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COMPARATIVE ANALYSIS OF RISK MANAGEMENT METHODS IN BUSINESS, ON THE EXAMPLE OF EFFECTIVE APPLICATION OF COSO

This research conducts a comparative analysis of risk management methods in business, focusing on the effective application of COSO (Committee of Sponsoring Organizations of the Treadway Commission). The study delves into theoretical aspects of risk management, explores the COSO framework's five components, and compares its effectiveness with other prevalent methods such as ISO 31000 and Basel III, providing insights for organizations seeking to enhance their risk management systems.

Keywords: *Risk management, COSO, comparative analysis, business, ISO 31000, Basel III, internal control, risk assessment, strategic management, financial risks*

In a dynamic and competitive business environment, effective risk management becomes a critical element of the strategic success of organizations. With ever-changing economic conditions and global challenges, the need for risk management systems is higher than ever. In this context, the scientific work is aimed at conducting a comparative analysis of risk management methods in business with an in-depth examination of the effective use of the COSO framework (Committee of Sponsoring Organizations of the Treadway Commission).

Modern organizations face a wide range of risks, including financial, operational, strategic and reputational. Failure to effectively manage these risks can lead to serious consequences, such as loss of profits, deterioration of reputation and even financial crises. Therefore, there is an increasing need for risk management systems that not only prevent potential threats, but also contribute to improving strategic planning and decision-making.

Business risk is the exposure a company or organization has to factor(s) that will lower its profits or lead it to fail. Anything that threatens a company's ability to achieve its financial goals is considered a business risk. There are many factors that can converge to create business risk. Sometimes it is a company's top leadership or management that creates situations where a business may be exposed to a greater degree of risk [1].

Originally established in 1985, COSO is a joint initiative of five private sector organizations and is dedicated to providing thought leadership by developing a framework and guidance on enterprise Risk management (ERM), internal control and fraud deterrence. COSO Support Organizations They are the Institute of Internal Auditors (IIA), the American Accounting Association (AAA), the American Institute of Certified Public Accountants (AICPA), Financial Executives International (FEI) and the Institute of Management Accountants (IMA) [2, p.34].

COCO offers a five-component model that includes: control environment, risk assessment, management activities, information and communication, as well as monitoring. The use of COSO allows companies to create a solid internal control system, contributing to more effective risk management and improving the quality of decision-making.

The COSO risk management concept identifies 5 components of the internal control system and 17 principles on which the work of these 5 components is based. The concept reads: since 17 principles are derived from 5 components of the internal control system, their implementation will help to achieve an effective system. It is the responsibility of management to allocate responsibilities for the implementation of these 17 principles, and to make sure that the responsibilities are performed properly.

ISO 31000 is applicable to all organizations, regardless of type, size, activities and location, and covers all types of risk. It was developed by a range of stakeholders and is intended for use by anyone who manages risks, not just professional risk managers [3, p.1].

Basel II is a set of international banking regulations first released in 2004 by the Basel Committee on Banking Supervision. It expanded the rules for minimum capital requirements established under Basel I, the first international regulatory accord, provided a framework for regulatory supervision and set new disclosure requirements for assessing the capital adequacy of banks [4].

Comparative analysis of risk management methods

Criterion	COSO	ISO 31000	Basel II
Orientation	Internal control and risk management	Universal risk management standart	Regulation of financial risks in banking
Principles	17 principles covering 5 components	General risk management principles	Regulation of credit, operational, and market risks
Application	All industries with a focus on risk management	Widely applicable across various industries	Mainly focused on the banking sector
Risk Assessment	Integrated risk assessment in business processes	Cyclical process including assessment, decision-making, implementation, and monitoring	Management of various types of risks in banking operations
Advantages	Integrated approach, emphasis on internal control	Universality, applicability across diverse sectors	Specialized for the banking sector, structured regulation
Disadvantages	Complexity, requires time for implementation	Generalized, may require adaptation to specific industries	Banking sector-oriented, potential regulatory challenges
Flexibility	Some rigidity in structure and principles	High flexibility, suitable for different contexts	Specialized approach, not always adaptable to other industries
Monitoring	Systematic monitoring of internal control	Built-in monitoring in the risk management cycle	Monitoring systems for credit and operational risks
Legislative Compliance	Facilitates compliance with various standards	General standard requiring compliance with local requirements	Capital and liquidity requirements in accordance with banking norms

