INVESTIGATING THE UTILISATION OF ENTERPRISE RISK MANAGEMENT AT EAST LONDON INDUSTRIAL DEVELOPMENT ZONE

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Submitted in partial fulfilment of the requirements for the degree of Master in Business Administration at the Nelson Mandela Metropolitan University Business School

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DECLARATION

I, Luvo Tutani 199217416, hereby declare that the dissertation for Master in Business Administration is my own work and that it has not previously been submitted for assessment or completion of any postgraduate qualification to another University or for another qualification.

Luvo Tutani
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I wish to acknowledge the contribution of the following individuals and instances to the completion of my study:

- To King of kings, Lord of lords, JESUS CHRIST, you living in me, are my source of strength, hope and glory. It’s an honour, and a privileged to serve you.
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The objective was to investigate the utilisation of Enterprise Risk Management at East London Industrial Development Zone.

The literature review revealed shortcomings of the traditional risk management strategy. Examples of the shortcomings are its preoccupation with hazard risks and its disconnection with other functions in an organisation. ERM has emerged as the organisation wide approach to the handling of risk.

Effectively integrated with strategy-setting and performance management, ERM strengthens opportunity-seeking behaviour by helping directors and managers develop the confidence that they truly understand the risks inherent in the organization’s strategy and have the capabilities in place to manage and monitor those risks. The assessment of risks after the strategy formulation process results in defective risk management. The result could be strategic objectives that are unrealistic and risk management that is just an appendage to performance management.

The empirical study consisted of face-to-face interviews using semi-structured questionnaires. The respondents were Business Unit Managers at East London Industrial Development Zone who advised on current practice of ERM in the organization. The main findings of the empirical investigation revealed that ERM started with organisational survival in mind but ended up being a compliance activity. Also, ERM is under-resourced as there are no dedicated ERM financial and human resources. The organization’s unstructured and informal approach to ERM could place the strategic objectives at risk. Recommendations conclude the investigation and address the shortcomings and improvements that can be made to the utilisation of ERM within the organization. The recommendations are ensuring strong commitment towards ERM and widening the
participation of all employees in ERM; developing an ERM road map; allocation of resources to ERM initiative; development of a business case for ERM; training of all managers and all employees on ERM; and focusing on low-hanging return, which may result in quicker realisation of the value added by ERM to the organization.
# TABLE OF CONTENTS

DECLARATION ...................................................................................................................... 2

ACKNOWLEDGEMENTS ..................................................................................................... 3

ABSTRACT .............................................................................................................................. 4

LIST OF FIGURES AND TABLES .......................................................................................... 10

CHAPTER 1 ............................................................................................................................ 11
ORIENTATION OF THE STUDY ............................................................................................. 11
  1.1 Introduction .................................................................................................................. 11
  1.2 Statement of problem ................................................................................................. 12
  1.3 the aim Of the study ................................................................................................... 14
  1.4 Research methodology ............................................................................................. 14
    1.4.1 Review of literature .............................................................................................. 14
    1.4.2 Sample .................................................................................................................. 15
  1.5 Reasearch Design ..................................................................................................... 15
  1.6 Outline of study ......................................................................................................... 15
  1.7 Contribution of study ............................................................................................... 16

CHAPTER 2 ............................................................................................................................. 18
INDUSTRIAL DEVELOPMENT ZONES ................................................................................. 18
  2.1 Introduction ................................................................................................................ 18
  2.2 The South African Development Zone Programme ................................................. 20
  2.3 Objectives of the Industrial Development Zone Programmes ................................. 21
  2.3 Benefits, Costs and Risks Associated with Global Foreign Direct Investment ....... 22
  2.4 The East London Industrial Development Zone ....................................................... 22
  2.5 Conclusion ................................................................................................................. 25
CHAPTER 3 .......................................................................................................................26

RISK AND RISK MANAGEMENT ..................................................................................26

3.1 Introduction ..............................................................................................................26
3.2 Definition of Risk ....................................................................................................26
3.3 Risk and Uncertainty ..............................................................................................28
3.4 Risk areas in an enterprise ....................................................................................29
3.6 What is risk management ......................................................................................31
   3.6.1 Risk Analysis .....................................................................................................31
   3.6.2 Risk Management .............................................................................................34
3.7 Why Risk Management? ........................................................................................35
3.8 The limitations of the traditional risk management approach ...............................37
3.9 Conclusion ...............................................................................................................38

CHAPTER 4 ....................................................................................................................39

ENTERPRISE RISK MANAGEMENT .............................................................................39

4.1 What is Enterprise Risk? .......................................................................................39
4.2 ERM .........................................................................................................................39
4.3 The ERM framework .............................................................................................42
4.4 ERM and strategy and operationalisation ...............................................................45
   4.4.1 Internal Environment .......................................................................................45
   4.4.2 Objectives Setting .............................................................................................46
   4.4.4 Risk Assessment ...............................................................................................49
   4.4.5 Risk response ...................................................................................................51
   4.4.6 Control Activities .............................................................................................52
   4.4.7 ERM Structure, Communication and Resourcing ..........................................53
4.5 Strategic benefits of ERM ....................................................................................56
4.6 Challenges and limitations in implementing ERM ...............................................58
4.7 Conclusion ...............................................................................................................60
CHAPTER 5 ................................................................. 61
RESEARCH DESIGN AND METHODOLOGY .............................................. 61
  5.1 Introduction .................................................................................. 61
  5.2 Research Design ........................................................................ 61
  5.3 The Research Paradigm ................................................................. 62
  5.4 Sample Design ........................................................................... 62
  5.5 Demarcation ................................................................................ 63
  5.6 Research Instrument and Data Collection Method ......................... 64
  5.7 Reliability and Validity .................................................................. 65
  5.8 Covering letter ............................................................................ 66
  5.9 Conclusion ................................................................................... 66
CHAPTER 6 ......................................................................................... 67
PRESENTATION OF THE RESEARCH FINDINGS ..................................... 67
  6.1 Introduction .................................................................................. 67
  6.2 Discussion of the research findings .................................................. 67
  6.3 Strategic planning, alignment of risk responses with strategy and connectivity of ERM to key processes ......................................................... 68
  6.4 Planning, Resourcing and utilisation of ERM as value creation mechanism .......................................................... 70
  6.5 Challenges in Enterprise Risk Management implementation ............... 74
  6.6 Conclusion ................................................................................... 75
CHAPTER 7 ......................................................................................................................... 76

DISCUSSION, RECOMMENDATIONS AND CONCLUSIONS .......................................... 76

7.1 Introduction .................................................................................................................... 76

7.2 Summary ........................................................................................................................ 76

7.3 Findings .......................................................................................................................... 77

7.4 Recommendations and motivation of the research ....................................................... 80

7.4.1 Developing a business case for ERM ......................................................................... 80

7.4.2 Developing an ERM roadmap ...................................................................................... 80

7.4.3 Focus on the “low hanging fruits” .............................................................................. 81

7.5 Limitations of the study .................................................................................................. 81

7.6 Opportunities for further research ................................................................................ 82

ADDENDUM A .................................................................................................................... 89

ADDENDUM B ..................................................................................................................... 90
LIST OF FIGURES AND TABLES

Figure 3.1: Examples of the Drivers of Key Risks

Figure 4.1: COSO Framework three dimensional cube

Figure 4.2: Heat Map

Figure 4.3: A typical ERM Organogram

Table 3.1: Traditional Risk Management vs. ERM
CHAPTER 1

ORIENTATION OF THE STUDY

1.1 INTRODUCTION

The Institute of Risk Management of South Africa (IRMSA) defines enterprise-wide risk management, also known as ERM (hereafter ERM) as a “structured and systematic process, interwoven into existing management responsibilities, to effectively deal with uncertainty and associated risk and opportunity thereby enhancing the organization's capital and earnings” (IRMSA, 2010).

ERM develops conventional risk management processes of identification, evaluation, control (mitigation or maximisation) and transfer into not only risks ensuing from inadvertent losses but as well as strategic, financial, operational and every risk which could impact the organization’s performance (IRMSA, 2010).

According to Lam (1999:2), ERM is fast becoming best practice as traditional approaches to risk management have not achieved the desired results. From an organisational perspective, risk management was fragmented. This often manifested itself in business units managing the business risks associated with the overall strategy and profitability, such as products, pricing and relationship management. Credit and lending units managed the credit risks associated with lending, trading, portfolio management and workout activities. Trading, market risk, asset and liability units managed the market and interest rate risks associated with the investment, trading and asset and liability portfolios. Operations and technology units managed the operational risks associated with transactions processing and systems. Other units with risk management responsibility such as finance, accounting, legal and compliance, security, audit, and insurance provided additional corporate oversight.

According to IRMSA (2010), effective risk management integrated across the enterprise was not only mandated in the King III report on Corporate Governance but is the key to building a robust and successful business strategy, irrespective of the size of the organization.
Over time, it has become apparent that the fragmented approach does not work due to the interdependence of risks. They cannot be segmented and managed as solely independent units (Lam, 1999). Also, a segmented approach to risk management does not provide senior management and the board with aggregated risk reporting. This realisation has led to a trend towards enterprise risk management, which is supported by internal demand, external developments and advances in risk management methodology.

1.2 STATEMENT OF PROBLEM

The Business Dictionary (2010) defines entrepreneurship as the “capacity and willingness to undertake conception, organization, and management of a productive venture with all attendant risks, while seeking profit as a reward.” According to Cowherd and Manson (2003:1), there is a correlation between effective risk management and a well-managed business. Over time, a business that cannot manage risk effectively will not prosper and perhaps fail. A disastrous product recall could be the company’s last. Rogue traders lacking oversight and adequate controls have destroyed old well-established institutions in a remarkably short time.

Events like Eskom price increases; extreme weather patterns; the degradation of the environment; volatility of financial markets as experienced in the recent global financial crisis and globalization, which has brought international competitors to the doorstep of local business, all highlight the turbulent business environment. Most of the above mentioned have fallen outside the ambit of the current perceptions about risk and have a strong bearing whether organizations will be in business in the future. Failure to consider all risks in the macro and micro environment could result in formulating strategies that are out of touch with reality. This may result in the organisation being unable to achieve its objectives.

There is a current perception that risk management is just about finance, insurance or disasters. Barton, Shenkir and Walker (2001:1), contend that it is about running the business effectively and understanding, at the core, the fundamental risks facing the business.
The Commission of Sponsoring Organisations (COSO) (2004) defines risk as “the possibility that an event will occur and adversely affect the achievement of objectives”. The COSO ERM framework covers the upside of risk. It calls for management to identify all potential events that could affect the organization’s ability to implement its strategy successfully and achieve its objectives. Those events with potentially negative consequences represent risks to be addressed through the risk management process. Opportunities are events that may have positive outcomes. The framework indicates these should loop back into the organization’s strategy and objective-setting processes.

COSO (2004) states that informed and inspired management decisions create value in all spheres of an entity’s activities, from strategy setting to operations. Entities must recognize the risks they face from external or internal sources and to manage them effectively. Failure to do this can destroy value – in absolute or relative terms – for shareholders and other stakeholders, including the community and society at large. For companies, shareholders realize value when they recognize value creation and benefit from share-value growth. For governmental entities, value realisation occurs when constituents recognize receipt of valued services at acceptable cost. ERM facilitates management’s ability deal effectively with potential future events that create uncertainty. It provides the mechanisms to respond in a manner that reduces the likelihood of downside outcomes and increases the upside. It also enhances the ability to communicate value creation and preservation programs and goals, communicate with stakeholders, and deliver as planned, with few surprises (COSO, 2004).

It is vital to note as Chapman (2003) argues “No matter how well it is designed and operated, ERM cannot ensure an organization's success or guarantee the achievement of objectives. It does not provide the proverbial silver bullet against bad judgment and human failure.”

Based on the preceding information, the researcher proposes to investigate how Enterprise Risk Management utilisation at East London Industrial Development Zone. The research problem formulated above implies that certain aims have to be achieved through this present study.
1.3 THE AIM OF THE STUDY

The aim of this study was to suggest ways to utilize ERM effectively towards achieving strategic objectives at the East London Industrial Development Zone (hereafter referred to as ELIDZ). The results of the research will contribute to the number of tools which industry can utilise in effective business planning and achieve sustainability of enterprises. When the techniques inherent in enterprise risk management implementation occur, stakeholders can have reasonable assurance that management has taken due care in drawing up strategies aligned to their appetite for risk.

The overall aim was operationalized by presenting an overview of the organization – East London Industrial Development Zone and exploring the need for IDZ’s as a vehicle that facilitates economic growth. A background underlining the need for ERM in business was provided. Suggestions were made on how ERM can be to be utilized to improve execution of strategic objectives in the ELIDZ.

1.4 RESEARCH METHODOLOGY

Leedy (1997:5) defines research as a systematic process through which a greater understanding of a phenomenon can be achieved, answers to questions obtained or a problem resolved. Research design and methodology provide the overall structure of the procedures followed; the data collected; tools to be selected and analysis of that data. This study employed a qualitative research method.

1.4.1 Review of literature

Leedy and Ormrod (2005: 64) state that a literature review describes the theoretical perspectives and previous research findings regarding the research problem. A literature study on the Industrial Development Zones (particularly the ELIDZ), what risk and risk management are, and the importance of ERM as a tool used the setting of the strategy will be conducted. In order to obtain relevant literature, a variety of electronic databases, internet websites and internet search engines were utilized, as well as journals and text books.
1.4.2 Sample

This study used purposive sampling. This sampling method suits exceptionally small samples and where one wishes to select cases that are particularly informative. The population consists of 60 employees. The researcher conducted face to face interviews from a sample of 5 senior managers at ELIDZ.

