*International Journal of Business and Management Invention*
*ISSN (Online): 2319 – 8028, ISSN (Print): 2319 – 801X*
*www.ijbmi.org Volume 2 Issue 1 ‖ January. 2013‖ PP.69-78*

# Promoting 'Enterprise Risk Management' Adoption in Business Enterprises: Implications and Challenges

Olajide Solomon Fadun

*School of Management & Business Studies (SMBS), Lagos State Polytechnic, Lagos Nigeria*

***ABSTRACT:*** *The study advocated the adoption of Enterprise Risk Management (ERM) by firms. Despite the benefits of ERM, few firms have adopted it in Nigeria. It identified factors that influence firms to adopt ERM, ERM implementation challenges and benefits of adopting ERM. It also recommended a suitable ERM framework for use in Nigeria. Using the literature, the study established 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 in Nigeria. The outcomes of the study revealed that business enterprises in Nigeria have not understood and embraced ERM; thus, not widely adopted in Nigeria. The findings suggested 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 need to provide suitable environment for businesses to thrive to ensure that the benefits of ERM are feasible in business enterprises and the economy.*

***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 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. However, some scholars have argued that 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) defines 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) defines 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 defines 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) defines ERM as a decision-making discipline that addresses variation in company goals. Stulz (2008) views ERM as the process of planning, organising, leading and controlling the activities of an organisation in order to minimise the effects of risk on an organisation's capital and performance. Likewise, Alviunessen and Jankensgard (2009) emphasise that ERM is concerned about 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 achieve their objectives that are to maximise and create value to their stakeholders. ERM, therefore, expands the 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 Figure1).

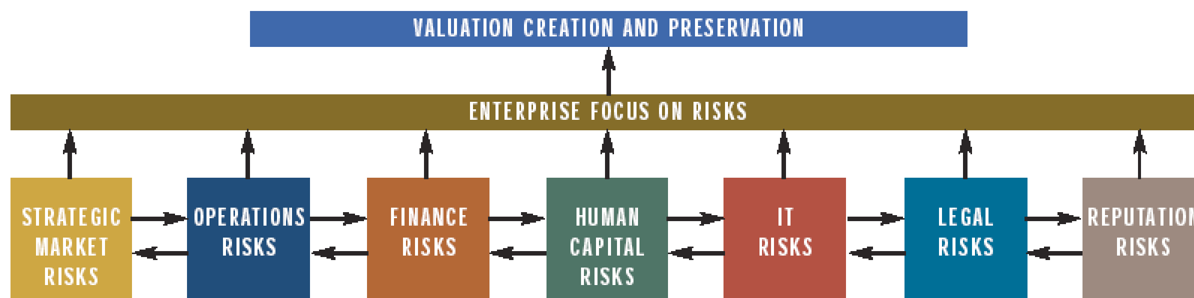


Figure 1**:** ERM Brings Together All Risks
Source: Outsourcing at your own risk (Beasley *et al*., 2004)

The paper is organised into eight sections. Section one introduces the study. The second section highlights scope, objectives and significance of 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 identifies, from the literature, factors that influence firms to adopt ERM. Section six explores challenges of implementing ERM by firms; while section seven considers the benefits of adopting ERM. Finally, the last section highlights the study conclusions and recommendations.

## II. SCOPE, OBJECTIVES AND SIGNIFICANCE OF STUDY

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

a) To explain ERM;
b) To identify from the literature the factors that 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.

The literature reveals that very few enterprises from developing nations are into ERM, while the developed nations' enterprises are vigorously involved in it (Subhani and Osman, 2011). According to them, this gap is due to lack of awareness, and it calls for serious concerns for value maximisation of enterprise share holders in developing nations. Specifically, 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 Nigeria brewery industry conclude 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, especially in Nigeria.

## III. METHODOLOGY

The approach employed for the study is mainly the literature. The significance of the result obtained from the literature was deemed sufficient to establish the research rationale; and to establish 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 the uncertainties that various enterprises face as value is being generated (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 the adoption of ISO31000:2009 for use in business enterprises in Nigeria. The ISO31000:2009 ERM framework is discussed below.