The introduction of COSO into Belarusian companies requires a systematic and meaningful approach. Below are the steps that can help in the successful implementation of COSO in an organization in Belarus:

1. Assessment of the current state of risk management:
– Analyze the existing risk management methods in the company.
– Identify key risks and their impact on achieving goals.
2. Staff training:
– Familiarize employees with the basics of COSO and the principles of risk management.
– Conduct training seminars or internal trainings.
3. Formation of the implementation team:
– Assign those responsible for implementing COSO and create a team.
– Define the roles and responsibilities of the team members.
4. Conducting an assessment of compliance with COSO:
– Analyze how the current control processes comply with the principles of COSO.
– Identify areas that need improvement.
5. Development and implementation of management processes:
Develop and implement processes for risk assessment, control measures management and internal con– trol monitoring.
– Ensure their integration with current business processes.
6. Creating a reporting system:
– Develop a reporting system that reflects the degree of risk management and compliance with COSO.
– Ensure regular reporting to management.
7. Integrating COSO into the corporate culture:
– Provide leadership support for the successful implementation of COSO.
– Promote risk management ideas among employees.
8. Audit and Monitoring:
– Regularly audit the risk management system using COSO.
– Make adjustments in case of inconsistencies.
9. Compliance with local laws:
– Take into account the requirements of the Belarusian legislation when implementing COSO.
– Ensure that the COSO principles comply with local standards and requirements.

10. Feedback and continuous improvement:
– Systematically collect feedback from employees and management.
– Make continuous improvements in the risk management system.
It is important to remember that the successful implementation of COSO is a process that requires constant attention and effort. It is necessary to carefully adapt the framework to the specific conditions of the Belarusian business space and ensure its continuous improvement.

This research endeavored to conduct a comprehensive comparative analysis of risk management methods, focusing on the application of COSO (Committee of Sponsoring Organizations of the Treadway Commission). The exploration included a deep dive into theoretical aspects of risk management, an examination of COSO's core principles, and a comparative investigation against other widely utilized frameworks such as ISO 31000 and Basel II.

The study illuminated the intricate landscape of risk management, underscoring the critical importance of robust frameworks in navigating the complexities of the modern business environment. COSO, with its emphasis on internal control and integrated risk management, emerged as a structured approach suitable for a broad spectrum of industries. Its 17 principles, encompassing various components, offer a systematic foundation for organizations to fortify their risk management practices.

Comparisons with ISO 31000, a universal risk management standard known for its flexibility, revealed a shared commitment to enhancing organizational resilience. ISO 31000's adaptability allows it to cater to diverse industry contexts, making it a versatile choice for organizations seeking a standardized yet customizable risk management approach.

In contrast, Basel II, designed specifically for the banking sector, highlighted the need for specialized frameworks to address the unique challenges of financial institutions. Its three-pillar structure, emphasizing capital adequacy, supervisory review, and market discipline, underscores the importance of aligning capital with varying risk profiles in the banking industry.

As organizations grapple with an ever-evolving risk landscape, this comparative analysis provides valuable insights for decision-makers. The findings underscore the significance of selecting a risk management framework aligned with an organization's specific needs and industry dynamics. Whether through the integrated approach of COSO, the adaptability of ISO 31000, or the specialized focus of Basel II, organizations have diverse tools at their disposal to enhance their risk management capabilities and fortify their resilience in the face of uncertainty.

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