Promoting ‘Enterprise Risk Management’ Adoption in Business Enterprises: Implications and Challenges

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ABSTRACT: The study advocates the adoption of Enterprise Risk Management (ERM) by firms. Despite the benefits of ERM, few firms have adopted it in Nigeria. The paper identifies factors which influence firms to adopt ERM, and explores ERM implementation challenges and benefits of adopting ERM. It also recommended a suitable ERM framework for use in Nigeria. Using the literature, the study establishes that the understanding of ERM, its benefits, factors stimulating firms to adopt ERM, and ERM implementation challenges are necessary to promote the adoption of ERM by firms in Nigeria. The study reveals that business enterprises in Nigeria have not understood and embraced ERM; hence, ERM is not widely adopted in Nigeria. The implication of the findings for practice suggest that: the understanding of ERM is necessary to facilitate its adoption in Nigeria; ERM must start in the boardroom in order to positively influence the way firms’ thought about risk, and planned for eventualities; and firms should integrate risk management into their organisation’s philosophy, practices, and business plans, rather than being viewed or practised as a separate programme. The government also needs to create a viable environment for businesses to thrive in order to appropriate the benefits of ERM to firms and the nation at large.

Keywords: Risk Management, Enterprise Risk Management (ERM), ERM Framework, ERM Implementation Challenges, ERM Benefits, Nigeria.

I. INTRODUCTION

Risk management is an essential tool in managing uncertainty associated with business. Firms have always practice some forms of risk management, implicitly or explicitly (Meulbroek, 2002). In the past, risk management was rarely undertaken in a systematic and integrated manner across the firm. The holistic approach to managing organisation’s risks differs substantially from historical practice, as typical firm’s tends to aggregate risk (holistic risk management), rather than isolating them (traditional risk management) (Wolf, 2008; Hoyt and Liebenberg, 2011). Traditional risk management views risk as a series of single elements, not related to others, where individual risk are categorised and managed separately (Wolf, 2008; Hoyt and Liebenberg, 2011). The major deficiency of the traditional approach to risk management is the narrow focus on the threats, rather than focusing on both opportunities and threats. The holistic approach, often referred to as enterprise risk management (ERM), engages risks across a variety of levels in the organisation; thus focusing on both opportunity and threat. Meanwhile, the term ERM has similar meaning with Corporate Risk Management (CRM), Holistic Risk Management (HRM), Integrated Risk Management (IRM), Strategic Risk Management (SRM), Enterprise-Wide Risk Management (EWRM) and Business Risk Management (BRM) (D’Arcy, 2001; Liebenberg and Hoyt, 2003; Kleffner et al., 2003; Hoyt and Liebenberg, 2006; Manab et al., 2007; and Yazid et al., 2009). This probably accounts for non universal acceptable definition of ERM. For example, Lam (2000) describes ERM as an integrated framework for managing credit risk, market risk, operational risk, economic capital, and risk transfer in order to maximise firm value. Casualty Actuarial Society (2003) views ERM as disciplines by which an organisation in any industry assesses, controls, exploits, finances, and monitors risks from all sources for the purposes of increasing the organisation’s short-term and long-term value to its stakeholders. COSO (2004) also perceives ERM as a process, affected 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. Similarly, Makomaski (2008) views ERM as a decision-making discipline which addresses variation in company goals. For Stulz (2008), ERM is the process of planning, organising, leading and controlling organisation’s activities in order to minimise the effects of risk on capital and performance. Likewise, Alviunessen and Jankensgard (2009) emphasise that ERM is concerned with a holistic, company-wide approach in managing risks, and centralised the information according to the risk exposures. Consequently, ERM is a systematically integrated and discipline approaches in managing risks within organisations to ensure firms’ maximise and create value to their stakeholders. In essence, ERM expands...
the risk management process to include not just risk associated with accidental losses, but also financial, strategic operating and other risk to maximise enterprise value (as illustrated in Figure 1).