Table 1: ERM Frameworks

| STANDARD | AUTHOR | YEAR |
|---|---|---|
| CAN/CSA-Q850-97: Risk Management: Guideline for Decision-makers | Canadian Standards Association (CSA) | 1997 |
| BS 6079-3:2000: Project Management – Part 3: Guide to the Management of Business-related Projects Risk | British Standards Institution (BSI) | 2000 |
| BS IEC 62198:2001 | British Standards (BS) | 2001 |
| IEEE Standards 1540-2001: Standard for Software Life Cycle processes - Risk Management | Institute of Electrical and Electronic Engineer, USA | 2001 |
| JIS Q2001:2001 (E): Guidelines for Development and Implementation of Risk management System | Japanese Standards Association (JSA) | 2001 |
| CEI/IEC 62198:2001: International Standard, Project Risk Management: Application Guidelines | International Electrotechnical Commission, Switzerland | 2001 |
| Risk Management Standard | Institute of Risk Management (IRM)/ National Forum for Risk Management in the Public Sector (ALARM)/ Association of Insurance and Risk Managers (AIRMIC), UK | 2002 |
| FERMA Standard: 2003 | Federation of European Risk Management Associations (FERMA) | 2003 |
| AS/NZA 4360:2004: Risk Management | Standards Australia/Standards New Zealand | 2004 |
| Risk Analysis and Management for Projects (RAMP) | Institute of Civil Engineers *et al.* | 2005 |
| APM Body of Knowledge | Association for Project Management (APM) | 2006 |
| Management of Risk (M_o_R): Guidance for Practitioners | Office of Government of Commerce, UK | 2007 |
| A Guide to the Project Management Body of Knowledge(PMB0K Guide) | Project Management Institute (PMI), USA | 2008 |
| BS31100:2008 | British Standard, UK | 2008 |
| COSO II | Committee of Sponsoring Organisations of the Treadway Commission | 2009 |
| ISO31000:2009 | International Standard Organisation (ISO) | 2009 |

Source: The Author, 2012

## 1 The International Organisation Standard (ISO 31000:2009) Framework

The ISO 31000:2009 (Risk management - Principles and Guidelines) is developed by the International Organization for Standardization (ISO). The ISO is an international standard, the world's largest developer and publisher of international standards, composed of 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.

### 1.1 Communication and Consultation

Communication and consultation is seen as 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; thus engaging 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 in which decisions are made, and the reason why particular actions are required. Consequently, in both the planning and execution of the risk management process, it is necessary to ensure that adequate opportunity is given to all those who need to be involved to do so. The stakeholders must be kept informed of development in the understanding of risks and the measures taken to deal with them.

