

# ERM: Navigating invisible risks



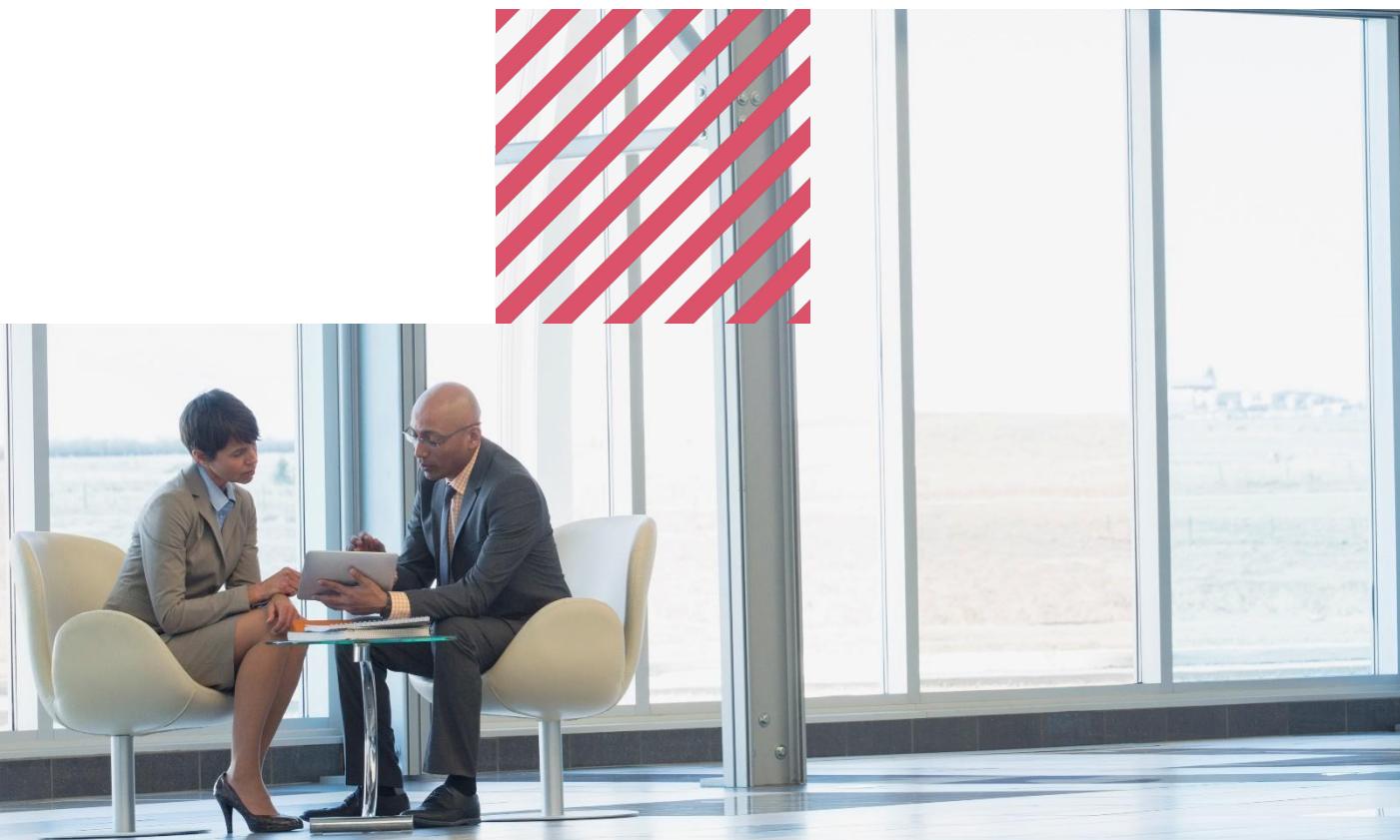
# Executive summary

In a rapidly evolving business landscape, the detection and management of invisible risks – those not immediately visible, often escape notice, or may be entirely unprecedented due to unknown factors – have become more critical than ever. Enterprise Risk Management (ERM) has evolved beyond addressing obvious threats to uncovering hidden vulnerabilities that can undermine an organisation's stability. This paper explores the crucial role of technology in enhancing ERM practices, the future of risk management, and the importance of leadership in building a risk-aware culture.

Drawing on PwC Middle East's collaboration with Giza Systems, a leading digital transformation enabler in the Middle East and Africa, we illustrate how a proactive approach to risk management can significantly enhance organisational resilience and operational effectiveness.

