless, ERM is a constant process of advancement of recognizing, evaluating emerging and known risks, risks and operational reporting, formulating and modifying strategies of risk responses and monitoring and controlling, all of which define the culture of risk.

ERM Application by other organizations

;;;;;;;;;;; Organizations that plan to implement enterprise risk management should pay particular attention to nurture a culture of risk that backs their goals. The organizations should factor in ERM expert acquiring cost for special guidance, support, and training. There should be regulations and policies use in describing the position of the management on the coaching, workshops and mentoring in developing and training the employees to implement ERM. Therefore, building a culture of risk management should be accompanied with more exercises of opinion sharing, social meetings and the risk-reward system introduction that will consequently encourage the staff members (Dafikpaku, Eng ; Mcmi, 2011; Kreitz, 2008).

;;;;;;;;;;; So as to introduce the system of risk reward, it is advisable that the processes of enterprise risk management are completely incorporated into everyday functions of a company.; Additionally, performance measures should also be incorporated for risk management. Thus, this will be a simple way of organizations to attain leanness hence saving on expenses. Further, it also measures the objectives' achievement quality.

Applicability of ERM to Wells Fargo

The vision of Wells Fargo is to satisfy the fiscal needs of the customer and assist them to succeed in financial terms. Consistent with their values and visions, the company acknowledges its duty to serve the needs of their customers through wide services and products' choice while also maintaining and shielding the most sensitive information of the customers. With the data quantity data currently available and the more complex tools the company possesses, Wells Fargo has to assess that data (Reuters, 2016).

;;;;;;;;;;; The company also acknowledges the significance of risk management by collecting and utilizing data that is consistent with the regulatory and applicable needs and their values and vision. The company believes that their practices of business and models of operating must back prudent practices of risk management. This comprises of interrelated information risk management and security. Guaranteeing proper data use is a constant effort that the company is taking. In fact, Wells Fargo frequently assesses its practices in the wake of the constant development of product, best practices in the industry, novel and changing ways to engage with the customers (Dafikpaku, Eng ; Mcmi 2011; Blocher, Stout ; Cokins, 2013). Additionally, offering them with meaningful advice, products, and guidance so that the company may be able to make informed fiscal decisions.

ERM implementation plans at Well Fargo

;;;;;;;;;;; Enterprise risk management is a multifaceted undertaking that needs expert organization, planning, and leadership with the aim of steering the activities of a company in a direction that mitigates the risk effects on fiscal performance and value. It is increasingly needed for the company boards to review and report on the ERM sufficiency in the organizations that they administer. Additionally, implementing ERM gives an opportunity for creating a program that will pass muster (PWC, 2015).

Therefore, implementing ERM is a practical guide to creating an effective system of ERM by implementing best practices at a rough level. ERM covers losses from accidents as well as fiscal, operational, strategic and other risks. Current fiscal and economic volatility of the market has instigated an increased interest in enterprise risk management. Further, investors and regulators have started to assess the risk management policies and procedures of companies.

Implementing ERM will offer Well Fargo a demonstrative and clear instruction on creating a strong and effectual system (Kreitz, 2008). The company will learn how to place the right individuals in the correct places so as to create a strong framework of ERM. It will also enable Wells Fargo to create a common system of reporting and language for communicating critical indicators of risk. Besides, the company will be able to establish a system of enterprise risk management in the wake of logistical, cultural and historical challenges. Lastly, through the ERM implementation, the company will be able to create a culture of risk awareness without necessarily discouraging valuable risk-taking tendencies.

;;;;;;;;;;; Wells Fargo should shield itself in the fiscal crisis as a result of a strong culture in the company with numerous significant elements such as an overall conservatism that prohibits simply following the market with novel services and products until these has been tested with the company for consistency with the values and culture of the company. There is an element of emphasis on establishing correlations with clients instead of simply viewing products and services sales as transactions.; Additionally, the company consists of a decentralized structure that makes business units heads accountable for the activities' risks. These attributes will aid Wells Fargo to cool the crisis more effectively as compared to its peers. The focus on the client means that Well Fargo will desist from giving the riskiest products of mortgage (Kreitz, 2008).

To implement the enterprise management risk further, the company should back the customer-centric approach with its central strategy of business that will be able to cross-sell fiscal products to its current clients. The constant organic growth of revenue is probably the company's most distinctive skill.; Its average retail household consists of 5. 9 products which are by far the peak ratios of cross-selling in the industry and nearly as twice the industry's average. The rationale is that if the customers undergo fiscal losses on a risky fiscal product, then they will subsequently turn to the company for the numerous fiscal services and products they would buy from a source they trust (Peterson, & Kaganova, 2010).

The company should also have a style of management that seeks to foster constructive dialogue as an effectual means to encourage performance. Additionally, people at the company's helm should be leaders at the company since individual leadership is the road to success. The answer to every issue or opportunity in Wells Fargo is already acknowledged by an individual somewhere or a team in the firm.

;;;;;;;;;;; The leader should be able to implement change. ERM will be effectively implemented at Wells Fargo when risk is effectively managed as close to the client as possible with sordid oversight from independent bodies within the business (PWC, 2015).; The outcome of the company's processes and culture is that the company desists from taking major losses but come through any crisis with greater strength as compared to before. This will consequently augment the size of the company. The objective of the risk committee in Wells Fargo should be to offer supervision of the corporate risk function and enterprise-wide risk management framework of the company. It comprises of procedures, processes, strategies, policies and systems that are created to pinpoint, evaluate, measure, examine and manage the principal risks that the company faces.

The board of directors should also be assisted by the committees that supervise particular issues correlated to risk and serve as management resource by supervising risk across the whole company. According to Dafikpaku, Eng & Mcmi (2011), it will also serve as a management resource by advancing the understanding of the enterprise-risk activities of management and effectiveness and the general appetite of the company by both the board and management.

The management is charged with the task of creating, implementing and maintaining an effectual framework of risk management even though the committee has the power and duty that has been outlined in the charter (Dafikpaku, Eng & Mcmi, 2011). Wells Fargo should still be investing in its risk infrastructure and advances its functions of risk management to address rising risks and in growth opportunities advance to reduce risk.

Conclusion

In conclusion, the initiative of ERM should be comprehensive for Wells Fargo to succeed. Nonetheless, introducing ERM is a gradual process that Wells Fargo cannot attain instantly. Thus, it is essential for the company to decide the ERM initiative scope as it continues to develop. This scope will be defined by the extent of benefits Wells Fargo is trying to attain which will be consequently influenced by the anticipations of the various stakeholders in the company.

Recommendations

Wells Fargo should establish benchmarks of risk significance and undertake risk assessments. The company should also adopt a suitable procedure of assessment and an agreed classification system of risk. Lastly, Wells Fargo should determine the risk appetite and levels of risk tolerance and assess the current controls.

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