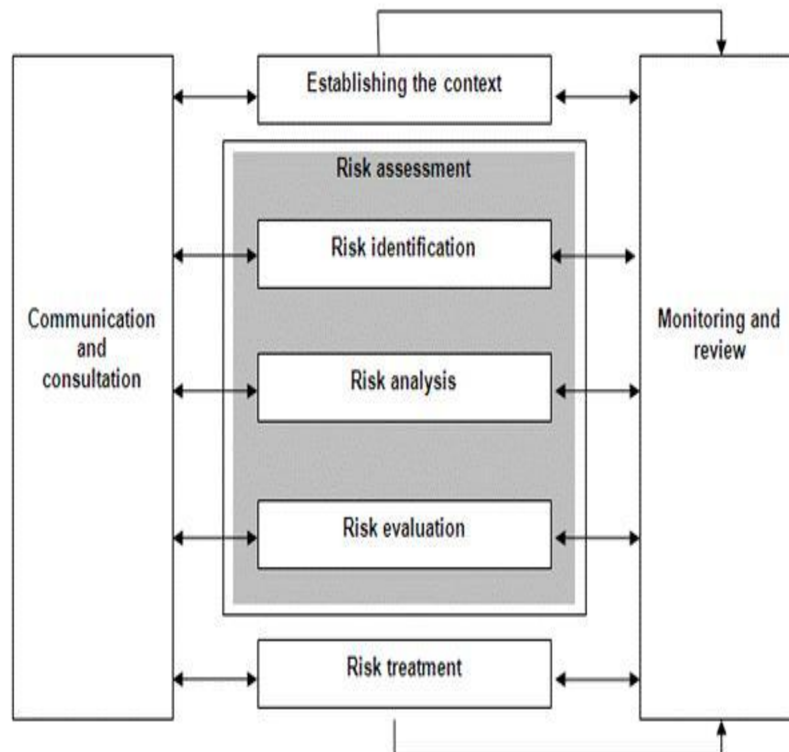


Figure 2: ISO 31000:2009 Risk Management Framework (Adapted from ISO, 2009)

### 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 rest of 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. In essence, a thorough understanding of the context in which the firm operates is necessary, so as to facilitate adequately define the parameters within which the risks need to be managed. Thus, the organisational context provides an understanding of the organisation, its capability and goals, objectives and strategies. Thus, the risk management context 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; thus 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, considers 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 be used to prepare a risk profile which gives rating of significant to each risk and provides a tool for prioritising risk treatment efforts. The third activity, i.e. risk evaluation, entails evaluation of the level of risk to make decisions about further risk treatment. 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 because risk treatment itself can introduce new risks such as the failure or ineffectiveness of risk treatment techniques (Erben, 2008). The activities as this stage centres on development and implementation of specific cost effective strategies and action plans for increasing potential benefits. Risk treatment entails 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 it; reducing the likelihood of the occurrence; reducing the consequences of the occurrence; transferring the risk; and retaining the risk. The selection of the preferred treatment options takes into account factors such as the costs and effectiveness. Furthermore, the implementation details (e.g. responsibilities, a 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 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 necessary 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 this study in order to identify factors that influence adoption of ERM by firms in the literature.

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: an 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. The implication is that these factors may also influence, partly or wholly, business enterprises in Nigeria to adopt and implement ERM.

## 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 be trained on risk and control, and on what directors should do to prepare for the 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 organization meets ERM implementation challenges (Jackson, 2009; Schanfield, 2009; Ferkolj, 2010). 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. It is important to ascertain the meaning of risk and related terms for the entire organisation at the inception of the ERM implementation, as this would facilitate consistent use of key concepts, saves time and prevent interpretations ambiguity. 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 to adequately defend it, if necessary. By learning more details about various ERM frameworks, internal auditors can help management evaluate which are best suited to the organisation's needs. Once auditors get a handle on a few of these frameworks, the rest are easy to assimilate.

### 1.3 Articulating ERM Benefits/Impacts

It is important to identify and articulate the potential benefits/impacts that the organisation expects to achieve from implementing ERM. Key benefits/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.
- 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 an appropriate technique or combination of techniques so that various risks can be effectively assessed.

**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 can not articulate the risk tolerances in their organisations; other stakeholders must be involved in articulating the organisation's risk tolerance level.

**1.7 Treating Risk**

Leading management and the board through the exercise of understanding their treatment options is complex. 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. The risk treatment options are:

- Accept the risk. Do nothing. 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 so that an appropriate treatment can be 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. 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. 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 (Bowling and Rieger, 2005). Similarly, ERM must start in the boardroom in order to positively influence the way firms' thought about risk, and planned for eventualities (Guy, 2000). This is necessary because a definite risk strategy, providing specific guidelines on what the next stage of the ERM journey should be clearly documented (Chapman, 2006). To enjoy 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, the implementation of ERM is highly beneficial to business enterprises in Nigeria. To enjoy the benefits of ERM, the risk management strategy must be tailored to the individual organisation, since the benefits and costs of risk management vary by firm. 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/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 facilitate the 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; thus increases the likelihood of achieving both strategic and tactical objectives;
- Allowing an appropriate level of risk is taken intelligently by the organisation, thus enhances the achievement of the increased rewards which are associated with safe risk taking, and
- Development of a risk-matured culture within the organisation, recognising that risk exists in all levels of the firm, but that risk can and should be managed proactively in order to deliver benefits (Meulbroek, 2002; Hillson, 2006; Protiviti, 2006).