The following key insights from the article highlight the benefits of integrating technology and leadership buy-in into ERM practices:

- > Proactively managing invisible risks enhances **organisational resilience and operational effectiveness**
- > Leadership commitment fosters a **risk-aware culture** and strengthens ERM practices
- > Leveraging technology such as **AI and data analytics** improves risk detection and mitigation
- > Aligning ERM with **strategic objectives** ensures long-term sustainability and growth



# Defining ERM: Embedding risk awareness for strategic resilience

Enterprise Risk Management (ERM) is a strategic framework that enables organisations to proactively identify, assess, prioritise, and respond to risks. Unlike traditional risk management, which typically addresses specific risk areas in silos, ERM integrates risk considerations into the strategic decision-making process at the highest levels of the organisation. This approach embeds risk awareness into the core of strategic planning and execution.

When applied effectively, ERM empowers businesses to meet critical objectives while managing daily operations with a clear understanding of their risk profile. A robust ERM framework provides a holistic view of potential threats, ensuring timely and appropriate responses. This not only enhances organisational resilience and operational effectiveness but also addresses stakeholder concerns, fostering trust and confidence in the organisation's risk management capabilities.





# Understanding invisible risks

Expanding on the concept of invisible risks, we explore the challenges they pose for organisations. Much like the hidden currents in the sea, these risks can cause significant disruptions if not detected and managed proactively.

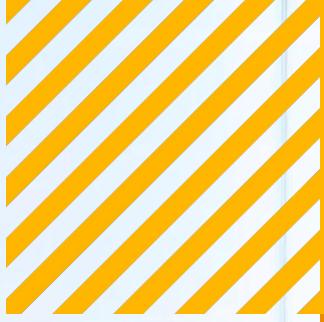
In ERM, some risks remain hidden until they begin to threaten a company's operations, such as pandemics and other black swan events. Black swan events are rare, high-impact occurrences that are often unpredictable and frequently go unnoticed or underestimated until they suddenly disrupt a company's operations. These events, such as pandemics, natural disasters or financial crises, can catch organisations off guard due to their infrequency and the challenges in anticipating their full scope.

A notable example of this was the issue of foreign currency availability, which became a major challenge for one of Giza Systems' subsidiaries. For years, the subsidiary, a key distributor for a hardware products company, relied on importing goods paid for in US dollars. As was the case with many organisations across Egypt, with the currency devaluation and lack of foreign currency availability, the subsidiary found itself unable to access the necessary foreign currency funds to pay its suppliers. This led to mounting payables, account blockages, halted product shipments and significant operational disruption. This situation was a challenge for organisations across Egypt. While it's difficult to predict certain circumstances, recognising the underlying risk could have prompted organisations to plan for avoiding solely relying on a single mitigation source. Being aware of the possibility of this risk might have encouraged the development of alternative solutions or contingency plans to better prepare for unforeseen disruptions.

The crisis ultimately exposed a critical vulnerability in over-reliance on a single currency source. In response, Giza Systems took proactive steps to increase its resilience by expanding its operations into its markets in the GCC region, where access to US dollars was more stable. This strategic diversification allowed Giza Systems to secure foreign currency from operations outside of Egypt, thereby mitigating the risk of future currency shortages.

Giza Systems' experience serves as a powerful reminder of how invisible risks – such as foreign currency availability – can have a profound impact on a company's operations when not adequately identified and managed. This underscores the critical need to diversify currency sources, maintain robust relationships with multiple suppliers and develop contingency plans to address unforeseen financial disruptions. By proactively incorporating such hidden risks into strategic planning, organisations can better protect themselves from unexpected challenges and ensure operational continuity even during periods of economic instability.