1.5 RESEARCH DESIGN

A research design is the general strategy a researcher will follow to solve the research problem, in that it provides the overall structure for the chosen procedures (Leedy and Ormrod, 2005: 85). Research, as defined by (McMillan and Schumacher, 1993:9) is a systematic process of collecting and logically analysing information for some purpose. Research design is the specification of procedures for collecting and analysing data to help identify or react to a problem or opportunity (McMillan and Schumacher, 1993: 9).

The researcher will conduct face to face with five executives managers within East London Industrial Development Zone, to investigate current strategic planning and execution practices and ERM implementation within the organization.

This data collection method selected lends itself to the researcher asking complicated questions and follow-up questions. The depth of information, verbal and non-verbal communication such as attitude and behaviour, can be detected (Collis and Hussey, 2009:197).

1.6 OUTLINE OF THE STUDY

The research commences with an introductory chapter. This chapter defines the problem, motivates the aims, as well as the methodology of the research.

Chapters 2, 3 and 4 provide the literature review for this study. Chapter 2 provides the background of the ELIDZ as an IDZ within the South African IDZ programme, highlights the divisions within the ELIDZ, and explore its importance to the economy of South Africa and the Eastern Cape. Chapter 3 provides background on risk and risk management.
Because the term risk’ has different meanings to different audiences, a contextual definition will be offered as well as how this dissertation will interpret the term. The relationship between risk and uncertainty is explored; the risk areas in an enterprise; the rationale for the management of risk and the limitations of the traditional risk management are discussed. Chapter 4 covers the core aspects ERM specifically highlighting the aspects such what enterprise risk is; ERM frameworks; ERM strategy and operationalization; ERM infrastructure; strategic benefits of ERM and the challenges encountered in its implementation.

Chapter 5, the research methodology chapter, describes the methodology employed in investigating how ERM is utilised toward the achievement of strategic objectives. It identifies and briefly describes the paradigm of the research and then goes on to describe how the sample was determined; how the interviews were administered; the rationale for measuring instrument and its reliability and validity. This chapter also sets out the research design for the study.

Chapter 6 contains the findings and analysis of the findings.

Chapter 7 ends the study with a discussion, concluding remarks and recommendations on further research in ERM and the achievement of strategic objectives.

1.7 CONTRIBUTION OF THE STUDY

Risk is embedded in every aspect of business. Therefore, any attempt to eliminate risk results in the elimination of the enterprise itself, as the investors are rewarded for taking the risk with their money. The underlying principle behind ERM is that value is maximized when strategy and objectives are set by the decision-makers. They need to strike the best balance between growth and return goals, and the related risks, and allocate resources in the most efficient and effective manner whilst pursuing the organization’s objectives.

An understanding of how ERM can be used towards the achievement of strategic objectives will add to a set of tools which industry ensures effective business planning, This will in turn result in sustainability of enterprises. When the techniques inherent in enterprise risk management are followed, stakeholders can have reasonable assurance
that management has taken due care in drawing up strategies which are aligned to their appetite for risk. Further, exploration of the challenges encountered by industry when implementing ERM will enable the practitioner to anticipate the problems and thus lead to a speedier assimilation of ERM in the organization.

The impact of this work in terms of enhancing how organization deal with uncertainty and will assist ERM practitioners at the ELIDZ.
CHAPTER 2

INDUSTRIAL DEVELOPMENT ZONES

2.1 INTRODUCTION

In this chapter, the researcher will present a discussion on the ELIDZ as an IDZ within the South African IDZ programme, highlight the divisions within the ELIDZ, and explore its importance to the economy of South Africa and the Eastern Cape.

The advent of globalization has created opportunities for expansion of markets and production. The decline in trade and investment barriers, technological change, changing demographics of the global economy and the changing world output and world trade picture, drive globalisation (Hill, 2009:6). Coupled with the World Trade Organization (WTO) efforts to expand trade between different countries and do away with trade barriers, foreign direct investment (hereafter referred to as FDI) continues to rises as investors disperse production to optimal locations and build presence in foreign markets (Hill, 2009:9).

According to Hill (2009), the increase in FDI has created an opportunity for developing countries to come up with strategies on how best to attract investment. The greatest determinants in deciding where to invest hinges on the political, economic and legal environments of the host country. Since South Africa’s return from isolation and the dawn of its fledgling democracy, the Industrial Development Strategy was launched as part of the Growth, Employment and Redistribution (GEAR). There were three primary goals: sustainable job creation for local inhabitants; promotion of internationally competitive growth and development in underdeveloped areas; and lastly, the maximization of the extent to which private sector investment and lending can be mobilized (Tang, 2008).

Foreign investment is a barometer of international perception about the host country’s economy. Pursuing excessive bottom line results at the expense of sound business management practices, leads to financial disasters, such as those experienced in 2008 and 2009. In their efforts to achieve phenomenal growth, the leadership of a number of the world’s biggest financial institutions has destroyed the value of the world’s leading
enterprises. The domino effect of the ailing world economy impacted the business world. Many companies closing down, jobs were lost and livelihoods buried by the global economic recession. This due to the interconnectedness of the world’s economic system, commonly referred to as globalization, As a result, investors and other stakeholders are asking tough questions of the people entrusted to be stewards of organizations in which they have a stake. How are boards of directors balancing the risk inherent with the pursuit of organization’s strategic objectives? How are directors and senior executives managing the strategic risks – risks that are consequential to the organization’s ability to execute its strategy, achieve its business objectives, build and protect the value?

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2.2 THE SOUTH AFRICAN DEVELOPMENT ZONE PROGRAMME

The Department of Trade and Industry (hereafter referred as DTI) defines an Industrial Development Zone (IDZ) as an “insulated export area strategically linked to a port or airport and offers fiscal and non-fiscal incentives to industrialists so that their exports can be internationally competitive” (ELIDZ, 2011). Internationally, IDZs are also known as Export Processing Zones. There is a growing trend to utilize this in developing countries as a means to facilitate investments, create jobs and boost exports (Tang, 2008:1).

The South African government adopted the IDZ programme as a national strategy to position the country within the global economy. The objectives were to encourage international competitiveness, increase exports and achieve sustainable growth. The focus of the strategy is to grow the country’s manufacturing industries as employment in the country’s traditional sectors have been on a decline over a number of years (ELIDZ, 2011).

Investors are attracted to these purpose-built industrial estates by the appropriate basic infrastructure, duty free imports of production raw materials and inputs and the linkage of respective IDZ to international ports or airport. These have been specifically designed for new investment by export-oriented industries and related services (ELIDZ: 2011). The establishment of Industrial Development Zones (IDZ’s) in South Africa is part of an emergent international Export Processing Zone (EPZ) trend (Tang, 2008:3).
According to the ELIDZ (2011), there are currently four IDZ’s in South Africa, those being Coega IDZ and East London IDZ in the Eastern Cape; Richards Bay IDZ and Gauteng (OR Tambo International Airport).

2.3 OBJECTIVES OF THE INDUSTRIAL DEVELOPMENT ZONE PROGRAMMES

Governments utilise industrial development zones as policy instruments, due to the benefits that offset the cost of establishment. The South African government shares the same sentiment and has utilized the same for achieving export-oriented growth. The ultimate end-goal is to raise the manufacturing sector’s competitiveness or through “leveraging investment in export-oriented manufacturing industries and export of value-added manufactured products” (DTI, 2008: 5). This effort in increasing manufacturing output is due to the evident reduction in the South Africa’s traditional sectors of agriculture and mining (Tang, 2008).

According to Tang (2008), the IDZ programme originates on three economic objectives and reasons, namely:

1. **International Competitiveness**: the proximity of SA manufacturing industries to ports or airports in the face of in an extremely competitive global environment; efficient logistics services; reduce production and transactional costs through fiscal incentives and enhancement of industrial infrastructure to boost industrial exports.

2. **International Attractiveness**: use of fiscal and non-fiscal incentives to attract foreign direct investment, deepen integration into the global production network, obtain the potential benefits of foreign expertise and technology in production methods, and.

3. **Industrial Synergies**: create constructive spillovers into the economy as a result of co-operation linkages between domestic and zones-based industries through clustering.
2.3 BENEFITS, COSTS AND RISKS ASSOCIATED WITH GLOBAL FOREIGN DIRECT INVESTMENT

The attractiveness of a country as an FDI host is influenced by the political, legal and economic environments, which in turn affects the benefits, cost and risks of conducting business therein (Hill, 2009:76): When considering the benefits, multinational enterprises look at the potential market size, the current and future wealth of consumers (purchase power parity) in the market. The first enterprise to enter such markets can achieve both economies of scale and first mover advantages.

From a political perspective, bribes may have to be paid to powerful entities before entry is allowed by government into such countries. Economically, the lack of infrastructure and supporting businesses together with the underdeveloped economic systems may lead to increased costs. Finally from a legal perspective, a country with strict standard in respect of product safety, environmental pollution and workplace safety can also increase the cost of doing business in such a country. (Hill, 2009:77-78).

Political, economic and legal risks are the likelihood the country’s business environment will unfavourably be impinged on by political, economic and legal forces respectively, resulting in and profitability and achievement of organizational goals affected.

2.4 THE EAST LONDON INDUSTRIAL DEVELOPMENT ZONE

The East London Industrial Development Zone (ELIDZ) is one of two operational zones in South Africa, with four locations designated as IDZs by the Department of Trade and Industry for export-led manufacturing and processing. The world-class infrastructure, the copious availability of raw materials, investment incentives offered by government, industrial support and benefits all form part of the zone’s unique value proposition in attracting potential investors. However, South African legislation relevant to enterprises outside the zone still applies (ELIDZ, 2011).

The East London IDZ’s vision is “to be world-class operator of a prestigious industrial complex where highly competitive organizations thrive on streamlined business benefits and stimulate regional economic growth” (ELIDZ, 2011). Strategic industries receive
investor solutions aimed at strengthening the competitiveness of South African exports by developing and operating a successful, specialized, industrial complex. The IDZ’s brand promise is “to be the solution for companies to become globally competitive through engineered efficiency” (ELIDZ, 2011).

The ELIDZ (2011) “is an initiative by the South African government to encourage export-oriented growth in the country through the attraction of foreign and local investors. The ELIDZ aims to bring economic growth to the region and beyond by offering investors a globally competitive combination of geographic position, infrastructure, services and labour”.

A number of milestones have been achieved since its commencement in September 2002. There are in excess of 100 fully serviced sites. These provide sufficient water, electricity and other utilities for sustaining the resident manufacturers’ operations. Raw materials are delivered on time because of transport linkages and road networks.

The investors currently located in the zone extend through a variety of sectors such as aquaculture, automotive, transport and logistics. There are 14 manufactures located on the site currently. Discussions are always ongoing in an attempt to attract more potential investors to take advantage the ELIDZ offering and world-class facilities.

2.4.1. Structure of the ELIDZ

Board of Directors

The Board of directors, led by the chairperson, provides strategic direction, corporate governance oversight and compliance, all of which have the end goal of increasing shareholder value. The Chief Executive Officer (CEO) serves ex officio, whilst non-executive members are nominated by various stakeholders (ELIDZ, 2011).
Office of the CEO

This is the strategic core of the ELIDZ and is responsible for continually improving the operational environment and the establishment of a legislative environment thus ensuring sustainability and tangible benefits to investors. The corporate communications and public relations team provide support and have a task of positioning the ELIDZ brand and core values to the relevant stakeholders provide support (ELIDZ, 2011).

Zone Development

One of the primary objectives of IDZ model is the provision of world-class infrastructure and real on the ground solutions to meet the needs of investors. Zone Development is responsible for meeting this objective by providing high quality, timely and cost effective solutions.

Investor Services

Investors Services is responsible for the interfacing between government and the investor. This achieves effective streamlining of the administrative requirements each investor; accelerates legislative processing and ensures aftercare support to ensure smooth operations’ environment (ELIDZ, 2011).

Investment Promotion

This division acts as the intermediary between the ELIDZ and potential investors, offering expert advice informed by research conducted in various sectors and clusters located within the zone. The automotive sector, agro-processing and business process outsourcing are some of the sectors in which this division specializes.
Finance and Support

Financial data is captured, processed and interpreted to enable informed decision making. This is done to meet the reporting requirements of stakeholders and comply with corporate governance best practices. This division houses the finance, human resources, and information technology functions and enables the implementation, control and service excellence delivery, whilst also ensuring the organization remains viable.

2.5 CONCLUSION

Chapter 2 has given insight into the establishment of the South African Industrial Development Zone programme in relation to Foreign Direct Investment theory. The focus is on the East London Industrial Development Zone and its importance to the Eastern Cape and South African economies respectively. Chapter 3 will provide an in-depth understanding of risk and risk management.
CHAPTER 3

RISK AND RISK MANAGEMENT

3.1 INTRODUCTION

The first objective of this chapter is to offer background on risk and risk management. Because the term risk’ has different meanings to different audiences, a contextual definition will be offered as well as how this dissertation will interpret the term. The second objective of this chapter is to clarify risk management as a term and as a concept, both of which are interpreted in various ways. The layout of this chapter will follow the outline of the objectives, firstly discussing risk in general by looking at various definitions, and discussing how the term has changed over time. A description of the sources and areas of risk in the business environment is also highlighted. The management of risk is then discussed, and the origin of this term is investigated. A discussion of risk and risk management across the whole enterprise from a strategic perspective follows the establishment of what risk and risk management mean.