Figure 1: ERM Brings Together All Risks
Source: Outsourcing at your own risk (Beasley et al., 2004)

The paper is divided into eight sections. Section one introduces the study. The second section highlights scope, objectives and significance of the study. Section three states the methodology. Section four develops the study theoretical framework; and recommends a suitable ERM framework for use in Nigeria, subject to firms’ specific features. Section five highlights factors which influence firms to adopt ERM. Section six explores challenges of implementing ERM; while section seven considers the benefits of adopting ERM. Finally, the last section outlines the study conclusions and recommendations.

II. SCOPE, OBJECTIVES AND SIGNIFICANCE OF STUDY

The paper advocates the adoption of ERM by business enterprises in Nigeria so as to increase their risk awareness, facilitate effective decision-making, and increase firms’ value. Specifically, objectives of the study include:

a) To explain ERM;
b) To identify factors which influence firms to adopt ERM;
c) To consider the challenges of implementing ERM; and
d) To highlight the benefits of adopting ERM by firms’ in Nigeria.

Very few enterprises in developing nations’ have adopted ERM; while, several enterprises in developed nations’ have integrated ERM into their operations (Subhani and Osman, 2011). This is due to lack of awareness about ERM; hence, it calls for serious concerns for value maximisation of enterprises’ share holders in developing nations, such as Nigeria. Despite the benefits of ERM, not many firms have adopted ERM in Nigeria. Moreover, there is dearth of study on ERM in Nigeria, as only two studies on ERM in Nigeria are found in the literature (Donwa and Ibadan, 2010; Ugwuanyi and Imo, 2012). Donwa and Ibadan (2010) study on ERM in accounting and professional firms in Nigeria show that risk management function was non-existent as a specialised risk management group within the organisation. On the other hand, Ugwuanyi and Imo (2012) study on ERM in Nigerian brewery industry reveal that ERM enhances the performance of firms in the Brewery industry in Nigeria. This emphasises the need for business enterprises in Nigeria to embrace and adopt ERM practices. Consequently, the study contributes to knowledge by broadening the scope of the literature regarding the understanding and adoption of ERM by business enterprises in Nigeria.

III. METHODOLOGY

Secondary data - the literature - is employed for the study. This approach is appropriate as there is dearth of data on ERM adoption in Nigeria. This is because very few enterprises in have adopted ERM in Nigeria. Consequently, the literature is explore to deduce implications and challenges of adopting ERM; thereby promoting the adoption of ERM by business enterprises in Nigeria. The significance of the fact obtained from the literature is deemed sufficient to establish the research rationale; and to highlight the importance and benefits of ERM to business enterprises in Nigeria.

IV. THEORETICAL FRAMEWORK

ERM emerges as a framework or structured approach combining strategies, resources, technology, and knowledge to assess and manage uncertainties enterprises faced (Hoffman, 2009). Several ERM frameworks have been developed and used around the world, as shown in Table 1. The most recent and commonly used ERM framework in many organisations around the world is ISO31000:2009. The author therefore recommends