# ERM: Its purpose, future and relation to leadership

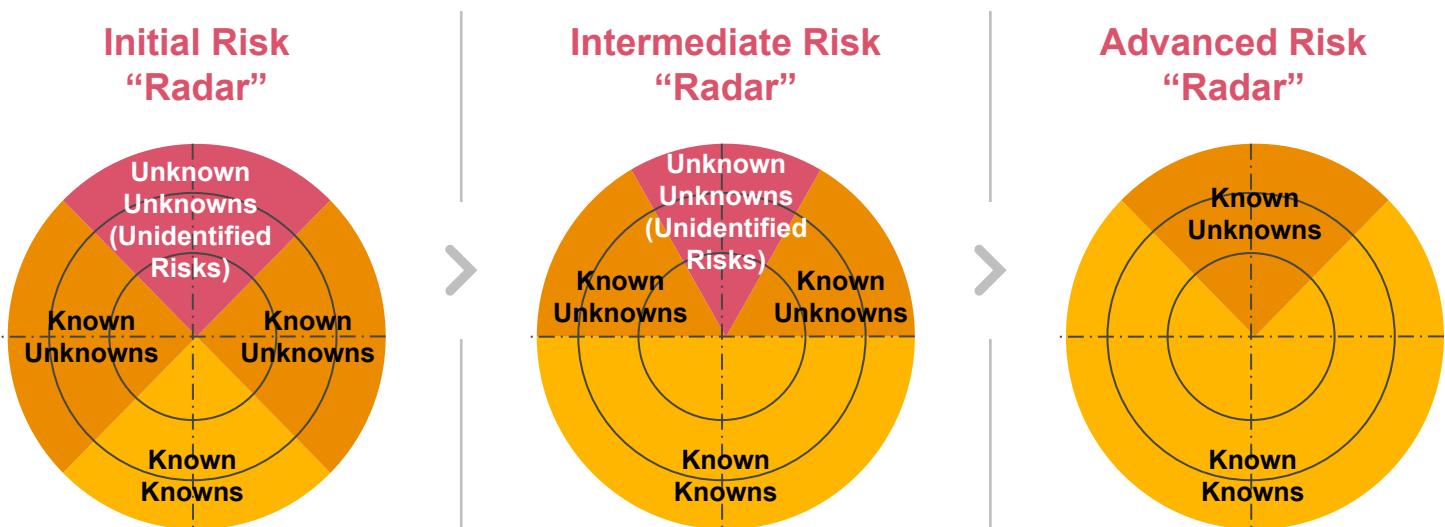


# Enhancing risk awareness

A primary objective of ERM is to enhance risk awareness across an organisation. Employing tools such as risk registers, workshops, scenario analysis, and root cause analysis can help identify both obvious and invisible risks, helping to create effective mitigation strategies. Leveraging data analytics for continuous risk monitoring aids in simulating scenarios and forecasting emerging risks, facilitating proactive measures. This broadens the company's risk identification capabilities and heightens awareness of potential invisible risks.

## Preparing for evolving challenges

Despite diligent efforts, certain risks remain invisible and challenging to predict. Even with an exceptional risk management system, no organisation can foresee all hidden risks; building operational resilience is critical. Resilience is not only about having the right processes and controls but also about fostering a culture of flexibility and adaptability. By broadening efforts to identify risks, organisations can expand their risk radar, allowing for more effective detection of – and proactive measures against – potential issues. This enhances resilience and preparedness in the face of evolving challenges.



The diagram illustrates an organisation's expanding risk radar. Initially, only "known knowns" – identified and understood risks are recognised. As the organisation progresses to the intermediate stage, it starts identifying "known unknowns" – anticipated but not fully understood risks. In the advanced stage, the organisation minimises "unknown unknowns" through proactive risk management. This evolution underscores the necessity of a dynamic risk framework, which adapts to an organisation's growing understanding of its environment, reducing blind spots and enhancing resilience against unforeseen challenges. Effective risk management thus involves continuous improvement and adaptation to new insights and threats.

# The role of technology

Rapid technological advancements present significant opportunities for enhancing risk management. Organisations must continuously update their risk management practices to address new and emerging risks. Technologies such as AI, machine learning and data analytics provide deeper insights into potential risks and enable real-time monitoring and response. By leveraging technology, organisations can more effectively identify, assess and mitigate these risks, ensuring they are better equipped to protect themselves and their stakeholders in a rapidly evolving environment.



## The future of ERM

Looking ahead, the future of ERM is shaped by several key trends and strategic considerations.

First, there is a growing emphasis on integrating ERM with overall business strategy. Risk management should align seamlessly with strategic objectives, ensuring that risk assessments inform decision-making at every level. This integrated approach helps organisations balance risk exposure with their financial and operational goals.

Second, we are witnessing the convergence of AI, automation and human expertise in ERM. The incorporation of advanced technologies plays a pivotal role in enabling efficient risk identification, assessment and mitigation. With its ability to scan enormous volumes of data, AI, complemented by data analytics, can help identify patterns, predict emerging risks and automate monitoring processes. However, human expertise remains crucial for interpreting data and making informed decisions.

Another essential component of future ERM is strategic financial planning. Organisations need to balance their risk exposure against their financial objectives, ensuring optimal allocation of resources and informed investment choices. This demands a deep understanding of the financial consequences of different risks and the capability to make strategic compromises.