3.2 DEFINITION OF RISK

There has been a progressive definition of the risk over time. Pfeffer (1956) defines risk as “a combination of hazards measured by probability” whilst Denenberg et al (1974) argue that it is “uncertainty of loss, where the term risk is implicitly understood as uncertainty of financial loss – and, where the definition denies that the degree of uncertainty needs to be measurable or the probability of loss determinable”. Athearn and Pritchcett (1984) define risk simply as a condition in which loss or losses are possible. Risk involves only the possibility of loss or no loss. Greene and Serbein (1983) qualify the existence of many usages of the term risk and, therefore, no single definition which is universally employed. Nevertheless, it is stated that the term was mainly understood as meaning the uncertainty of the occurrence of economic loss.
There is agreement amongst various authors that given the diverse contexts within which risk is viewed, it becomes a challenge to define it in a universally acceptable manner. This gives rise to interpretations and definitions suited only to particular areas of study. Hence, in actuarial context, for example, risk is given a statistical interpretation; whilst in the world of insurance, the term risk may be used to describe the subject of the policy (the property that is insured), or the peril that is insured under the contract (Valsamakis, Vivian and Du Toit, 1992: 24).

According to Olsson (2002: 5), the historically narrow viewpoint of referring and defining risk from the negative perspective and consequences only detracts from the possibility that there can be benefits obtained from taking risks. Being in business rests on the fundamental tenet of taking a risk to earn a return; therefore this narrow viewpoint needs to be avoided. Pickford (2001) illustrates this negative view of risk with an example, stating how one often speaks of the “risk of fraud” or the “risk of getting run over”. Sometimes quantitative usage of the word risk occurs; for example, it might be said that there is a “20% risk of losing our money” in an investment or “this investment carries a lot of risk”. In these examples, the word “risk” in the sense of an undesirable outcome.

The Royal Society Study Group of Risk Assessment (1983) defined risk as a “probability that a particular adverse event occurs during a stated period, or results from a particular challenge”. The limitation with this definition is that it described an adverse event as something that happened in this past. In recent times, however, there has been a shift from definitions that only view risk from the probability of negative events or losses occurring to neutral definitions where risk can be negative or positive. This is reflected in the definition of risk as “the combination of the probability of an event and its consequences” (Institute of Risk Managers [IRM]), 2002). Another progressive definition of risk is “the uncertainty of future outcomes” (Olsson, 2002:5). Risk is something which because of its occurrence in the future is unpredictable because of uncertainty. Thus, the argument is that risk and uncertainty need not necessarily be negative.

Pickford (2001), states that an investment might also have upside potential. The word “risk” can be used as a measure of a whole range of outcomes from an investment, both the upside and the downside outcomes. He postulates that the likelihood for events and consequences that have upside or downside in all types of undertakings.
3.3 RISK AND UNCERTAINTY

The concepts of risk and uncertainty are regarded as interrelated. The perception is that uncertainty gives rise to risk. This is because where the outcome of an event is subjected to, or surrounded by, uncertainty, risk will be present. Thus, the interpretation of some writers of risk as the absence of certainty (Valsamakis et al., 1992:24). Uncertainty being a condition that results from an inability to foresee future events has been recognized as pervasive in its influence, in all walks of life. The finite nature of our minds denies us the ability to foresee, and hence, control, the multitude of happenings that affect our lives and those of others. Valsamakis et al. (1992:24) argue “in his efforts to understand or minimize uncertainty, man has attempted to determine causation, unfold patterns and give meaning to unexplained events, possibly in terms of a controlling power”. In spite of such efforts and aversion to yield to domination, man’s environment will ever be filled with the presence of uncertainty.

Monahan (2008) states that risk is same as uncertainty, and defines a risk “anything that produces a distribution of various probabilities for various outcomes”. COSO (2004), however, defines uncertainty as “that which presents both risk and opportunities, with potentials to erode or enhance value and risk as the possibility that the occurrence of an event will adversely affect the achievement of objectives, and opportunity is the possibility that an event will occur and positively affect the achievement of objective”. A combination of Monahan’s and COSO’s definition will be used in this paper.

There is still a tendency to think of risk and its management as synonymous with insurance (Chartered Institute of Management Accountants [CIMA], 1986:11). This is a legacy which risk has been unable to shake off due to the historic links with the development of the insurance industry, whose history is briefly detailed below.
3.4 RISK AREAS IN AN ENTERPRISE

As discussed above, there are a number of interpretations of risks, there is agreement amongst various authors that risk in an enterprise is divided into strategic, financial, operational and hazard risks (Darlington, Grout, & Whitworth, 2001). Darlington et al (2001) state that risk in each of these four categories may again be divided into internal and external risks.

Figure 3.1: Examples of the Drivers of Key Risks

Source: AIRMIC, ALARM and IRM, (2002:3)
Operational risk is “the risk of loss due to actions on or by people, processes, infrastructure or technology or similar which has an operational impact, including fraudulent activities” (Olsson, 2002:46). Examples of operational risk include process risk, IT risk, control system risk, human capital risk, health and safety risk and compliance risk.

Financial risks relate to the negative aspect of having too much debt (Ketz, 2003). If an organization has debt, external factors may come into play such as fluctuating exchange and interest rates. Examples of financial risk include economic risk, market risk and credit risk, as well as various related operational risks (Darlington et al., 2001).

Hazard risks have a genuine negative connotation. Examples of hazard risk are property risk, such as theft and vandalism, liability risk, such as lawsuits, environmental risks, such as the liability for pollution, natural disasters and political risks such as war and terrorism (Darlington et al., 2001).

Strategic risks include mergers and acquisition risk, business risk, competitor risk, brand risk, legal risk and new opportunity risk (Darlington et al., 2001). Strategic risks are connected to the decisions being made in organisations as they are based on questions being asked for the various risks. For example, customer risk may result in the question “what are the likely demographic and demand changes?” Therefore, it can be argued that strategic risks have a definite upside to them.

Olsson (2002:8) argues that risks are perceived differently based on one’s experience, knowledge, culture, beliefs, financial status amongst others. This not only affects what one believes the risks may be, but also the possible outcomes of those risks and the likelihood the connected to those outcomes. One can, therefore, conclude that risk is in the eye of the beholder.

Risk needs to be managed to minimize negative outcomes and enable an enterprise to pursue opportunities. This is called risk management and will be discussed in the next section.
3.6 WHAT IS RISK MANAGEMENT

Borge (2001) defines risk management as “the taking of deliberate actions to shift the odds in our favour. To increase the odds of good outcomes and to decrease the odds of bad outcomes”.

There is a difference between risk management as a term and a concept. The British Standards Institution, 1991 pontificates that term refers to “the process whereby decisions are made”, while the concept refers to “the overall subject area concerned with hazard identification, risk analysis, risk criteria and risk acceptability” (British Standards Institution, 1991). Scarff,Carthy, and Charette (1993) attempt to clarify any ambiguity or misconception by further stating that risk management “refers to planning, monitoring and controlling activities which are based on information produced by risk analysis activity”, while the management of risk “describe the overall process by which risks are analysed and managed”. This study will follow a similar approach of isolating the management of risk into risk analysis and risk management. Risk analysis, also known as risk assessment, includes the identification, estimation and evaluation of risk (Frosdick, 1997). Risk management includes risk control and risk monitoring (Bandyopadhyay, Mykytyn, & Mykytyn, 1999).

3.6.1. Risk Analysis

This section will discuss the components of risk analysis as part of the management of risk.

Risk identification

Risk identification is the first stage of risk analysis (Olsson, 2002:30). This step is crucial as risks that are not identified are not likely to be managed, and should be conducted in a systematic manner (Valsamakis et al, 1992:88). Tchankova (2002) suggests that risk identification entails determining exposures to risks, hazard factors, sources of risk and perils. This can be achieved by considering the source of risk.
Sources of risk

Risk can arise from physical, social, political, operational, economic and legal environments. Natural disasters like floods, earthquakes, lightning are sources of risk that stem from the physical environment and due to the inability of humans to avoid these; they usually fall in the ambit of most insurance policies.

Risk in the social environment includes the “changes in people’s values, human behaviours and state of social structures” (Tchankova, 2002). Such changes could lead to strikes, riots and social discontent. The media in this day and age may be a catalyst to risk in the social environment, and an enterprise, or even a country, could be at serious risk of a negative economic impact. Political risk is the risk of change in the political framework of a country which can result in change, in legislation thus influence in the way business operates (Olsson, 2002:53).

Operational risk arises due “to actions on or by people, processes, infrastructure or technology or similar which have operational impact, including fraudulent activities” Olsson (2002:46). This includes risk of physical harm to employees in a factory. Once, an individual country’s political environment would barely influence the economic environment. Economic risks arise from issues such as interest rates, exchange rates, growth rates, inflation, taxation levels, which determine the size of an economy (Olsson, 2002:33).

Risk may also arise in a legal environment, for example, the risk of non-compliance with legal or regulatory requirements. This has become a key challenge in recent years due to increase in the volumes and complexity laws and regulations (Olsson, 2002:56). Various risk identification methodologies and techniques have been developed to assist people involved to spot the risks accurately and timeously.

The first such technique is brainstorming. This involves a group of people thinking about which risks are likely to occur. The list of risks that are generated is then evaluated at a later stage during risk analysis. Another risk identification technique is the Delphi technique. This employs experts to reach consensus by means of systematic, anonymous and interactive inputs. Interviewing is also a risk identification technique that enables the collection of information via face-to-face,
telephone or even other types of electronic discussions (Schwalbe, 2002). Alternatively, a SWOT (strengths, weaknesses, opportunities and threats) analysis can also be used to identify various risks based on internal and external aspects. Checklists may be based on experience or best practice in an industry. One negative aspect regarding checklists may be that they provide a false sense of security.

Another technique is a hazard and operability study (HAZOPS), which is a systematic technique for identifying hazards or operability problems through-out an entire facility. The advantages of HAZOPS are the extensive manner in which it is carried out as it involves interdisciplinary experts in the brainstorming and the team communication it facilitates. Failure modes and effects analysis (FMEA) “evaluate the frequency and consequences of component failures on the process” and its objective is to the attainment of fail-safe failure mode (Valsamakis et al, 1992:95). Fault-tree analysis (FTA) is a diagrammatical representation of causes and consequences of failures which concentrates on ascertaining all possible combinations of individual failures that can lead to what's referred to as a top event (Valsamakis et al, 1992:96).

Risk estimation

According to IRM (2002:6), “risk estimation can be quantitative, semi quantitative or qualitative in terms of the probability of occurrence and the possible consequence”. Quantitative risk estimation involves measuring risks using mathematical and statistical tools whilst qualitative risk estimations uses of words to describe the risks. Probability/impact matrices, expert judgement and top 10 risk items are techniques used in qualitative risk estimation. In probability/impact matrices, both the probability and consequence can be portrayed as being high, medium or low. Risks are then classified into high probability high impact, high probability medium impact, and low probability low impact (IRM, 2002:6). Top-10 risk item tracking is also useful in that it maintains risk awareness. Expert judgement informs the risk related decisions of an organisation by relying on experts(Schwalbe, 2002). Simulation is a more advanced technique that makes use of a model that simulates various outcomes.
Risk evaluation

The final step in risk analysis is risk evaluation. All risks are considered during risk evaluation. The objective of risk evaluation is to decide which risks should be managed. These decisions are based on the overall risk appetite of the enterprise, that is, the level of risk the organization is willing to accept. The risk appetite is decided on by the highest management levels of the enterprise, the board of directors (PricewaterhouseCoopers, 2009).

Risk criticality matrixes and similar techniques are used to evaluate risks that have been identified and estimated by means of FMECA or event- or fault-trees. The various risks are marked on a chart, which again makes use of probability and consequence (Frosdick, 1997). The relative positioning between the risks is noted. Risks are prioritised and an acceptable threshold is established by making use of the ALARP (as low as reasonably practicable) principle (Frosdick, 1997).

Cost effectiveness and cost benefit analysis are used to evaluate risks by looking at the costs involved. The cost of the risk materialising and its probability is compared to the cost of controlling the risk.

3.6.2. Risk Management

After all the risks have been identified, estimated and evaluated (risk analysis), actions should be taken to ensure that potential harm is minimised, and opportunities are pursued. Depending on the risk and the enterprise’s risk appetite, various strategies can be followed. Some of these strategies include acceptance, mitigation, transference and avoidance.

A risk avoidance strategy endeavours to stay away from all risks (Schwalbe, 2002). The enterprise does not attempt to address any risks and avoids them totally. The drawback of this strategy is that potential opportunities may be missed. Risk transference to shifts the responsibility and consequences to a third party. An example of risk transference is transference to an insurance company. A risk mitigation strategy attempts to reduce the impact of the risk or reduce its probability.
While such an approach might seem reactive, that is to say, only attempting to mitigate the impact after the risk has been detected, some thorough, proactive planning is needed. Risk acceptance means that an enterprise accepts the consequences of a risk should it occur (Schwalbe, 2002). The organization attempts to absorb all the consequences of the risks. To make such a decision, a technique, such as cost benefit analysis, may be implemented.

A combination of the above strategies may be executed by an organisation. Some risks may be small, and the enterprise may choose to accept them. However, others may be outside the enterprise’s scope; therefore, risk transference through insurance policies may be implemented.

Risk monitoring is the final step in the management of risk. During risk monitoring, risks are constantly reviewed and analysed, and actions are taken to ensure the risks do not exceed the risk appetite of the enterprise. Risk monitoring is an essential step in the overall management of risk and is required for sound corporate governance.

3.7 WHY RISK MANAGEMENT?

According to Vedpuriswar (2006), it is the opportunities which risk provide that should be an incentive enough to entice an organization towards a better management risk. Risk being embedded every aspect of business, means any attempt of eliminating it results in the elimination of the enterprise itself; as the investors are rewarded for taking a risk with their money. Borge (2001:69) states “the goal of risk management is to achieve the best possible balance of opportunity and risk. Sometimes, achieving this balance means exposing yourself to new risks in order to take advantage of attractive opportunities.” Therefore, there is a relationship between the value of an enterprise and risk taking and Vedpuriswar illustrates this utilizing the discounted cashflow model.