## VIII. CONCLUSIONS AND RECOMMENDATIONS

**1.1 Conclusions**

The literature shows that, although ERM is known as 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. Basically, 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 stimulate firms to adopt ERM, and ERM implementation challenges. The study seeks to promote ERM adoption and implementation in business enterprises in Nigeria. The outcome of the study suggests that business enterprises in Nigeria have not understood and embraced ERM; thus, not widely adopted by Nigerian business enterprises. 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 author therefore 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 in order 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 provide suitable environment for businesses to thrive to ensure that benefits of ERM are feasible in business enterprises and the economy.

### 1.2 Recommendations

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

- Internal auditors can help the implementation effort 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. The auditors should 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, 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 stated 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, any decision made by the organization to curb 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. Also, they need to understand which factors stimulate business enterprises, in their sector or industry, to adopt and implement ERM.

## REFERENCES

[1] Altuntas, M., T. R. Berry-Stolzle, and R. E. Hoyt, Dynamic determinants of enterprise risk management adoption in the property-liability insurance industry: Evidence from Germany, 2011. [Online] Retrieved 19 December 2012, from: http://www.wu.ac.at/egrie2011/programme/papers/v.b1.altuntas.pdf .

[2] Alviunessen, A., and H. Jankensgård, Enterprise risk budgeting: Bringing risk management Into the financial planning process, Journal of Applied Finance, 19(1/2), 2009, 178-190.

[3] Beasley, M. S., M. Bradford, and D. Pacagh, Outsourcing at your own risk (Raleigh: North Carolina State University, 2004).

[4] Beasley, M., D. Pagach, and R. Warr, Information conveyed in hiring announcements of senior executives overseeing enterprise-wide risk management processes, Journal of Accounting Auditing and Finance, 23(3), 2008, 311-320.

[5] Bowling, D., and L. Rieger, Success factors for implementing enterprise risk management, Bank Accounting and Finance, 18(3), 2005, 21-26.

[6] Casualty Actuarial Society, Overview of enterprise risk management, CAS, 2003. [Online] Retrieved 20 December 2012, from: http://www.casact.org/research/erm/overview.pdf .

[7] Chapman, R., Simple tools and techniques for enterprise risk management (Chichester: John Wiley & Sons, 2006).

[8] COSO, Enterprise risk management: Integrated framework executive summary, 2004. [Online] Retrieved 23 June 2012, from: http://www.coso.org/Publications/ERM/COSO_ERM_ExecutiveSummary.pdf.

[9] D'Arcy, S. P., Enterprise risk management. Journal of Risk Management of Korea, 12(1), 2001, 207-228.

[10] Donwa, P., and P. O. Ibadan, Building shareholder value: Adoption of enterprise risk management approach,Journal of Research in National Development, 8(1), 2010. [Online] Retrieved 21 December 2012, from: HTTP://WWW.TRANSCAMPUS.ORG/JORINDV8JUN2010/JOURNALSV8NO1JUN201018.HTML.

[11] Erben, R. F., Risk management standards: Role, benefits and applicability, European Risk Conference. Germany: Università Bocconi, 2008. [Online] Retrieved 24 June 2012, from: http://www.nottingham.ac.uk/business/rmgic/2008/PC24_erben.20080828.112817.pdf.

[12] Ferkolj, A., Enterprise risk management analysis with suggestions for improvements for the selected companies, University of Ljubljana Master's, 2010. [Online] Retrieved 10 December 2012, from: http://www.cek.ef.uni-lj.si/magister/ferkolj500-B.pdf .

[13] Golshan, N. M., and S. Abdul Rasid, Determinants of enterprise risk management adoption: An empirical analysis of Malaysian public listed firms, International Journal of Social and Human Sciences, 6, 2012, 119-128.

[14] Hofmann, M. A., Interest in enterprise risk management is growing, Business Insurance, 43(18), 2009, 14-16.

[15] Hoyt, R. E., and A. P. Liebenberg, The value of enterprise risk management: Evidence from the U.S. insurance industry, 2006. [Online] Retrieved 12 April 2012, from: http://www.aria.org/meetings/2006papers/Hoyt_Liebenberg_ERM_070606.pdf .