Finally, ERM must address both traditional and emerging risks, including geopolitical shifts, economic instability and environmental threats. To navigate these complex challenges, ERM frameworks need to be agile and responsive, allowing organisations to adapt to evolving risks. In this context, the integration of ESG criteria has become increasingly important. As stakeholders demand greater transparency and accountability, many organisations are embedding ESG considerations into their risk management processes. This integration helps ensure that risks related to sustainability and ethical practices – often less visible but equally impactful – are systematically identified and managed, thereby enhancing the organisation's resilience in the face of both conventional and emerging risks.

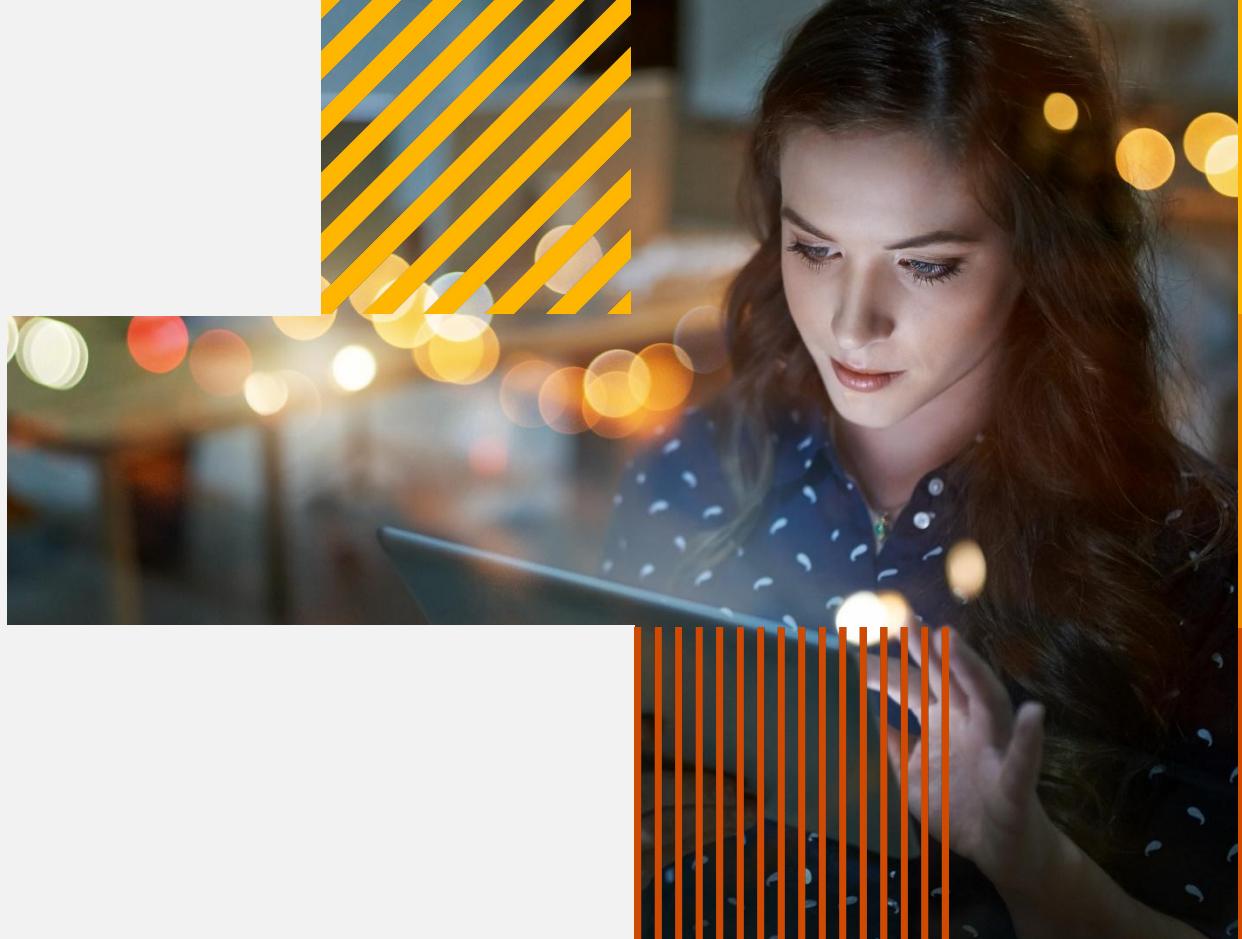


# Strong leadership: The foundation of a risk-aware culture

Successful ERM depends on strong leadership and a clear commitment from senior management. Leaders must exemplify the significance of risk management through their actions and decisions, building a risk-aware culture. This involves ongoing training, awareness programmes and promoting open discussions about risks and challenges. Accountability is critical, with everyone in the organisation participating in risk management, from executives to frontline staff. By making ERM a collective responsibility, potential threats can be identified and addressed.