He asserts that the value of the firm is the present value of expected cashflows, discounted back at a risk adjusted rate and is derived from:

- The cashflows from existing investments; and
• The growth rate in the cashflows over the higher growth periods accompanied by excess returns on instruments, the length of these high growth periods and the cost of funding both existing and new investments.

An enterprise that is well focused in deciding which risks it takes, avoids or pass through to investors is well equipped determine which investments it should keep and also generate cashflows from those investments. Also, a superior risk taking enterprise will generate greater excess returns for a longer period on new investments.

Another reason for the management of risk is to protect the organization from unfavourable consequences of the risk events taking place. This, however, depends on the risks being correctly identified and decisions taken to manage them. Failure in both identification and poor risk management decisions can result in more time spent crisis management instead of running an enterprise (Olsson, 2002:27).
3.8 THE LIMITATIONS OF THE TRADITIONAL RISK MANAGEMENT APPROACH

Table 3.1: Traditional Risk Management vs. ERM

<table>
<thead>
<tr>
<th>Risk management’s traditional practices</th>
<th>Enterprise risk management approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Narrow, silo-centric risk identification</td>
<td>- Risk management becomes a systematic, comprehensive and integrated activity</td>
</tr>
<tr>
<td>- Limited understanding of “worst case scenarios</td>
<td>- Risk is quantified to make informed business decisions</td>
</tr>
<tr>
<td>- No systematic understanding of correlation amongst risks</td>
<td>- Risk is not automatically avoided; it is weighed against opportunity and optimised to ensure appropriate return</td>
</tr>
<tr>
<td>- Protection focused on book value of tangible assets rather than economic value</td>
<td>- Economic decisions (pricing, capital allocation, performance measurement, risk mitigation, ) consider potential risks as well as historic costs</td>
</tr>
<tr>
<td>- Risk management not considered in strategic decisions</td>
<td>- Risk mitigation and finance ensure minimise total (i.e. enterprise wide) cashflow needed for strategic investments</td>
</tr>
<tr>
<td>- Risk mitigation and risk finance practices not co-ordinated across functions</td>
<td></td>
</tr>
<tr>
<td>- No investment related measurement of a company’s tolerance of risk</td>
<td></td>
</tr>
</tbody>
</table>

Source: Darlington, Grout and Whitworth, (2001:28)

Figure 3.2 above, contrasts the difference between the traditional risk management and ERM. Amongst the number of shortcomings of the traditional risk management approach is its fixation with hazard risks and its disconnection with other functions in an organization. A loss as a result of a fire at an organization’s production facilities would not only cause a business interruption affecting the operations function, but also implicate marketing, finance and the organization’s reputation. There are also costs implications to this fragmented treatment of handling risk and an organization-wide approach has emerged to deal with the shortcomings of the old traditional approach. The next chapter deals with this new paradigm in risk management referred to as ERM.
3.9 CONCLUSION

This chapter provided a background on risk and risk management by discussing various definitions of risk, exploring of the sources and areas of risk in an enterprise, the relationship between risk and uncertainty; the risk areas in an enterprise; the rationale for the management of risk and the limitations of the traditional risk management are discussed. The next section will address ERM and its application in an enterprise.
CHAPTER 4

ENTERPRISE RISK MANAGEMENT

4.1 WHAT IS ENTERPRISE RISK?

Dickinson (2001: 361) defines enterprise risk as the “extent to which the outcomes from the corporate strategy of a company may differ from those specified in its corporate objectives, or the extent to which they fail to meet these objectives (using a “downside risk” measure). The strategy selected to achieve these corporate objectives embodies a certain risk profile, which arises from the various factors that might impact on the activities, processes and resources chosen to implement the strategy (Dickinson, 2001:361).

There have been calls for the integration of corporate governance, internal control and risk management into a single approach. ERM, has emerged as a solution to this need due to its focus on all three (corporate governance, internal control and risk) during its implementation. The economic downturn, a result of the global financial crisis, resulted in the evaluation of the risk management discipline as its failure led to requirements for it to be more harmonized and recognize risk interdependencies.

Enterprise risk is the collective of all functional and process risks faced by an organization when conducting business and has earlier been noted to encompass strategic, financial, hazard and operational risks. It is ERM’s goal to endeavour to recognize the risk interdependencies and treatment across the whole organization.

4.2 ERM

The Casualty Actuarial Society (CAS) defines enterprise risk management as “the discipline, by which an organization in any industry assesses, controls, exploits, finances, and monitors risks from all sources for the purpose of increasing the organizations short and long term value to its stakeholders” (CAS, 2003:8).
When analyzing the definition, five core principles are prominent, those being:

- ERM being a discipline and therefore a pattern of behaviour influencing how decisions are made by management and end up becoming the culture of the organization;
- ERM applying across different industries;
- ERM exploiting as well as mitigating risk;
- ERM looks at all sources of risks – not only hazard risk or those usually managed within the organization (financial risks for example); and
- ERM taking all of the organizations stakeholders into consideration (CAS, 2003:8).

COSO then defines ERM as “a process, effected by an entity’s board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives” (COSO, 2004:2).

On analysis of COSO’s definition, the following core concepts become apparent with ERM being:

- A continuous process occurring through the length and breadth of the organization;
- Executed by people at all levels within the organization;
- Utilized during the setting of the organization’s strategy;
- Applied throughout the entity and taking an organizational level portfolio view of risk;
- Intended for the identification of possible events whose occurrence will affect the organizations and also manage risk within its appetite; and
- Intended towards achieving the organization’s objectives.

When one considers that both COSO and Casualty Actuarial Society definitions of ERM, it can be deduced that it when properly implemented, ERM will improve the organization’s decision making. It also reflects that ERM can be relied on as a support framework for decision making and also the managing of risks and opportunities that impact the creation or the preserving of value (CAS, 2003:8).
The intention of ERM, also known as strategic risk management, enterprise-wide risk management or integrated risk management, is the dealing with uncertainty in an enterprise. The underlying principle behind this methodology, according to Barton, Shenkir and Walker (2002), is that value is maximized when strategy and objectives are set by the decision-makers. The purpose is to strike the best balance between growth and return goals, and the related risks, and allocate resources in the most efficient and effective manner whilst pursuing the organization’s objectives. The goal is “to create, protect, and enhance shareholder value by managing uncertainties that could influence the achievement of organizational objectives” (Barton et al. 2001: 2). PricewaterhouseCoopers (PwC) (2009:29) cite King III, which states the board should “exercise leadership to prevent risk management from becoming a series of activities that are detached from the realities of the company’s business”.

There has been a trend in recent years towards ERM becoming a best-practise standard as the traditional approach towards the management of risk has failed to produce the desired results, whilst there have been benefits derived from ERM. Lam (1999:2) provides the following example of the fragmented nature of the traditional risk management approach from an organization’s perspective:

- Organization risks linked with the overall strategy of business units managed by the respective business units
- Credit risk linked with lending and trading portfolio management managed by the credit and lending unit
- The interest/market risks related with the trading, investment, asset/liability managed by trading, market risk and asset/liability units;
- The operational risks linked with transactions processing and systems managed by operations and technology units; and
- Other units like finance and accounting, compliance and legal, audit, security and insurance with risk management responsibility provided further corporate oversight.

Lam (2002) agrees with the notion that the fragmented approach has failed over time due to the segmenting and managing risk different business units independently. Senior management and board can now mitigate risks and seize opportunities. This is due to the aggregated risk reporting afforded by ERM. The organisation is then in a better position of creating, protecting, and enhancing shareholder value. According to the Institute of Risk Management South Africa, ERM not only fulfils King III requirements of corporate
governance, but also is the foundation to meticulous strategy building in organizations of all sizes. Corporate governance is a broad system of structuring, operating and controlling organizations for achieving its long-term goals whilst satisfying the shareholders and stakeholders (American Institute of Certified Public Accountants [AICPA], 2010).

4.3 THE ERM FRAMEWORK

One of the key principles to building a risk intelligent organization is to have a common risk framework, supported by appropriate standards, used to manage risks throughout the organisation (Deloitte, 2008:3). The American Heritage Dictionary (2000) defines a framework as “a structure for supporting or enclosing something else, especially a skeletal support used as the basis for something being constructed”. In this context, the ERM framework is the structure on which risk management is supported as it helps an organization to decide which opportunities to pursue and which hazards to avoid. The framework should support risk management objectives, the organization’s unique strategic initiatives and structure, whilst at the same time being adaptable to industry requirements and regulations (Deloitte, 2008:3).

The COSO framework was developed during a time when there were a number of high-profile business scandals and failures in which investors, company staff and other stakeholders suffered substantial losses. Concerns were raised over risk management and a need to identify, assess and manage risk based on a robust framework. This framework was to aid management in the evaluation and improvement of their organization’s enterprise risk management. COSO (2004) states that after the scandals there “were calls for enhanced corporate governance and risk management, with new law, regulation, and listing standards key principles and concepts, a common language, and clear direction and guidance enterprise risk management framework both to satisfy their internal control needs and to move toward a fuller risk management process.”

An entity’s size, culture, complexity, industry, management style and other characteristics have a significant impact of how effective and efficient implementation of COSO’s concepts and principles is (COSO, 2004). Barton, Shenkir, and Walker (2002:19) assert “cookbook” formula on implementation of enterprise risk management is non-existent as ERM it depends on the organization and those involved in leading its execution. Monahan
(2008:), however, disagrees with this notion and states that there may be differences in the designing of ERM programmes due to organizational context and nuances, but a common methodology can be followed for the execution of ERM.

Fox (2011) states that the ISO 31000, COSO 2004 and OCEG “Red Book” are the most widely used standards and in this paper the COSO framework will be utilized. Dafikpaku (2011) argues the ultimate purpose of an ERM framework would be viewed as the facilitation of the process to be described, automated, monitored and improved as part of the cycle of continuous innovation and responsiveness to the business dynamics”.

According to COSO (2004:3), ERM consists of eight interrelated components (as depicted in three COSO Framework Three Dimension Cube), resultant from how a business is managed and represented in the front view of the framework:

- **Internal Environment** - Involves the environment in which the business operates together with the drivers of the organization, its people. These set the scene towards the instituting of the risk philosophy and appetite of an organization.
- **Objective Setting** - The objectives are subsequently set and are to reflect the organization’s mission, vision and risk appetite
- **Event Identification** - Entails the identification of internal and external events which impact the implementation of strategy, for the purpose of classify risks according to whether there are upside, opportunities, and the downside.
- **Risk Assessment** - Portfolio view of risk is taken for the purpose of examining the interrelationships between risks across the enterprise, in order to determine ways to manage the risks.
- **Risk Responses** - Avoidance, acceptance, mitigation and transference are risk responses approaches from which management needs make a decisions.
- **Control Activities** - Policies and procedures are then established and performed to ensure that the responses selected are executed effectively.
- **Information and communication** concerns the capture, processing and communication of relevant information in a timely manner that will ensure that personnel can fulfil their risk management duties. This is to occur down, across and up the entity. Effective communication also occurs in a broader sense, flowing down, across, and up the entity.
• **Monitoring – this final step** refers to the management activities and modifications made as necessary which can be accomplished separately or simultaneously.

The three-dimensional matrix, below reflect the relationship between the organizations objectives and the ERM components which represent what is needed to achieve them.

**Figure 4.1: COSO Framework three dimensional cube**

![COSO Framework three dimensional cube](image)

**Source:** COSO, (2004:5)

The top view of the framework specifies the objectives of the enterprise, although distinct, may overlap. The first are the high-level strategic objectives, which support the mission, vision and goals of the enterprise. Lower level operational relate to objectives effective as well as efficient use of organizational resources. Public-trading enterprises have to adhere to various reporting objectives, specified by various government regulations. Finally, the compliance objective refers to how vigilantly the organization abides with laws and regulations. A level of overlap can be observed between compliance by legislation relating to reporting (COSO, 2004:3).

The third plane considers ERM at four organisational levels, namely ERM can be considered for every cell in the cube-shaped framework. For example, one can consider the front, top left cell that represents the internal environment’s strategic objectives for a division in the enterprise (Lategan, 2006:87).
4.4 ERM AND STRATEGY AND OPERATIONALISATION

4.4.1 Internal Environment

Usually this would involve top down approach with the board and senior management identifying risks within the organization. These are subsequently grouped together before the analysis of the risks. Some of the risk intelligence can be obtained from the organization’s IT systems, enterprise resource planning data and even the output of continuous control monitoring systems.

Risk appetite

Increasingly, ERM organizations are defining their ERM programs in terms of the concepts of risk appetite and risk capacity. Sometimes, this is self-imposed – because the ERM function itself believes that the concepts are of high importance – and sometimes it arises as a result of the expectations of the management, board of directors, or external influences.

Risk capacity, the absolute maximum level of exposure that an organization can withstand while remaining a going concern – is hugely popular in sectors like banking and financial service. Risk appetite is the amount of risk that an organization is willing to tolerate in pursuit of its objectives. It is seen as more relevant for organisations in other sectors and is particularly useful in determining risk responses.

Heat maps are useful devices for visualising an organization's risk appetite. Risk appetite linked to corporate culture, and a high-growth, edgy organization in a rapidly-changing market like technology or media might be expected to have a much more aggressive profile than a more stable, mature organization in e.g. industrial manufacturing.