Table 1: ERM Frameworks

<table>
<thead>
<tr>
<th>STANDARD</th>
<th>AUTHOR</th>
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<tr>
<td>CAN/CSA-Q850-97: Risk Management:</td>
<td>Canadian Standards Association (CSA)</td>
<td>1997</td>
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<td>Guideline for Decision-makers</td>
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<td>Business-related Projects Risk</td>
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<td>BS IEC 62198:2001</td>
<td>British Standards (BS)</td>
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<td>IEE Standards 1540-2001: Standard for</td>
<td>Institute of Electrical and Electronic Engineer, USA</td>
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<td>Software Life Cycle processes - Risk</td>
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<td>Standard, Project Risk Management:</td>
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<td>Application Guidelines</td>
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<td>Risk Management Standard</td>
<td>Institute of Risk Management (IRM)/ National Forum for Risk Management</td>
<td>2002</td>
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<td>Risk Management (Public Sector)</td>
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<td>Risk Management (ALARM)/ Association</td>
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<td>of Insurance and Risk Managers (AIRMIC), UK</td>
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<td>FERMA Standard: 2003</td>
<td>Federation of European Risk Management Associations (FERMA)</td>
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<td>Risk Analysis and Management for</td>
<td>Institute of Civil Engineers et al.</td>
<td>2005</td>
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<td>Projects (RAMP)</td>
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<td>APM Body of Knowledge</td>
<td>Association for Project Management (APM)</td>
<td>2006</td>
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<td>A Guide to the Project Management</td>
<td>Project Management Institute (PMI), USA</td>
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<td>Body of Knowledge (PMBOK Guide)</td>
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<td>BS31100:2008</td>
<td>British Standard, UK</td>
<td>2008</td>
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<tr>
<td>COSO II</td>
<td>Committee of Sponsoring Organisations of the Treadway Commission</td>
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Source: The Author, 2012


The ISO 31000:2009 (Risk management - Principles and Guidelines) is developed by the International Organisation for Standardisation (ISO). The ISO is an international standard, the world’s largest developer and publisher of international standards, comprised representatives from 157 national standardisation bodies. As illustrated in Figure 2, the model comprises five key activities: communication and consultation, establishing the context, risk assessment, risk treatment, and monitoring and review.

1. Communication and Consultation

Communication and consultation is considered to be an integral part of all risk management activities which should take place at all stages of the risk management process. This entails engaging framework prior risk management process in order to involve both internal and external stakeholders throughout the risk management process. The framework promotes ‘consultative team approach’ in order to facilitate good communication with key stakeholders, from the outset (ISO, 2009). This is to ensure that those accountable for implementing the risk management process and stakeholders understand the basis on which decisions are made, and the reason why particular actions are required. This emphasises the importance of ensuring that adequate opportunity is given to all those who need to be involved to do so in the planning and execution of the risk management process.
stakeholders must be kept informed of development in the understanding of risks and the measures taken to manage such risks.

![Figure 2: ISO 31000:2009 Risk Management Framework (Adapted from ISO, 2009)](image)

1.2 Establishing the Context
Risk management is undertaking within the context of organisation’s goals. This is necessary in order to establish the internal and external context in which the process will take place. Here, the organisation defines the internal and external parameters to be considered when managing risk. Establishing the context is about setting the boundaries around the organisation’s risk appetite and risk management activities. This requires consideration of the external factors (e.g. cultural, social, political and economic) and the internal factors (e.g. resources, strategy and capacities). Also, the context for the risk management process itself has to be developed, which include: establishing a risk management policy, processes, methodologies, plans, risk rating criteria, roles and responsibilities, training and reporting processes. Consequently, a thorough understanding of the context in which the firm operates is necessary, so as to facilitate adequate define of parameters within which the risks would be managed. In essence, organisational context provides an understanding of the organisation, its capability and goals, objectives and strategies. The risk management context, therefore, defines the part of the organisation (goals, objectives, or projects) to which the risk management process is to be applied (ISO, 2009).

1.3 Risk Assessment
Risk assessment comprises the process of identifying (risk identification), analysing (risk analysis) and evaluating (risk evaluation) risks. The first activity, i.e. risk identification, establishes the exposure of the organisation to risk and uncertainty in order to generate a comprehensive list of risks which may affect the attainment of the organisation’s objectives. This requires an intimate knowledge of the organisation, the market, legal, social, political and cultural environment in which it operates. The second activity, i.e. risk analysis, evaluates possible causes, sources, likelihoods and consequences to establish the inherent risks. The result of the risk analysis provides an input to risk evaluation and risk treatment. This result can also be used to prepare a risk profile which indicates rating of significant to each risk and provides a tool for prioritising risk treatment efforts. The third activity, i.e. risk evaluation, evaluates the level of risk in order to decide about further risk treatment accordingly. This involves comparing the level of risk, determined during the risk analysis and risk evaluation, with the defined risk criteria to prioritise the implementation of adequate measures for treatment and/or mitigating the risk (ISO, 2009).
1.4 Risk Treatment