Leadership should foster an environment of collaboration and communication to ensure accurate and prompt sharing of risk information with all relevant stakeholders. Regular risk reports, updates, and feedback loops are essential for transparency. This allows decision-makers to identify potential risks early, assess their impact and implement effective mitigation strategies. A proactive approach prevents minor issues from escalating into major crises, ensuring organisational resilience and stability.

Strengthening the ERM function provides management with day-to-day operational support, enabling internal audit teams to focus on strategic issues. By promoting a culture of transparency and communication, ERM helps organisations navigate uncertainties more effectively and safeguard their long-term success.



# Case in focus: Giza Systems' ERM evolution

Based in Egypt, Giza Systems is a leading digital transformation enabler and systems integrator in the Middle East and Africa. Following its acquisition by Saudi Arabia-based solutions by stc, the organisation was in the early stages of building its Enterprise Risk Management (ERM) and Internal Audit functions, limiting its ability to manage key risks effectively.

While the transformation introduced new opportunities for expansion and market reach, it also triggered new risks, stemming from shifts in strategy and operating models. To navigate these challenges, the company had to make strategic internal adjustments to align with the demands of diverse regional markets. Key acquisition-related risks included the need for Giza Systems to recalibrate its objectives and goals to fit the new strategic direction.

The primary aim of the engagement was to clarify the organisation's future trajectory, identifying the essential steps needed to ensure sustainable growth and long-term stability amidst these changes.

Over four months, PwC's Risk Services team worked closely with Giza Systems to establish a comprehensive ERM framework, enabling proactive management of both visible and invisible risks. Waleed Saleh, Chief Audit Executive at Giza Systems, led the organisation's internal audit function in initiating this activity. The engagement highlighted necessary changes to departmental roles and responsibilities, aligning the company with its post-acquisition long-term goals.

Giza Systems' need for transformation extended beyond mere compliance, aiming to cultivate a proactive risk management culture. The acquisition triggered a comprehensive company-wide risk assessment initiative, driving deeper integration of risk management into the organisation's operations.

In preparation for the ERM exercise, the PwC Middle East team met with the entire C-suite team, in addition to departmental directors and, in some cases, managers. Valuable insights from key stakeholders provided the company with greater visibility over risks and a structured approach to mitigation. The collaboration strengthened Giza Systems' risk management processes, ensuring alignment with post-acquisition goals and preparing the company for future growth and sustainability.

It uncovered both anticipated and previously unrecognised risks – such as currency devaluations – and enabled Giza Systems to navigate complex challenges and build a resilient, risk-aware culture for long-term operational excellence.

This success story demonstrates how a proactive, well-organised risk management approach has not only positioned Giza Systems for operational excellence, long-term sustainability and future growth but also prepared the organisation to more effectively navigate unforeseen threats such as currency devaluations.

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While invisible risks may seem simple at first glance, they are significant in our evolving business world, presenting new challenges and opportunities. The collaboration with PwC Middle East has provided a structured approach to risk management, laying the foundation for a comprehensive ERM framework. By aligning ERM with strategic objectives, Giza Systems is now in a stronger position to navigate changes in its operating model and meet the evolving demands of regional markets.”

**Waleed Saleh, Chief Audit Executive at Giza Systems**

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Our team collaborated closely with Giza Systems' leadership as we helped the organisation prepare to tackle both visible and hidden challenges. Our strategic partnership ensured Giza Systems was better prepared to navigate invisible risks following its acquisition.”

**Ahmed Mansour, Risk Partner, PwC Middle East**



# Looking ahead – Proactive risk management to navigate challenges

Enhancing the ability to identify invisible risks is a vital component of a robust ERM framework. Beyond identifying and addressing visible risks, it is crucial for any organisation to expand its risk radar to uncover threats that might otherwise go unnoticed, enabling better preparation for unforeseen challenges. By increasing awareness and aligning risk detection with risk appetite, organisations can proactively shape their approach to managing uncertainty.

The success story of Giza Systems highlights the value of proactively managing invisible risks. Through the implementation of a clear ERM approach, supported by leadership commitment, the company effectively identified and addressed hidden risks, enhancing its resilience and ability to navigate emerging challenges. This approach not only safeguarded Giza Systems' operations but also prepared the firm for uncertainties and helped them seize new opportunities.

Aligning an organisation's risk radar with its risk appetite creates a foundation for long-term sustainability and growth. A proactive risk management culture equips companies to navigate unpredictable changes while fostering stakeholder trust in an increasingly volatile business landscape.

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