Once the risk appetite as been determined, tolerances are defined and are extremely useful in the establishment of business rules and can therefore create an invaluable link between business strategy and operational planning.
4.4.2 Objectives Setting

A company’s success or failure is judged based on its strategic objectives. According to Wixley and Everingham (2003:10), strategy includes deciding what business a company should be in, who its customers are and how it will measure success. Wixley and Everingham (2003:10) cite an Ernst and Young study in the United Kingdom and the United States of America indicates that the quality of a strategy and its execution are seen by investors as central to an organization’s success.

It is executive management’s responsibility to formulate an organization’s strategy whilst the job of the board of directors (particularly non-executive independent directors) is to challenge and debate the assumptions on which the strategy is based by bringing objectivity and an assortment of experience. The board of directors then gives the final approval of the strategic plans and strategic decisions are given to the board of directors (Wixley and Everingham, 2003:10).

Strategic planning starts with articulating what the organization is trying to accomplish through its vision and mission and strategy. The strategic plan states where the organization wants to go and maps out how it intends to get there in terms of customer, financial, societal and the required processes and resources required achieving those goals. It also details the critical initiatives that require successful execution in order for the organization to achieve its objectives such as:

- Enabling employees through training to be effective and efficient in executing key processes, supported by the organization’s culture and with information processes that improve decision-making;
- The learning and development of employees leads to improved productivity and customer satisfaction whilst resulting in delivering value to customers within the regulatory and compliance activities;
- Satisfied customers buy more of the organization’s products therefore increased revenue and reduced costs; and
- The shareholders receive better returns from their investment from increased profits and reduced costs and their expectations met.
According to IRM (2002:13), ERM should be entrenched within the enterprise through its budget and strategy processes. “It should be highlighted in induction and all other training and development as well as within operational processes e.g. product/service development projects.”

Strategic maps are pictorial representations of how the organization plans to achieve its strategies and encompass the following:

- Financial perspective which describes the kind value and quantum required to meet the stakeholders and shareholders expectations. Typically, an organization’s financial objectives include increasing revenues and reducing costs.
- Customer perspective, describes the organization’s unique value proposition and states briefly why the organization’s rather than the competitors’ products or services should be purchased by customers.
- The Process perspective categorised into customer, operational, innovation, regulatory and social processes, detail how value will be delivered in the most effective and efficient manner to customers. Customer processes define how demand will be stimulated through marketing, relationships managed. Operational processes entail actions required for production of goods and service. This includes all the supply chain management, production and procurement activities. Regulatory and social processes ensure compliance with the pertinent laws and regulations and activities aimed at enhancing the organization’s image in the stakeholders and communities eyes.
- Learning and Growth perspective refers to the human capital, information capital and organisational capital, which all are resources that facilitate the effective and efficient performance of internal processes by employees. The hiring, retention and training towards the improvement of organisational capabilities is referred to as human capital. Organizational capital intends to support the employees’ activities with the organization’s vision and mission by enhancing its teamwork, culture, and leadership. Information capital refers to the IT systems that enable more efficiency by supporting with the processing of transactions and providing decision making guidance.
Effectively integrated with strategy-setting and performance management, risk management invigorates opportunity-seeking behaviour by helping directors and managers develop the confidence that they truly understand the risks inherent in the organization’s strategy and have the capabilities in place to manage and monitor those risks. Risk management is flawed when risks are evaluated after the strategy is formulated. The result could be strategic objectives that are unrealistic and risk management that is simply an appendage to performance management (Protiviti, 2006).

4.4.3 Risk Identification

The organization’s financial performance is a function of its revenue less its costs and events that increase costs or decrease revenue are risks. The strategy map can be utilised to for the identification of risks since it illustrates key initiatives to be successfully executed for the achievement of shareholders financial expectations.

According to Sheenan (2010:29) customer perspective risks are external events that may decrease the attractiveness of the organization’s value proposition and can be identified using PESTLE and Porter’s Five Competitive Forces. PESTLE is an acronym with stands for the political, economic, social, technological, legal and environmental developments occurring in the macro environment and how they affect an industry (Porter, 2008). It is useful in terms of appraising a company or industry in terms of strategy, position in the market and future direction of the organization.

Porter’s has identified five competitive forces that shape every industry and every market and “five forces tool” has become an essential method for analyzing an organizations industry structure in strategic processes. This framework for industry analysis can be used as a systematic methodology for examining the impact of an industry structure on a firm’s performance (Morrison, 2008). These five forces encompass degree of rivalry, buyer and supplier power, barriers to entry, risk of substitute products becoming more attractive to the organizations target market.

Process perspective risks are defined by Sheenan (2010:30) as those events which could prevent the organization from creating the promised value to its customers.
These risks are categorised as Customer, Operational, Innovation, and Regulatory and Social.

Customer process perspective risks include failed marketing and branding campaigns and failure by sales force to make sales. Operational process perspective risks encompass events that reduce the effectiveness of operations or lead to cost of doing business increasing. These can be identified using PESTLE analysis or Porter’s Five Competitive Forces. Among the risks that could raise costs of operational expensive from the environment in which the organization operates are commodity prices; new regulations from government; limited credit access; foreign exchange and interest rates and pressures to reduce the organization’s carbon footprint (Sheenan, 2010:30).

Key innovation process perspective risks, are the organization’s failure to progress in its methods of production or lack of an entrepreneurial spirit required to come up with new solutions. The last category of process perspective risks is Regulatory and social. Regulatory risks arise from employees, who knowingly or unknowingly break internal or external rules and regulations. Financial reporting risks also play a role among regulatory risks (Sheenan, 2010:30).

Learning and growth perspective risks are risks which weaken the human, organizational and information resources required to execute internal processes. Tampering with these resources may diminish the organization’s knowledge base; obliterate its culture or encumber the information system required for supporting the profitable decision making (Sheenan, 2010:30).

### 4.4.4 Risk Assessment

The risks are then ranked based on the probability of occurring and their financial impact using a heat map. Heat maps are popular diagrams in the early stages of an ERM program, with axes plotting the likelihood a risk will impact the organization, against the severity of the consequences should the risk occur. Some have enhanced them into three dimensions taking into account the effectiveness of risk response (Mehta, 2010:31). There have been criticism of the lack of rigor at times in
heat mapping, with some developing alternatives which attach a rand value to every risk (an estimate provided where this is not known) and then comparing them to probable risk response costs (Mehta, 2010:30). Those risks that fall in the red and yellow zone (refer Figure 4.4) are escalated to management for their consideration.

The challenge in the prioritizing of risks is the subjective nature of comparing strategic, operational and sometimes even financial risks is it becomes a challenge to compare “apples with apples”.

**Figure 4.2: Heat Map**

Risks that fall in the red and yellow zone (Figure 4.4) are escalated to management for their consideration. The challenge in the prioritizing of risks is the subjective nature of comparing strategic, operational and sometimes even financial risks is it becomes a challenge to compare “apples with apples”.

Risk assessments are further complicated by an inherently complex risk environment and intricate interdependencies. Some risk factors exist purely in isolation, but others may be part of extended chain reactions. Measuring the magnified impact of aggregate risks (where several small risk factors combine together to create what amounts to a far larger one) or correlations between risks (where one risk event, or indeed a response to a risk event, may trigger another that is seemingly unrelated) is extremely complex.

To illustrate the complexity, Mehta (2010) provides an example, where one ERM manager reported that in his company, a diverse range of products had always
been manufactured, by several different business units and in multiple global locations. Until the ERM program triggered a review of supply chain concentration, it had not become apparent that a large proportion of these products contained a critical component, manufactured by a single supplier. If that supplier were to experience a problem – or worse, go out of business – a risk that each business unit had regarded as relatively minor would have had far further-reaching implications for the enterprise as a whole than had previously been imagined.

According to Mehta (2010), cross-functional discussions are critical in determining such interdependencies and interconnectedness during the evaluation and prioritising of risk. These not only facilitate communication between different units but combining insights and inputs across the enterprise thus making the process truly enterprise-wide. This also has the effect of breaking down the barriers of communication between the units, eliminates the “silo” thinking, and ensures a common risk language is established and therefore a consistence in the management of risks.

4.4.5 Risk response

There are four alternatives available to organizations in deciding upon the appropriate response to risk, each with far-reaching consequences. An organization can accept a risk; share it; mitigate or reduce it; or avoid. Simply avoiding some risks weaken the organization company’s whole business model. Sharing some risks could compromise an organization’s intellectual capital, whilst some cannot be shared because of being uninsurable or cannot be diluted through a joint venture partnership. Every risk or risk area requires to be appraised purely on its merits (Mehta, 2010:34). Risk transfer goes together with portfolio management. Risk transference strategies should be employed after management has evaluated derivatives and insurances, as well as hybrid products that are available.

It is not uncommon for a risk response to create another risk elsewhere in the organization or under a different risk category through risk correlation. The cross-function risk forums are an exceptional platform to detect these unintended
consequences as these correlations are often considered a challenge in devising risk suitable responses (Mehta, 2010:34).

4.4.6 Control Activities

Sheenan (2011), states that in an effort to improve the execution of an enterprise’s strategy and also manage its risks, five controls can be used, namely: boundary, internal, diagnostic, belief and interactive controls:

Diagnostic Controls – management communicates to employees required actions necessary for the execution of the strategy through goal setting, provision of resources, monitoring developments and rewarding for achieved success. These controls encompass balance scorecards, budgets and cash forecasts

Belief Controls – These are controls which are aimed at engaging employees’ emotions regarding the organization and stipulates the organizations value system and seek to enthuse and stimulate employees to make a difference, which is evidenced in the corporate culture. Employees who are fully engaged look for means to improve an organization’s value proposition and are energized to come to work. Belief controls alleviate risk as they facilitate the recruitment and retention the best employees, thus reducing the likelihood of service errors. Recruiting only staff who typify the organization’s values, ensures they are less likely to harm the organization.

Internal Controls – These controls ensure records kept are accurately, the preservation of the organization’s assets and improve compliance with pertinent and laws and regulations. The end results in fraud avoidance and fraudulent financial reporting. Effective fraud control can be achieved through creating authorization hierarchies; separation duties; the enforcement security policies in IT; adherence to labour laws and human resources best practices and ensure the accounting staff employed is qualified.

Interactive Controls – these ensure that the organization’s strategy is monitored and its appropriateness examined taking into account the external environment changes
to make certain there is still adequate compensation for risks taken. This involves whether there is an expected reduction in risk from management controls; whether the risk exposure is aligned to risk appetite; if there is a need to change the strategy or a need to revisit the use of controls. All of this is achieved through rigorous debate and information gathering between management, on how the environmental changes may be impacting the organization's ability to achieve its strategy and the changes required to be done. Management should have a way of obtaining communication from the rest of the employees and this can be facilitated by ensuring a common understanding of the strategy map; how they can make a contribution and rewarding information sharing.

4.4.7 ERM Structure, Communication and Resourcing

A balance need to be maintained in the reporting of risk to management teams and boards of directors. Although, risk management has a new level of importance now in their minds, it needs to be recognized as it is one of their many responsibilities and as such, there amount should be a limited one must avoid temptation being bogged down in too much detail. At the inception of the ERM program, it may be necessary to allocate more time to the review of risks, but after this, periodic detailed discussions into areas can be done. At board level, it may be appropriate to discuss the top ten risks for example, this depending on the practical assessment of which risks merit discussion (Mehta, 2010:34).

According to Dickinson (2001), for ERM to be effectively implemented, it should be top down process as senior management determines the organizational structure and parameters for policies in order. Mehta (2010:21) postulates that it is essential that ERM not be positioned parallel to the existing management structures. It must remain with the enterprise, with a need for accountability for each risk held at the appropriate level. Mehta (2010:21) and Dickson (2001:364) agree that the tone at the top is to be established by the Chief Executive Officer and the senior members of the management team.

Although ERM involves everyone within the enterprise, the CEO assumes ownership of risks to which the enterprise is exposed and to the board of directors.
However the people closest to the risks, the unit managers, take ownership for the risks within their sections and those related to the achievement of their objectives. Line management is tasked with aligning business strategy to corporate risk policy by establishing risk acceptance criteria. This will help integrate risk management into new market and product opportunities. An example of a typical structure of the ERM function is represented by the diagram below.

**Figure 4.3: A typical ERM Organogram**

- Risk Oversight
- Challenge Management
- Tone at the Top
- Roll up of BU/ BF Risks
- Aggregation/ Correlation
- BU/BF Specific risks

**Source:** Mehta, (2010)

The board of directors is responsible the risk oversight of the organization. There are instances here the board of directors will delegate it’s duties to the Risk/Audit Committee who in turn report to the board of directors. The Chief Executive Officer gives directional leadership to senior managers and makes certain that ERM
components are in place and reports to the board of directors. The Chief Executive Officer may establish an ERM committee to fulfil its function, or may appoint the Chief Finance Officer or Chief Risk Officer to run with ERM function.

IRMSA (2007) articulated that Chief Risk Officer also has specific duties as follows:

- develops integrated procedures to report significant risks to the board member;
- regularly meeting senior executives to promote imbedding risk management into daily activities;
- develops a standardized risk information model to the firm;
- maintains a cost-benefit focus on ERM and ensures employees are educated about risk management;
- works with unit leaders to ensure risk identification included in business plans and;
- works with unit leaders, to ensure the most significant risk compliance with the organization’s standards.

Due to the complexity of identifying, controlling and managing risk across the enterprise, specialist and dedicated expertise may be in order. There is evidence that suggests the appointment of dedicated high-level risk executive, such a Chief Risk Officer, as providing an impetus to an ERM program and giving a signal of the organization’s intentions of engaging in ERM. For such a person, an understanding of the organizations strategic direction is essential; the board’s full support needed; an upfront approach in discussions with the board of directors and executive management is a must; and a broad view of the organization’s risks and opportunities for the effective embedding of ERM into every level of the organization (AON, 2009:5). Internal audit’s role would be to monitor how effectively the ERM is implemented in the organization and report this to the board of directors.

