Short Communication
Volume 7:3, 2021

Journal of Steel Structures & Construction

ISSN: 2472-0437 **Open Access**

Enterprise Risk Management in Construction Companies: Recent Trend

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Introduction

Traditionally, risk management is segmented and conducted in separate business units or departments (i.e. silos) within a company. Under silo-based risk management, silos deal with their own risks, and none single group or person in the company has a grasp of the entire exposure that the company faces. This is attributed to the way people think about solving problems, the existing organizational structure, and the evolution of risk management practice. In addition, this is due to the fact that each silo within a company possesses the best expertise to address the risks within its area of responsibility.When it comes to primary oil, the iron and steel industry consumes the majority of fossil fuels, with coking coal accounting for the majority of energy consumption. Coal provides three quarters of the energy used in the iron and steel industry in 2017. (IEA, 2019).To follow the recent trend of risk management, the construction firms venturing into overseas markets are recommended to hold a global view to identify systemic risks rather than just project-only risks. Some professional reports have forecast ERM to grow in the construction industry. Compared with the traditional approach, ERM enables companies to shift the focus of the risk management function from primarily defensive to increasingly offensive and strategic and provides a new way to improve PRM in construction firms. Given the complexity and diversity of the risks, construction firms have been seen as prime candidates for ERM adoption.

In recent years, a paradigm shift has occurred in the way companies view risk management, and the trend has moved towards a holistic view of risk management. As the fundamental paradigm in this trend, enterprise risk management (ERM) has attracted much worldwide attention. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) defined ERM as "a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives". ERM agrees with the modern portfolio theory, which states that it is possible to build a portfolio that is reasonably safe even though it contains a number of uncorrelated or negatively correlated high-risk investments.

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