[16] Hoyt, R. E., and A. P. Liebenberg, The value of enterprise risk management: Evidence from the U.S. insurance industry, 2008. [Online] Retrieved 14 April 2012, from: http://www.risknet.de/typo3conf/ext/bx_elibrary/elibrarydownload.php?&downloaddata=537 .

[17] Hoyt, R. E., and A. P. Liebenberg, The value of enterprise risk management, The Journal of Risk and Insurance, 78(4), 2011, 795-822.

[18] International Organization for Standardization, Risk Management - Principles and guidelines on implementation, International Standard ISO/DIS 31000, Geneva: ISO, 2009.

[19] Jackson, P., Challenges in ERM implementation, 2009. [Online] Retrieved 20 December 2012, from: http://pauljacksonla.blogspot.com/2009/09/challenges-in-erm-implementation.html .

[20] Kleffner, A. E., R. B. Lee, and B. McGannon, The effect of corporate governance on the use of enterprise risk management: Evidence from Canada, Risk Management and Insurance Review, 6(1), 2003, 53-73.

[21] Lam, J. C., Enterprise-wide risk management and the role of the Chief Risk Officer, 2000. [Online] Retrieved 20 November 2012, from: http://www.erisk.com/learning/research/011_lamriskoff.pdf .
[22] Liebenberg, A. P., and R. E. Hoyt, The determinants of enterprise risk management: Evidence from the appointment of chief risk officers, Risk Management and Insurance Review, 6, 2003, 37-52.
[23] Makomaski, J., So what exactly is ERM? Risk Management, 55(4), 2008, 80-81.
[24] Manab, N. A., M. R. Hussin, and I. Kassim, Empirical study on theory and practice of enterprise-wide risk management (EWRM) on internal auditing and risk management functions of public listed companies in Malaysia, 2007. [Online] Retrieved 22 August 2012, from: http://www.rmi.nccu.edu.tw/apria/docs/Concurrent%20IV/Session%201/14707EWRM_APRIA_2007_New.doc .
[25] Meulbroek, L., The promise and challenges of integrated risk management, Risk Management and Insurance Review, 5(1), 2002, 55-66.
[26] Paape, L., and R. F. Speklé, The adoption and design of enterprise risk management practices: An empirical study, European Accounting Review, 2011. [Online] Retrieved 13 December 2012, from: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1658200 .
[27] Pagach, D., and R. Warr, An empirical investigation of the characteristics of firms adopting enterprise risk management, 2007. [Online] Retrieved 17 November 2012, from: http://www.ermsymposium.org/pdf/papers/Pagach.pdf .
[28] Protiviti Inc., Guide to enterprise risk management: Frequently asked questions, 2006. [Online] Retrieved 23 June 2012, from :http://www.knowledgeleader.com/KnowledgeLeader/Content.nsf/dce93ca8c1f384d6862571420036f06c/87e5c452010aadc988257 1c00081a23c/$FILE/ERM%20FAQ%20Guide.pdf .
[29] Schanfield, A., 12 ERM implementation challenges, 2009. [Online] Retrieved 20 December 2012, from: http://www.theiia.org/intAuditor/feature-articles/2008/december/12-erm-implementation-challenges/ .
[30] Stulz, R. M., Risk management failure: What are they and when do they happen? Fisher College of Business: Working Paper Series No: WP2008-03-017, 2008. Ohio: Ohio State University.
[31] Subhani, M. I., and A. Osman, The essence of enterprise risk management in today's business enterprises in developed and developing nations, European Journal of Social Sciences, 25(4), 2011, 515-524.
[32] Ugwuanyi, U. B., and I. G. Imo, Enterprise risk management and performance of Nigeria's brewery industry, Developing Country Studies, 2(10), 2012, 60-67.
[33] Wolf, R., The evolution of enterprise risk management, The Actuary, 5(3), 2008, 19-22.
[34] Yazid, A. S., M. R. Hussin, and A. R. Razali, A cross-sectional study on foreign exchange risk management by Malaysian manufacturers, International Business Management Journal, 2(2), 2008, 28-32.