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to allocate more time to the review of risks but after this, periodic detailed discussions into specific areas can be done. At board level, it may be appropriate to discuss the top ten risks for example, this depending on the practical assessment of which risks merit discussion (Mehta, 2010:34).

Data and technology resources should be considered, which should be utilized to assist with the management of enterprise risk. There are now off-the-shelf systems available that an organization can buy to facilitate a complete solution. These however may require some customization. Lam suggests that the power of the Internet should be used when designing a custom system. One of the features of such a system should include the aggregation of portfolio data, which includes information captured in front and back office systems, and market data, which includes prices, volatilities and correlations. Constant diligence should be applied to ensure that the data input is of a high quality.

4.5 STRATEGIC BENEFITS OF ERM

ERM provides reasonable assurance that if implemented effectively, an organization’s strategic; operations; reporting and compliance objectives are achieved. Strategically, the board of directors and management have reasonable assurance that high-level goals are in alignment with and support the organization’s mission and within the organizations appetite for risk. From an operations perspective, resources are utilized effectively and efficiently towards the achievement of strategic goals. The organisation’s reporting is and there is compliance with the pertinent laws and regulations.

Society of Actuaries (SOA) (2006, 23-25) states that organisations that employ ERM have competitive advantages over those utilizing traditional risk management as ERM not only passively engages risk controls, but also actively pursues risk optimizations, which further translates into value creation. Aligning ERM resources and actions with the business strategy can maximize organizational effectiveness. Also, by linking ERM with business strategy, risk process can be carried out in the context of where a business is headed, not just based on where it is today. According to SOA (2006:7), ERM “further adds value where management teams make decisions that exploit their firm’s true risk-taking capacity, complement their existing risk profile and further their overall strategic objectives”.

Dafikpaku (2011:10) states the following as additional implications of strategic risk management on the day to day operations in an organization:

- "Increased traceability – for the purpose of compliance, audit and analysis
- Improved responsiveness and flexibility – through monitoring, anticipation of events and definition of responses
- Continuous business optimization – through a clear understanding of strategic options
- Improved strategic alignment – through de-risking of business processes
- Improved business IT alignment – through de-risking the links between Business and IT
- Accelerated identification and effective management of risk – through assessment of risk relationships and interdependence, and as a predictive tool
- Improved ability to perform merger and acquisitions or diversification – through a clear understanding of the risks and opportunities associated with such events
- Cost reduction or savings – through the reduction in business disruption and facilitating both the business rules and business continuity measures, shedding non-core activities (especially those with high risks), improve confidence and assure productivity leading to increased pace."

Synergies are achieved in risk identification, assessment and having devised fitting responses to risks and from risk management being integrated across individual units of the same entity. Additionally, there is better alignment in risk responses with the organization strategy due to the collection of information occurring at a higher organisational level for risk identification stage (Abrams et al, 2006:3).

Improved business efficiency is achieved from shifting the organization beyond a compliance orientation resulting from integrating financial reporting and risk management principles at an organizational level. Abrams et al (2006: 3), further argue that that “finance should attempt to create value for the company through the generation of information aimed at delivering performance insight, growth insight, and risk insight. This includes the measuring and monitoring of business performance, supporting the execution of growth strategies, continual business and process improvement, strengthening the internal control environment and thereby meeting fiduciary and statutory
There’s evidence as stated by Barton et al (2002:11) that firms which adapted ERM experienced a reduction in stock prices volatility, increased assets opacity decreased market to book ratios and decreased earnings volatility besides increasing the boards and senior management oversight in respect of risk management. Other benefits of ERM include:

- Prioritization of risk – a consistent standard enables better investment and capital structure decision making;
- Early identification of risk patterns and opportunities – risk patterns that emerge and are encountered by peers and other industries can be examined and opportunities seized;
- Enhanced safeguards against operational surprises and losses – this can lead to improved share performance and lower capital cost as both management as both management and shareholders are in the know. The identification, assessment and establishment of responses ensure the reduction of surprises resulting from the ever changing business environment and related costs or losses;
- Alignment of risk appetite and strategy thus ensuring risks to be within controllable limits; and
- Risk response decisions are enhanced, which means that the selected response alternative optimizes resources.

Based on the benefits detailed above, it can be concluded that ERM, if proficiently executed, ensures with reasonable assurance that an enterprise achieves its strategic, operational, reporting and compliance objectives given the understanding of the entire range of risks provided by ERM.

4.6 CHALLENGES AND LIMITATIONS IN IMPLEMENTING ERM

Risk managers require increased visibility, authority and independence. There is often a perception that they are obstacles to long-term growth, as experienced during the recent recession. They were the ones that often protested when they believed that organizations were taking too much risk, but all this to no avail. It would help the cause of ERM for the risk managers to expand beyond police-like monitors and control, to the discovery of new
opportunities towards the achievement of objectives. Another challenge is defining the level of risk that an enterprise is prepared to accept, in the efforts to create value.

The most-cited barriers to ERM progress include lack of tangible benefits, senior management sponsorship, skills to embed ERM, a clear implementation plan and communication strategy— all of which can be linked back to executive leadership for risk (AON, 2009:5). There are also additional complications when adopting ERM for large businesses with global supply chain, as it can often be difficult trying to observe the laws and regulations in different parts of the world. Also, attempts to mitigate the concentration of risk by selecting two suppliers instead of relying on one may be flawed if these two suppliers have one supplier in common. Common standards for tracking risk across geographical boundaries may be a necessity.

ERM can only provide reasonable assurance in respect of achievement of objectives by management and a board as absolute assurance is difficult to achieve as risk relates to the future, which cannot be predicted with certainty. Also, there are always events that fall outside the control of management, while in reality; no business process will always function as expected. In effect, even perfectly applied ERM may have trouble from time to time (COSO ERM, 2004b). The COSO report discusses five limitations to ERM, which are:

- **Judgment** – ultimately, humans make business applying judgment founded on available information in limited time, under changeable business conditions. The effectiveness of ERM’s effectiveness is limited by these judgments;
- **Breakdowns** – this may be as a result of misunderstandings in implementation instructions by personnel, inexperience, judgment mistakes or error committed due to carelessness, fatigue or distractions;
- **Collusion** – this is caused by people work together to commit and conceal activities to meet targets or to gain financially from them by altering some management information or financial data, which ERM may be unable to detect;
- **Costs versus Benefits** – because of resource constraints, it is necessary to evaluate the benefits of ERM against the cost, the cost failure, control activities and the resources required; and
- **Management Override** – while the process design may be flawless, management can override ERM processes for reasons such as hiding the lack of compliance or meeting targets. The entity’s prevention and detection of override activity capabilities will be improved by an effective ERM program.
Another limitation to the ERM frameworks discussed in this section is the lack of “linkage” to other industry standards: there are just too many of them. It can be argued that this linkage should be supplied by other industries, rather than by COSO itself.

4.7 CONCLUSION

ERM has the potential to assist managers realize an organization’s performance and profitability targets and avert loss of resources. ERM facilitates effective reporting and compliance with laws and regulation whilst avoiding potential damage to the organization’s reputation and associated consequences. COSO (2004:1) states that ERM “helps an entity get to where it wants to go and avoid pitfalls and surprises along the way”.

CHAPTER 5

RESEARCH DESIGN AND METHODOLOGY

5.1 INTRODUCTION

The purpose of this chapter is to discuss the research design and validate the methodology employed in the study. The research paradigm, the sampling procedures and the research demarcation are discussed. The advantages and disadvantages as well as the justification for selecting face-to-face interview approach from among possible alternatives are explained. The research instrument which was designed is attached as an addendum.

5.2 RESEARCH DESIGN

Leedy (1997:5) defines research as a systematic process through which a greater understanding of a phenomenon can be achieved, answers to questions obtained or a problem resolved. Research design provides the overall structure of the procedures that will be followed, the data that will be collected and analysis of that data. According to Saunders, Lewis and Thornhill (1997:2), research is categorized into pure and applied research. Pure research is intended for understanding certain phenomena with no obvious practical implications. Applied research on the other hand, focuses on findings of practical relevance that either answer particular questions or solve particular problems. Leedy (1997:17) further contends that general tools are required by a majority of research, to derive meaningful and insightful conclusions from data, those being:

- The library resources and its resources
- Computer hardware and software;
- Measurements techniques of measurement;
- Statistics; and
- Facility with language. (Leedy, 1997:17).
5.3 THE RESEARCH PARADIGM

A paradigm is defined by Collis and Hussey (2009:55) as a “philosophical framework that guides how scientific research should be conducted”. According to QSR International (2010), the two main paradigms are positivistic and phenomenological and are also referred to as quantitative and qualitative respectively. The positivistic research takes little or no consideration to the subjective state of the individual as it focuses on the gathering of absolute data (usually numerical) that can be subjected to unbiased examination and may also entail the testing of a hypothesis.

The phenomenological paradigm entails the exploration of issues, providing answers to questions and seeking the understanding of phenomena from the participant’s own frame of reference. There is little or no reliance on statistics or numbers, but focus on gaining insight into participants’ behaviours, attitudes, concerns, aspirations, value systems, motivations, culture, or lifestyle. Amongst the various approaches to qualitative research are focus groups, ethnography, in-depth interviews, evaluations, semiotics and content analysis.

Saunders, Lewis and Thornhill (1997:74) state that the research question and objectives always determine the research methodology to be utilized. The phenomenological paradigm was pursued in this study and one to one semi-structured interviews utilized for data collection purposes.

5.4 SAMPLE DESIGN

According to Collis and Hussey (2009:62), a population is a “precisely defined body of people or objects under consideration for statistical purposes” and a sample defined as “a subset of a population”. Selecting a sample is a fundamental part of a qualitative research and will comprise some members of the population (Collis and Hussey, 2009). Sampling methods are either probability or non-probability. Every member of the population has a known non-zero probability of being selected in probability sampling, with methods being classified as either random systematic or stratified sampling respectively.
The selection of members from a population occurring in a non-random manner is called non-probability sampling. The convenience, purposive, snowball, and quota sampling respectively are all examples of non-probability sampling. They all share a common characteristic of the extent to which the sample differs from the population being unknown. This non-probability method is often utilised during introductory research efforts, to obtain an overall estimation of results whilst avoiding the required time and costs inherent in random sampling (Statpac, 2010).

According to Saunders, Lewis and Thornhill (1997:148), the choice of sampling technique is dependent on the feasibility and sensibility of collecting data to answer the research question. Research questions not requiring generalisations about the characteristics from a sample can make use of non-probability sampling. “Purposive sampling is dependent on the research questions and objectives, in particular, what you need to find out, what will be useful, what will have credibility and what can be done within available resources” (Saunders, Lewis and Thornhill, 1997:142). Purposive sampling, which this study will utilise, is often used when working with small samples where one wishes to select cases that are particularly informative.

5.5 DEMARCATION

In this study purposive sampling was used and included business unit managers of the East London Industrial Development Zone. It is quite quick, easy and cheap, but is equally representative as other sampling types. Risk management has historically been and still is perceived to be just about insurance in a number of organisations. It has been historically under the management of the treasury or finance division of most enterprises. However, because the modern version (ERM) affects all units across the enterprise, it necessitates those managers from all business units to be involved in its execution, to ensure it is indeed enterprise-wide.

The sample size is related to the size of the population under consideration as this ensures that it is representative and allows positivist researchers to generalise the results from the sample to the population. However, this is not an issue in this research as it is interpretivist, with a goal of gaining rich and detailed insights of the social phenomena (Collis and Hussey, 2009:62).
5.6 RESEARCH INSTRUMENT AND DATA COLLECTION METHOD

Questions based on the themes identified within the research question were prepared to assist in formulating the semi-structure questions to be used as a research instrument. This enabled the researcher to steer the interview when exploring and gathering information and searching out new insights. A number of themes identified from the literature review were utilized in the construction of questions and these were asked to allow for a flow in conversation. The semi-structure questions are attached as an addendum, as seen in Appendix A – (semi-structured interview questions). The themes to be covered in the interviews were forwarded to the respondents prior to the interview in order for them to be prepared.

Interviews were utilized as a measuring instrument and for data collection. Interviews are defined as “a method for collecting data in which selected participants are asked questions to find out what they do, think or feel using face-to-face, telephone or video conferencing methods” (Collis and Hussey, 2009:194). Interviews can be structured or non-structured variations. In structured interviews, questions are mostly closed, with a set of predetermined answers. There may be instances where respondents may answer in their own words. In a semi-structured interview, although questions are prepared before-hand, the interviewer has the flexibility of including additional questions. This affords the opportunity to provide detailed information regarding an answer or for the purpose of exploring new but relevant issues arising from a specific answer.

The advantages of a structured interview are that it is easy to compare answers as the same questions are asked, whilst in an in the semi-structured variety, the matters explored change from one interview to the next as different aspects of the topic are revealed. It may be a challenge to keep a note of the questions and answers in unstructured and semi-structured interviews, but this will be overcome by asking the respondents for permission to record the interview using an audio recorder. Collis and Hurley (2009:195) recommend that the interviewer offer to switch off the recording device, should the interviewee wish to discuss confidential information. They further recommend that the interviews are to be conducted in the same manner, to avoid interviewer bias. This means not only asking the same questions but posing the questions in the same ways and ensuring the questions are understood in the same.
Below is a guide on how to keep interviewer bias to the minimum:

- Questions are to be read exactly as worded in the questionnaire;
- The same intonation and emphasis used and questions read slowly;
- Following the same order when asking questions;
- Recording what the respondent says exactly;
- Avoiding answering questions on behalf of respondents;
- Remaining impartial and showing interest by paying attention when respondent answers; and
- Ensuring answers are understood and that answers are adequate (Collis and Hussey, 2009:197).