Risk treatment involves selection and implementation of the appropriate control measures. Risk treatment techniques include avoidance, reduction, transfer/share and retention. It is necessary that risk treatment techniques should provide efficient and effective internal control, as risk treatment itself can introduce new risks such as the failure or ineffectiveness of risk treatment techniques (Erben, 2008). The activities at this stage centres on development and implementation of specific cost effective strategies and action plans for increasing potential benefits. Risk treatment focuses on determination of what will be done in response to the identified risks. The purpose of risk treatments is to reduce the level of unacceptable risks to an acceptable level. Potential treatment options are developed based on the chosen treatment strategy. The treatment strategies will be directed towards: avoiding the risk by discontinuing the activity that generates the risk; reducing the likelihood of the occurrence; reducing the consequences of the occurrence; transferring the risk to insurance company or relevant experts; and retaining the risk. The selection of the preferred treatment options must consider the financial implications and its effectiveness. Likewise, the implementation details (e.g. responsibilities, timetable for implementation and monitoring requirements) of the preferred strategy should be adequately documented for effective monitoring and review purposes (ISO, 2009).

1.5 Monitoring and Review

Monitoring and review ensures that the organisation monitors risk performance and learn from experience. Planned regular monitoring and review of risks and ERM framework is crucial in order to keep the risk management framework relevant to the changing needs of the organisation and external influence. It is also necessary to monitor the effectiveness of all steps involved in the risk management process. This is to ensure that changing circumstances do not alter priorities; and to facilitate easy identification and treatment of new risks as they arise. It is, therefore, paramount to maintain adequate process records for monitoring and review purposes (ISO 2009).

V. DETERMINANTS OF ERM ADOPTION

The interest in ERM implementation among firms around the world has been influenced by some internal and external factors. There are few studies which focused on the determinant factors of ERM adoption among firms. In this section, the author reviews some of these studies in order to identify factors which influence adoption of ERM by firms.

Liebenberg and Hoyt (2003) study of 26 firms in the US suggest that determinants of ERM adoption including firm size, firm industry, earnings volatility, stock price volatility, average leverage, average market-book value ratios, financial opacity, average institutional ownership, and subsidiaries’ countries. Beasley et al., (2005) indicate that five factors have significant impact on firm to implement ERM: appointment of Chief Risk Officer (CRO), managerial support, types of board directors, size of firm and the existence of Big Four auditor. Similarly, KPMG (2006) identifies four major factors for US companies that have exercised ERM: the organisation desire to reduce potential financial losses (68%); the organisation desire to improve business performance (64%); due to the regulatory compliance requirements (58%); and the organisation desire to increase risk accountability (53%).

Using hazard model, Pagach and Warr (2007) examine the characteristics of firms that have adopt ERM. Their study show that firms using ERM has several characteristics as follows, (a) firm has more leveraged; (b) firm has incurred more volatile earnings; (c) firm has suffered poor stock markets performance; and (d) managerial influence characteristics inside of the firm. In addition, they found that there is a correlation between size and leverage, which influence firm to hire chief risk officer (CRO). In another study, Desender (2007) exhibits a different perspective that the board of directors with separation of CEO and chairman plays a major role in determining characteristics of ERM programs. Even though the study focuses on pharmaceutical industries, the results indicate the importance of composition of board of directors influence characteristics of firm that involved in ERM activities. Likewise, PricewaterhouseCoopers (2008) finds that firms in Finland are motivated to implement ERM by four key factors: over 96 percent of the users want to adopt good business practice; more than 81 percent due to corporate governance pressure; 42 percent stated it gives them a competitive advantage; and more than 30 percent comes from regulatory pressure and also investment community pressure.

