

Enterprise Risk Modeling Based on Related Entities

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Abstract

The costly, time-consuming and complicated process of enterprise risk management (ERM) can be improved in many companies and made less tedious for managers by using reasonable data and templates obtained from peer group entities. The models used to calculate economic capital (EC) often underestimate its value because they do not consider decision-maker perception about risk. We assume here that managers, as the decision-makers, have appropriate business understanding and they can provide substantial information about risk characteristics regarding all business processes. Therefore we are focused, in this paper, on collecting data from managers across the different businesses to derive the appropriate knowledge about risky events, the importance of particular types of risk, the relationship between the risk outcomes and the level of risk control in a particular industry. We conclude that the collected data has a high potential for use as a benchmarking reference and analysis for improving ERM models for individual businesses.

JEL Classification: G21, G22, G32

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