To avoid situations where interviewees are “wearing two hats” for example, where the risk committee chairperson may also be the investor services manager, the interviewer will often ask in what capacity the person is answering, this to avoid confusion. This data collection method has been selected as it lends itself to the researcher asking complicated questions and follow-up questions and the depth of information as verbal and non-verbal communication such as attitude and behaviour can be detected (Collis and Hussey, 2009:197).

5.7 RELIABILITY AND VALIDITY

In conducting qualitative research, there are general concerns over validity, reliability and generalizability of the findings. Collis and Hussey (2009:64-65) define validity is “the extent to which the research findings accurately reflect the phenomenon under study”. Reliability is the nonexistence of differences in the results should there be a repeat of the research. Generalizability is the degree to which the research findings can be extended to other situations. It is argued that reliability is of little importance in qualitative research as replication, which is critical in quantitative research, is extremely difficult to achieve. This is due to the belief that the activities of the researcher influence the research.

The concern over reliability is related to various forms of bias. Interviewer bias relates to where comments, tone or non verbal behaviour of the interviewer creates a bias in the way the interviewee responds to questions. This may be where an interview may push his own belief and frame of reference through the questions asked. This may be added to by the
interviewer’s lack of credibility or failure to develop the trust of the interviewee, which may result in the value of information, provided being limited and thus raising doubts about its validity or reliability. Another form of bias is interviewee bias, which may result from perceptions about the interviewer. Interviews are intrusive processes and interviewee may be sensitive to the exploration of certain themes and therefore, elect not to reveal certain aspects of the topic. This may result in them providing a partial picture of situations which cast a negative or positive picture of the organization for which they work. The bias may result from respondents’ unwillingness to take part in an interview, due to the amount of time it can take.

5.8 COVERING LETTER

Covering letter should state what the purpose of the research is and should provide clear instructions on how the interviews will be conducted (Saunders, Thornhill and Lewis, 2009). A letter to gain access to ELIDZ was forwarded to the relevant authority and is attached as an appendix.

5.9 CONCLUSION

In this chapter the research methodology and approach as well as the designing of the semi-structured qualitative questions of the research were outlined. The phenomenological paradigm was pursued because this study was interested in exploration and descriptions. The sample was chosen with a clear demarcation. The semi-structured questions based on the themes identified in the research question were prepared to assist in formulating the research instrument, and the relevant data collection methods were also outlined. The following chapter will focus on the presentation of the research findings from the face-to-face interviews in a narrative style.
CHAPTER 6

PRESENTATION OF THE RESEARCH FINDINGS

6.1 INTRODUCTION

The objective of this chapter is to present and analyse the findings of the study. As discussed in the previous chapter, the method of data collection used was face-to-face interviews, where direct questions on the senior managers’ understanding and experiences of ERM at the East London IDZ were posed. It must be emphasized that the understanding of both the groups interviewed was largely based on and related to their experience and history in the organization. All of the participants are members of the risk committee which fulfils the risk reporting function to the board.

6.2 DISCUSSION OF THE RESEARCH FINDINGS

In its efforts to be an industry leader in the Industrial Development Zone scene in South Africa, prior to its strategic planning, the organization benchmarks itself against the leading progressive organizations globally. It investigates how it compares in terms of its approach to Strategy; Precision Business; Business Intelligence; Risk; Business Value Potential; Leadership; People Energy Management; General Workplace; Corporate Governance; Sales and Branding; Customer Relationship Management; Marketing; Processes; Quality; Innovation and Propensity to change. Relevant to this study is the risk component whose rating has deteriorated in nine of the seventeen variables measured since 2009, which highlights the need to focus on risk going forward (Ntondini, 2011).

The purpose of the interviews was to get the participants' understanding, experience and perception of ERM. The participants’ perceptions reveal their experience of what is occurring, their understanding as well as their appraisal of ERM and its role in the organization. The data analysis yielded themes that could be categorized according to the headings.
To reiterate, the purpose this study is to investigate the utilisation of Enterprise Risk Management at East London Industrial Development Zone. The discussion of the findings of the face to face interviews is clustered into categories based on the four broad themes. The four main categories are outlined in bullet points below:

- The organization’s approach to strategic planning, how the organization ensures alignment of risk responses with strategy and connectivity of risk management to key management processes achieved.
- How the organization plans and resources its ERM initiative.
- ERM being utilized as a value creation mechanism in strategic setting and execution
- Challenges encountered by businesses in trying to implement ERM.

6.3 STRATEGIC PLANNING, ALIGNMENT OF RISK RESPONSES WITH STRATEGY AND CONNECTIVITY OF ERM TO KEY PROCESSES

According to the findings of the face to face interviews, it is evident that ERM is utilized as a tool within the ELIDZ, albeit is still early in its development as it not yet at a stage where it looks at risk holistically. There are also concerns that there may be risks which may not have been identified, or at least the mitigation mechanisms are beyond the organization’s competencies to deal with due to the organization’s ERM competencies.

The ELIDZ was a pioneer of the IDZ concept in the Border-Kei Region, there was realization that the organization needed to remain aware of what risks it is faces from the outset. The purpose was to ensure survival in the future, therefore, the main driver of ERM when it was initiated in 2005 was survival. Other drivers, as the organization has developed, have been the corporate governance requirements in King III.

Before going into the strategic planning, the organisation’s vision, mission and objectives are checked for their relevance and whether they still represent ELIDZ’s intentions. Each business unit is then asked what objectives it should craft to enable it to achieve its objectives. Those objectives all include the management of various kinds of risks and therefore the management of those risks and the removal of any obstacles they may result in the non-achievement of the objectives. Risk is defined in the organisation as anything that is an obstacle to the achievement of its goals. The risk policy works hand in hand with
the strategic planning in the setting of the risk appetite. The risk policy and plans for mitigating the risks are submitted to the organisation’s principals and stakeholders simultaneously.

“The strategic plan then becomes a discussion on how we are planning to achieve the objectives and contains the key performance indicators that the goals have been achieved. We then look the activities that need to be done in order to achieve those goals, which then are building into the performance agreements, this to try and make risk management part of what the organization does on a daily basis as the tendency is that risk management often becomes side-lined and not part of normal management.”

The following sets out the ERM process as followed by the ELIDZ. The organization makes use of an external accounting firm that facilitates the risk assessment process by looking at various risks faced by the organization. This ranges from the macro, micro and those that occur within the various business units. All the executive managers and other senior managers contribute to this session as they are closest to the action in the organization. Once the risks have been identified, the information is collated by the facilitators and the risks are rated based on probability and the severity of them occurring.

The output from these sessions presented to the risk committee, integrated into performance contracts and allocated to various departments for action and when performance is measured, those risks are taken into consideration. Although the organization has been responding at various times to the risks identified during the risk assessments, there has been no institutional memory of the organization’s treatment of risk. This means that if a person wished to observe how a certain risk has changed over time, it would be a challenge. There is an external audit and risk committee that consider the risk identified on a quarterly basis and what has been done to address the risks. The researcher observed a common willingness to improve, and observed that the organization is highly critical of its own performance; this was displayed in the comments from one of the respondents on the current status of ERM is at ELIDZ. It is the responsibility of each business unit to ensure that all the processes and policy in place to ensure that the identified risks are mitigated to the satisfaction of the risk committee. The committee then should consolidates reports to be able to say this is from when they started, the risk has shifted from this is the progress; these are the items that are still outstanding.
“When ERM was initiated, there was no risk committee in place and therefore the above did not work well. The risk committee is still new and terms of reference have been recently completed. One would think that risks that were presented to HR/Finance or any department, risk management should interact with them to check how far the implementation is at a point in time. Then it should become the executive of the respective department that communicates with the risk committee that for specific risks, how it has been integrated into management processes, what project are in place to mitigate. Although there is a risk profile of the organization, we don’t have the mindset for risk.”

The organization is currently investigating risks within its business processes. This involves looking at the how the processes affect each other and devising processes to address the risks identifies. As indicated by the respondent:

“Then one is able to pinpoint that a certain risk has been addressed in a certain manner and which risks need to be highlighted in the departmental policy (e.g. HR policy) so that this in a way the policy will talk to the risk. We are on the right track but need guidance”.

### 6.4 PLANNING, RESOURCING AND UTILISATION OF ERM AS VALUE CREATION MECHANISM

When enquiring on whether there was an ERM road map, to enable the organization to develop ERM to a place where there’s comfort in the competency in how the organization manages risk, it was reported that there is no written plan.

“Even though we don’t have a written plan, we know for example that we have not yet developed tolerance levels for everything, we don’t yet have a clear plan but from the plan we have, it was a way to start for us. On an annual basis we are going to be improving on ERM by adding more structure to what we think we should be doing to improve it, as such on an annual basis we believe our maturity levels will improve. So we do not yet have a detailed plan and the challenge of being short staffed makes it a challenge to give ERM the attention it deserves.”
There is a belief that by next year, when the organisation has done the initiatives that it has planned, e.g. Next Move, Innovation Capabilities, executives will no longer be bogged down by operational issues, but will have more time to think creatively and focus on planning. At the moment ERM is done on an ad hoc basis, which was identified by the respondents as another challenge of operating in an organization which is remarkably young in its maturity.

Regarding the value that ERM adds to the strategic setting and execution, this was a response from one of the interviewees.

“The financial crisis has shown that if you don’t manage risks properly, you reduce the chance of you achieving strategic objectives. On the upside, you need to look at the opportunities and make decisions based on this. It’s not a question of value creation but a question of survival.”

According the managers, ERM allows for a common understanding of risks facing the organization, enables them to rank those risks based on the severity and priority and those that could do more harm can be addressed with more intensity and therefore lead to higher chances of survival. A common understanding of obstacles towards the achievement of the organizations’ goals also unifies efforts towards the eradication of those obstacles, which leads to efficiency and effective utilization of resource. Even areas which are less risky benefit as due to constraints being removed, and it isolates in the minds of managers areas that need the most attention. The organisation has also gone through a process of checking its innovation capability, another risk which if not appropriately addressed, could result in the organisation being uncompetitive.

“When we submit our strategic plans to our stakeholders, we send it with our risk plan, which adds credibility to our funders and our plans are well informed and therefore able to secure funding and we have taken into cognizance the various risks which could derail our plans. It also assists us in that if we are clear at the level of planning, it helps you at the level of performing, which then assist with the reporting because and ensure it happens timeously and is at your fingertips.”
The IDZ has incentives to attract investors, they are IDZ specific and not sectors specific incentives. From a strategic perspective, there is a risk of failure in attracting investors. According to the respondents, the value of ERM to the organization is that it helps in the identification of the risks for a sector and how the IDZ can respond to them. Informed by knowledge of the sector specific risks, the organisation can respond with a value proposition and incentives that lower risk for the investor. For example in aquaculture, abalone takes eight months to grow, which creates cash flow challenges. The quality of water may need to be improved. There needs to be consistent supply of electricity. The organization’s response would be perhaps to give a “grace period” until full production is reached; purchase pipeline for sea water and convert it to suitable requirements; provide backup electricity – therefore the infrastructure that is being constructed to meet the needs of an investor, taking into account the risks faced by the investor.

When asking whether the organization has the appropriate resources and the structure of ERM within the organization, the policy states that the Board provides ultimate oversight of the risk management and is responsible for the approval of the risk appetite, the risk tolerances and the priority risks and corresponding responses and implementation plan. The oversight responsibility of risk management is delegated to the board audit and risk committee which provides expert monitoring in order to ensure the efficient implementation and maintenance of the ERM programme; provide assurance to the board that there effective management of risks to which the organization is exposed. The CEO is ultimately responsible for the risk management within the organization and is responsible for mapping out the risk strategy; ensuring alignment strategic objectives and risk appetite and managing the organization’s risk profile. The risk committee (RISCO) is a structure comprising of members of the executive team governed and responsible for maintaining the organization’s overall risk profile and ensure that all key risks are reported on a quarterly basis as set out in the committee’s terms of reference.

The risk committee is tasked with the development of the ERM infrastructure, to assist the board fulfil its responsibility. The is currently no Chief Risk Officer (hereafter CRO) at this stage as this role is currently played by the RISCO Chairperson, who happens to be one of the executive managers. The organization plans to recruit a CRO in the future who would be responsible for communication of ERM strategy and vision; facilitating of ERM methodologies, tools and techniques and evaluation and monitoring throughout the
organization; facilitate ERM training and exposure and implement appropriate risk reporting to the Board and the Board audit and risk management committee. Business units are responsible for aligning their risk priorities and strategies with the organizational policies, standards and procedures; identifying, measuring and evaluating risks relevant to business unit objectives; assign risk management responsibilities and accountabilities to individuals in the business units and report the overall quality of risk responses and controls.

When probing whether there should be separate resources available for the management of the ERM, there is confusion on whether the current chairperson’s role is that of leading risk committee meetings, to enforce the ERM programme or both. Reference was made to certain government departments (e.g. Economic Affairs) where there’s an individual that facilitates and co-ordinates their ERM efforts. As stated elsewhere, there are plans in place to recruit a full time ERM manager soon.

“Maybe as part of the future planning, we have to look at how we will develop to the extent where we have these competencies (ERM), which is why we say that the risk management maturity level within the organization is at an early developmental level. But we believe that we trying to do the right things, but you don’t have the assurance.”