Hussin et al. (2008) survey of 20 Malaysian Public Listed Companies identify six factors that drive ERM as a value-added tool: a commitment and transparency from top management, drives towards a more systematic management risks, strong involvement of executive leadership and their support, perception and understanding for development of competency by companies itself, more and more education and training, and culture-creation by companies. Furthermore, Altuntas et al. (2011) analyse factors that influence a German company’s decision to start an ERM program. They conducted a comprehensive survey to get a direct measure
of ERM program adoption. They argue that top management’s decision to adopt ERM is influenced by managerial career concerns because if firm performance deteriorates top management may get fired. Hence, top management might adopt ERM to signal that it can get the firm back on track. Also, Golshan and Abdul Rasid (2012) study aims to gain insights to the influential factors of ERM adoptions by public listed firms in Malaysia. Their findings indicate that firms with higher financial leverage and with a Big Four auditor are more likely to have a form of ERM framework in place.

Thus, the literature reveals that there are several factors that can influence organisations to adopt ERM. In conclusion, factors influencing ERM adoption from the literature, as discussed above, include: size of firm, firm industry, earnings volatility, stock price performance and volatility, volatile earnings, firm financial leverage, average market-book value ratios, financial opacity, average institutional ownership, appointment of Chief Risk Officer (CRO), managerial support, types of board directors, the existence of Big Four auditor, organisation desire to reduce potential financial losses, organisation desire to improve business performance, regulatory compliance requirements, organisation desire to increase risk accountability, managerial influence, composition of board of directors, the board of directors with separation of CEO and chairman, willingness to adopt good business practice, corporate governance pressure, desire to secure competitive advantage, investment community pressure, commitment and transparency of top management, drive towards a more systematic risk management, strong involvement of executive leadership and their support, perception and understanding for development of competency by an organisation, education and training, culture-creation by companies, and managerial career concerns of top management in order to retain their jobs (Liebenberg and Hoyt, 2003; Beasley et al., 2005; KPMG, 2006; Pagach and Warr, 2007; Desender, 2007; PricewaterhouseCoopers, 2008; Hussin et al., 2008; Altuntas et al., 2011, Golshan and Abdul Rasid, 2012). The implication is that these factors can also influence, partly or wholly, adoption and implementation of ERM in business enterprises in Nigeria.

VI. ERM IMPLEMENTATION CHALLENGES

The costs and benefits of ERM are firm-specific, as the ERM framework of a specific firm may not be suitable to another (Beasley et al., 2008). Organisations implementing enterprise risk management (ERM) face several challenges. The process is complex and not easily understood. Also, there are several ERM concepts to assimilate and pitfalls to avoid. Internal auditors should be actively involved in ERM implementation process, as an organisation’s failure to achieve solid ratings could result in increased financing costs. Board members should also be trained on risk and control, and on what directors should do to prepare for standard and poor review. In addition, auditors can also perform an independent review for standard and poor readiness. In their review, they should evaluate how their organisation meets ERM implementation challenges (Jackson, 2009; Schanfield, 2009; Ferkolj, 2010). Eleven major ERM implementation challenges are discussed below.

1.1 Defining Risk Terminology

A risk glossary should be developed at the inception of the ERM implementation process to ensure that everyone in the organisation understood applicable terminologies. This is necessary in order to ascertain the meaning of risk and related terms for the entire organisation at the inception of the ERM implementation. Moreover, this would ensure consistent use of key concepts, saves time and prevent interpretations ambiguity. Hence, the organisation needs to agree on terms such as risk, risk assessment, risk management, ERM, likelihood, inherent risk, significant and residual risk.

1.2 Selecting a Framework

The risk management community had used ERM frameworks (See table 1 for frameworks developed and used around the world) for many years before the release of ISO 31000:2009 by International Standard Organisation (ISO) in 2009. The organisation must select a suitable framework to be adopted and implemented, subject to its specific features. However, the author recommends adoption of ISO 2009 (see 4.1 above) for use in business enterprises in Nigeria. It is important for the organisation implementing ERM to understand at least some of the vast body of knowledge related to the ERM so that management can make intelligent decisions about how best to implement it. Also, the selection process of the ERM and the framework must be documented. By learning more details about various ERM frameworks, internal auditors can also help management evaluate which are best suited to the organisation's needs.

1.3 Articulating ERM Benefits/Impacts

It is important to identify and articulate the potential benefits and impacts that the organisation expects to achieve from implementing ERM. Key benefits and impacts of ERM include:

- Improved corporate governance through delivery of risk assurance
- Improved decision-making, especially in setting corporate strategy.
- Reduced risk exposure in key areas.
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- Improved corporate governance.
- Improved compliance.
- Greater efficiency of operations and profitability.
- More effective business processes.
- Enhanced capital allocation.
- Increased stock price.

1.4 Identifying Risk
Organisations must at least understand techniques available to identify various events that create risk and how to deploy these methods appropriately. Most of these methods require interaction with both the internal and external stakeholders so as to identify potential risks, upside and downside. These include:
- Review of prior internal audit reports.
- Brainstorming.
- Risk questionnaires.
- Review of financial statements, Securities and Exchange Commission reports, and management letter comments.
- Business studies.
- Industry benchmarking.
- Scenario analysis.
- Risk assessment workshops.
- Incident investigation.
- Auditing and inspections.
- Hazard and operability studies.

1.5 Assessing Risk
Risk assessment requires prioritising the significance, likelihood, and timing of risk events. Risk can be assessed through qualitative, semi-quantitative, and quantitative techniques. The challenge is to determine the appropriate technique or combination of techniques to ensure effective assessment of risk exposures.

1.6 Evaluating Risk
Risk evaluation occurs after the risks are rolled up in the risk assessment phase. The exercise evaluates the assessed net risk by prioritising all assessed risks and then comparing each risk with its established tolerance. This evaluation should produce a comprehensive list of risks and tolerances. Organisations must take action on any risk that exceeds its tolerance. As part of its risk evaluation, an organisation needs a strong emphasis on defining risk tolerances for all areas. Generally, boards alone cannot articulate the risk tolerances in their organisations; other stakeholders must be involved in articulating the organisation’s risk tolerance level.

1.7 Treating Risk
Risk treatment is complex, as it is often challenging to determine an appropriate response. The organisation may possess the expertise required to mitigate highly specialised risks. The board may have to re-examine tolerances if many of the risks identified exceed them. Risk treatment options are:
- Accept the risk. Under this option, management decides to “self insure” by taking no further action and accepting the implications. In such a scenario, the board needs to revise the risk tolerances to accept “doing nothing.”
- Avoid the risk. Eliminate the activity.
- Outsource, share, or transfer the risk. This option can involve the use of derivatives, hedging, or insurance on financial risks, as well as using third parties to perform manufacturing, payroll processing, or other back office work on operational risks.
- Remedy the risk. Fix the problem.
  A team should also perform a cost-benefit analysis to ensure that the appropriate treatment is selected for each risk. Experts such as actuaries sometimes may be needed.

1.8 Monitoring Risk
Effective risk monitoring must ensure that the selected risk response is adequately implemented and working. It is also important to clarify monitoring responsibilities among internal auditing, individual business managers, and the board. Appropriate software based on key performance metrics may be used to design an effective continuous monitoring process.

1.9 Creating a Risk-aware Culture
A risk-aware culture is necessary to ensure that the risk process becomes institutionalised within the organisation. Top-to-bottom risk training is necessary to familiarise everyone in the organisation with the selected ERM framework. More advanced risk identification techniques, such as control self-assessment, may be adopted eventually. Decisions and actions within the organisation must be viewed within the context of a team approach. Moreover, each team member’s authority and responsibility for risk must be carefully documented and implemented.

1.10 Deploying Technology Effectively

The ultimate quality of an ERM implementation usually depends on the people and programs involved, rather than the technology. Many risk management packages use a methodology that is not specifically based on one of the recognised risk frameworks, or is not tailored to the framework the organisation has chosen. These deficiencies can lead to difficulties. However, this does not mean that technology should not play an active role in an ERM implementation. Technology should be built around the methodology and used, at a minimum, in several ways. Similarly, a risk repository database can be used to capture the risks. Voting technology can enable stakeholders to voice their opinions anonymously without fear of retribution. Compliance software can be used for online compliance monitoring and training purposes. Organisations also can use audit data extraction, risk monitoring, and audit work-paper software in their ERM implementation.

1.11 Integrating Strategy and Human Resources into ERM Successfully

It is important to integrate both strategy and human resources (HR) into the ERM process. From human resources perspective, specific goal-setting tied to the success of ERM must be part of an individual's performance management plan; without this, the implementation exercise may fail. Similarly, the business strategy should be defined at the inception of the exercise along with the organisation's mission and vision. The ERM process will emanate from this strategy, and events that may impact achievement of the organisation's strategies and objectives will be identified accordingly (Jackson, 2009; Schanfield, 2009; Ferkolj, 2010).

To ensure effective implementation of ERM, positive risk culture should form an interconnected part of business strategy, and this interconnection needs to be clearly defined and understood (Bowering and Rieger, 2005). Similarly, ERM must start in the boardroom so as to positively influence the way firms’ thought about risk, and planned for eventualities (Guy, 2000). This is necessary because a definite risk strategy which provides specific guidelines on stages of the ERM journey should be clearly documented (Chapman, 2006). To appropriate the benefits of ERM, organisations must integrate risk management into the organisation’s philosophy, practices, and business plans; rather than being viewed or practised as a separate programme (Carvalho, 2000).

VII. BENEFITS OF ERM

Notwithstanding the ERM implementation challenges, implementation of ERM is highly beneficial to business enterprises. To appropriate the benefits of ERM, risk management strategy must be tailored to the individual organisation, since the benefits and costs of risk management vary. The potential benefits of ERM to business enterprises in Nigeria include:

- Focusing activities on the possible benefits, rather than simply on producing a set of deliverables;
- Bridging the strategy and tactics gap to ensure that activities are tied to organisational needs and vision;
- Facilitate proactive management of opportunities as an integral of business processes at both strategic and tactical levels, rather than reacting too little and too late as often happens;
- Identifying risk at the strategic level to enhance the overall value of the organisation;
- Providing useful information to decision-makers in order ensure best possible decisions at all levels;
- Afford the opportunity to manage uncertainty in advance, with planned response to known risks and reducing waste and stress;
- Minimising threats and maximising opportunities thereby increasing the likelihood of achieving both strategic and tactical objectives;
- Ensuring that an appropriate level of risk is taken intelligently by the organisation in order to enhance attainment of increased rewards associated with safe risk taking, and
- Development of a risk-matured culture within the organisation. Notwithstanding that risk exists in all levels of the firm; risk can and should be managed proactively in order to deliver benefits and maximise organisational performance (Meulbroek, 2002; Hillson, 2006; Protiviti, 2006).

VIII. CONCLUSIONS AND RECOMMENDATIONS

1.1 Conclusions

Although, ERM is an effective and useful tool for managing modern firms’ risk exposures, not many firms have adopted ERM. Specifically, only few firms have embraced and adopted ERM in Nigeria. This is due
to lack of awareness about ERM and its benefits to organisations; and lack of understanding of how ERM can be effectively implemented and how its works with organisational structure. It is therefore necessary to understand ERM, its benefits, factors influencing firms to adopt ERM, and ERM implementation challenges. The study advocates ERM adoption and implementation in business enterprises in Nigeria. The study highlights that business enterprises in Nigeria have not understood and embraced ERM. Consequently, a suitable ERM framework is recommended for use in Nigeria, subject to firms’ specific features. Furthermore, the study identifies factors that influence firms to adopt ERM, highlights ERM implementation challenges, and explores benefits of adopting and implementing ERM by a firm. The study concludes that: first, the understanding of ERM is necessary to facilitate widely adoption and implementation of ERM in business enterprises in Nigeria; second, ERM must start in the boardroom so as to positively influence the way companies thought about risk, and planned for eventualities; and lastly, it is imperative that organisations must integrate risk management into the organisation’s philosophy, practices, and business plans; rather than being viewed or practised as a separate programme. However, the government should create a viable environment for businesses to thrive in order to ensure that benefits of ERM are feasible in business enterprises and the economy at large.

1.2 Recommendations

To facilitate widely adoption and implementation of ERM in business enterprises in Nigeria, the author recommends the following:

- Internal auditors can enhance implementation effort of an enterprise by learning all they can about ERM and by networking with risk professionals. They also need to challenge the external auditors to get appropriate support for this initiative. Auditors also need to educate their board about ERM to ensure the right outcomes.

- It is necessary that the board drive the implementation exercise. Everyone in the organisation must be responsible for managing some aspect of risk. All individuals must be trained in basic risk management skills. The implication for practice is that a risk framework must be adapted to the organisation’s needs, and risk tolerances must be set by the board.

- It is imperative that an organisation must clearly articulate its risk appetite and develop good risk culture. A strong risk culture and clearer articulated risk appetite are critical in determining an organisation’s health and performance. This is because the degree of risk management actions varies among different organisations within an industry, subject to respective organisation’s risk culture and risk appetite. If the risk appetite is specifically known, decisions made by the organisation to manage risks may be parallel with the firm’s objective.

- Policymakers and firm managers who advocate ERM adoption must recognise that there are some factors which should be considered before making decision about implementing an ERM framework in a firm. This implies that to promote effective adoption and implementation of ERM, it is important to identify factors which stimulate business enterprises in the sector or industry under consideration.

REFERENCES


Promoting ‘Enterprise Risk Management’ Adoption In Business Enterprises: Implications...

Enterprise risk management (ERM) is a business strategy that identifies and prepares for hazards that may interfere with a company's operations and objectives. Understanding Enterprise Risk Management. Modern businesses, however, face a much more diverse collection of obstacles and potential dangers. How companies manage the risks that defy easy measurements or a framework for management also falls under the ERM umbrella. These potentials for exposure include crucial risks such as reputation, day-to-day operational procedures, legal and human resources management, financial, and other controls related to the Sarbanes-Oxley Act of 2002 (SOX), and overall governance. Key Words: Risk Management, Enterprise Risk Management (ERM), ERM Framework, ERM Implementation Challenges, ERM Benefits, Nigeria. I. INTRODUCTION Risk management is an essential tool in tackling uncertainty associated with business. Firms have always practice some forms of risk management, implicitly or explicitly (Meulbroek, 2002). In the past, risk management was rarely undertaken in a systematic and integrated manner across the firm. The holistic approach to managing organisation's risks differs substantially from historical practice, as typical firm's tends to aggregate risk (holistic ris... This is why Enterprise Risk Management (ERM) is necessary to the fulfillment of any organization's goals and objectives. Sound risk management empowers not only project, program managers, and even executives but also units, departments, and sectors to perform timely and effective decision making. Promoting risk management culture has a very high impact towards achieving risk management objectives in the organization. Often, organizations can be good at identifying risks but not at treating them. For a mature environment, all stakeholders need to assess, identify, and treat risks, as identifying risks only is not sufficient. Portfolio risk management: Aligning projects with business objectives to deliver value. PMI Global Congress 2011, Dublin Ireland.