On enquiring the skills sets required of a CRO, it was advised that it would have to be a person that understands risk, business process and the ability to communicate at the executive level as they would have to sell ERM to the whole organization. The CRO would not form part of operations but would be reporting to Chief Executive Officers office. This would ensure that the CRO has sufficient authority to drive the initiative from a strategic perspective.

The organization has also recently acquired CURA, a COSO based software program that aimed at instilling a culture as it has a tracking function which can escalate what needs to be done. It aims to bring visibility of ERM into the day to day operations so that when you complete an activity, it is registered on the system. This will facilitate communication throughout the organization. The tendency was that you have a plan but not updated with changes and activities occurring. The concern from some respondents is that CURA,
because it is linked to COSO, which is focused on financial risk, which means it’s focused on financial reporting. In the respondent’s own words:

“We are not in a position where risk is treated equally/ equally focused from a strategic perspective rather than leanings towards strategic risk. Financial risk should get the same emphasis as supply chain, human resources, operations, all geared towards strategic purposes.”

There is currently no separate budget for ERM since the organization believes that risk management is part and parcel of proper management, therefore its costs are found within the various departments. If management is about risk management, then one can say that the cost of risk management is built into the management budget. But one anticipates that with the creation of the ERM position and the IT infrastructure, the organisation is heading towards having dedicated human, technological and financial resources for ERM.

6.5 CHALLENGES IN ENTERPRISE RISK MANAGEMENT IMPLEMENTATION

When discussing the challenges encountered by businesses in trying to implement ERM, one of respondents stated the following:

“Challenge is when risk management is not taken seriously in the institution due to the lack of awareness by management on the importance of ERM. Although you may have a risk management function, but it is not linked to risk, for example, current thinking at the moment is that when you talk of strategy, you must say something about risk. There is a perception, that it is something that is done by somebody in other areas. There may be an inability to sell risk management to a certain level. We need a resource that will engage management and with the ability to think independently.”

“COSO is for compliance, we get audited on it, it solves nothing, we report on COSO. Organizations don’t fail at strategic setting but at execution and therefore need a solution that will go beyond identifications of risk to finding ways to mitigate risk. You may identify risk, but that is not the end. Risk management should improve meeting of strategic objectives. That are many organizations that have risk management which are required by PFMA and other legislation and probably go
through the same PWC session, but one sees time and time again how the fail, particularly in the public sector.”

“Maybe the maturity of the organization limits the levels to which it can rise to a certain level in terms of its ERM competencies. We have also not been influenced much from the outside (even from our funders) pressures of saying elevate risk management to a certain level. This may have contributed to it not reaching the heights it should.”

There was a concern that risk committee does not meet as often as it should meet, due to the organisation being short staffed and risk committee members being executive members. When the meetings occur, they tend to be informal, with the purpose of reviewing risk management and how far the organisation has progressed. Besides the quarterly performance review which is taken to include risk inherent in unit performance, the risk committee does not meet.

6.6 CONCLUSION

The empirical results of the research were presented in this chapter. The information provided in the research has brought to light challenges and issues facing the ELIDZ in its implementation of ERM. It gives one comfort to note that ERM is currently utilized, however, enhancements can be made to realise its full benefit for the organization.
CHAPTER 7

DISCUSSION, RECOMMENDATIONS AND CONCLUSIONS

7.1 INTRODUCTION

After presenting the research results in the previous chapter, the implications of these results are now discussed in the light of the literature reviewed in chapters 2 – 4 of this research. Research limitations are identified and future research areas are also discussed in this chapter. Barton, Shenkir and Walker (2002) posit that value is maximized when strategy and objectives are set by the decision-makers to strike the best balance between growth and return goals, and the related risks, and allocate resources in the most efficient and effective manner whilst pursuing the organization’s objectives. The goal is “to create, protect, and enhance shareholder value by managing uncertainties that could influence the achievement of organizational objectives” (Barton et al. 2001: 2). This treatise emphasizes the importance of ERM and how it proves to be a useful tool to management in decision making and the achievement of the organization’s strategic objectives.

The literature advocates that company’s success or failure is judged based on its strategic objectives and the quality of a strategy and its execution are seen by investors as central to an organization’s success. ERM not only fulfils King III requirements of corporate governance, but also is the foundation to meticulous strategy building in organizations of all sizes. Effectively integrated with strategy-setting and performance management, risk management invigorates opportunity-seeking behaviour by helping directors and managers develop the confidence that they truly understand the risks inherent in the organization’s strategy and have the capabilities in place to manage and monitor those risks. Risk management is flawed when risks are evaluated after the strategy is formulated. The result could be strategic objectives that are unrealistic and risk management that is simply an appendage to performance management.

7.2 SUMMARY
Chapter 1 highlighted the purpose of the study and its importance to the workplace and contribution to the body of knowledge.

In Chapter 2, information on The East London IDZ as an Industrial Development Zone in South Africa was supplied. The business units within the ELIDZ were discussed, together with the importance of IDZs to the South African economy and specifically the ELIDZ to Eastern Cape was discussed.

Chapter 3 focused on risk and risk management and its importance in business. The chapter introduced the reader to the concept of risk, looked at various definitions, and discussing how the term has changed over time. A description of the sources and areas of risk in the business environment is also highlighted. The management of risk is then discussed, and the origin of this term is investigated and the limitations of the traditional risk management exposed.

Chapter 4 outlined the definition of ERM and its role in strategic setting and execution.

In chapter 5 a discussion on the research methodology of the study was supplied. Other aspects such as the research design, research methodology utilized, sampling and measuring characteristics of the research instruments were also outlined.

In chapter 6 the quantitative data was analyzed and interpreted. The researcher will now follow this up with the main findings of the study.

7.3 FINDINGS

ELIDZ is relatively young as it has been in existence for just nine years with its ERM initiative only started in 2005, which puts into perspective the current status of ERM within the organization. The lack of pressure in the environment has also led to ERM maturing slower that desired. The interview results have suggested that ERM started with organisational survival in mind but ended up being a compliance activity.

The organization’s unstructured and informal approach to ERM could put the strategic objectives at risk. The current approach is not systematic and not detailed in a plan, which
could result in ERM not being taken seriously and make it difficult to measure its value to the organization. It will be a challenge to get commitment from those outside the ERM function to focus on something that is perceived as just another add-on to the primary duties. As the adage goes, “if you fail to plan, you plan to fail”. If there is no vision of the “goal state” of ERM, it will always be playing catch-up to other developments within the business and not a competitive tool that informs the organization’s strategic decision-making.

The organization has a collective risk assessment based on the risk framework. Environmental scanning, which forms part of the strategic planning, highlights the organization’s strategic and operational risks. The annual performance plan and annual operational plan influence the management plan, which comes from the strategic planning which informs operational planning. Business unit managers being closer to where risks occur, carry immense responsibility in the organisation’s ERM initiative. They are responsible for aligning their risk priorities and strategies with the organizational policies, standards and procedures; identifying, measuring and evaluating risks relevant to business unit objectives; assign risk management responsibilities and accountabilities to individuals in the business units and report the overall quality of risk responses and controls. It was acknowledged that guidance on how they can carry out their duties effectively would be helpful to them. Emergent risks are supposed to be discussed at a quarterly meeting, but due other commitments, the risk committee is not always able to meet.

ERM is under resourced as there are no dedicated ERM financial and human resources, despite the policy clearly setting out the key responsibilities of a Chief Risk Officer. The approach of having no individual fully responsible for ERM may have been valid when the organization was smaller, but based on the growth of the enterprise, ERM status ought to be elevated to strategic level and not remain only in the operational realm. It is also unclear whether the current risk committee chairperson’s role is that of driving the ERM initiative or is it to only chair the meetings. This lack of clarity in leadership may be a contributing factor to the continued ERM underdevelopment within the organization. The recent investment in ERM software and plans to recruit an Enterprise Risk Manager are encouraging signs that ERM is receiving increased attention.

There was agreement amongst the interviewees that ERM instils confidence in stakeholders in how the organization is managed. It also assists in the identification and
removal of any impediment to the organisation’s achievement of its strategic objectives. Even with cross-functional discussion in place, the organisation still leans on being acutely financial risk focused and not treating all risks equally from a strategic perspective.

The literature advocates that ERM has the potential to assist managers realize an organization’s performance and profitability targets and avert loss of resources. It also facilitates effective reporting and compliance with laws and regulation whilst avoiding potential damage to the organization’s reputation and associated consequences. COSO (2004:1) states that ERM “helps an entity get to where it wants to go and avoid pitfalls and surprises along the way”. ERM provides reasonable assurance that if implemented effectively, an organization’s strategic; operations; reporting and compliance objectives are achieved. As Borge (2001) asserted, it facilitates the taking of deliberate actions to shift odds in the organization’s favour by increasing the odds of favourable outcomes and decreasing the odds of undesirable ones.

Hence, this study contributes to the literature by heightening our understanding of how ERM effectively can be used towards the achievement of strategic objectives. A company’s success or failure is judged based on its strategic objectives and literature indicates that the quality of a strategy and its execution are seen by investors as central to an organization’s success. All business decisions are made in an environment replete with uncertainty, a condition that results from an inability to foresee future events. Accordingly, this study provides insights on how uncertainty can be effectively managed and improves the enterprise’s strategic decision making.
7.4 RECOMMENDATIONS AND MOTIVATION OF THE RESEARCH

7.4.1 Developing a business case for ERM

The business case for ERM gives the monetary justification for an ERM programme. On the whole, a perception that risk management is a compliance function and not a value-adding function, still prevails and this remains one of the challenges to effective implementation. The ELIDZ can develop a business case as follows:

- Perform a cost-benefit investigation for ERM, together with detailed cost approximation for the ERM programme and likely benefits. The benefits may encompass policy and regulatory observance, enhanced risk reporting, decline in losses and occurrences, and superior debt rating and shareholder value.
- Develop ERM applications that demonstrate direct benefits to business units such as early detecting and resolution of operational issues.
- Examine the achieved benefits from ERM programme against the anticipated expected benefits. These may include those benefits which are difficult to quantify (for example improved awareness of risk) but even these should be included in whole valuation.

7.4.2 Developing an ERM roadmap

One of the most vital factors in the successful implementation of an ERM programme is the development of a lucid long-term plan with a clear vision of the “desired state” ERM at ELIDZ, as well as explicit signposts, dates, and responsibilities. It must also incorporate the required resources, change management plans, and performance indicators a successful ERM programme. ELIDZ should:

- Establish an ERM roadmap and ensure consensus among senior executives, and business unit managers.
- Perform ERM performance reviews to measure improvement against milestones, on a quarterly basis.
- Perform yearly checks on the ERM roadmap to ensure that it continues to be appropriate.
7.4.3 **Focus on the “low hanging fruits”**

In its ERM execution plan, the ELIDZ should focus initiative with potential instant and material value relative to expenditure and effort. Commonly, there’s a disconnect between how different functions inside an enterprise make separate procurement decisions in risk management, together with the acquisition of risk methodology from consultants, risk models from technology companies, policies from insurances brokers. Often, the left hand does not know what the right hand is doing. A connection in internal risk processes and external risk transfer can lead to effective and efficient achievement of objectives at reduced cost. A thriving execution of ERM necessitates poise between rapid successes and long-term initiatives. As such, ELIDZ ought to:

- Start with identification of “low hanging fruits” in the beginning phases of ERM, and the allocation of suitable resources to execute such initiatives.
- Record and share these early successes to preserve impetus for the ERM initiative, in addition to demonstrating the tangible benefits that an organization can obtain from enhanced ERM practices.

7.4.4 **Conduct an ERM training programme**

Training will provide the requisite skills and heighten the awareness of risk management within the organization. It also provides the needed guidance to unit managers in carrying out their duties. This can be achieved as follows:

- Register managers in training programmes offered by the expert institutions.
- Provide bespoke internal instruction for members of the board and senior executives which have a practical application component.

7.5 **LIMITATIONS OF THE STUDY**

Firstly, a possible limitation of this study was the sensitivity of respondents to disseminate information about the ELIDZ as this may affect decisions by investors to operate in the industrial development zone.

Secondly, when searching for information, one of the first problems experienced was getting too much information. Thereafter, selecting appropriate, accurate information is
crucial and filtering out the “unnecessary” information is done; however, it is easy to overlook pertinent information.

Thirdly, due to the organisation being in existence for a relatively short period, it was a challenge to investigate on the level of development and maturity of ERM within the organisation.

7.6 OPPORTUNITIES FOR FURTHER RESEARCH

This research is not a full representation of all Industrial Development Zones in general as the focus of the study was only on the East London IDZ. Therefore, it can be expected that the results may differ on a broader study depending on the maturity of ERM initiatives at other IDZs. Research could be carried out at other Industrial Development Zones and compared with those obtained in East London. The research can be conducted to ascertain why various organizations which claim to have ERM, particularly in the public sector, still fail to achieve their objectives. This seems to occur despite the organizations Risk Management effort following the COSO ERM framework.

In summary, the challenge for further research is to provide insights that are relevant and useful for ERM practitioners to research to have more of an impact on practice.
REFERENCES


Lategan, N. 2006. Emperismm: An Enterprise information risk management model


ADDENDUM A

FORMAL PERMISSION FROM THE CEO OF EAST LONDON INDUSTRIAL DEVELOPMENT ZONE

Dear Sir/Madam,

I am currently studying towards a Master’s degree in Business Administration (MBA) at the Nelson Mandela Metropolitan University (NMMU) in Port Elizabeth.

In order to meet the requirements of this qualification, I am undertaking a dissertation study to and “Investigating the utilization of Enterprise Risk Management at East London Development Zone”. You have experience that would be of value to me and we would like to know your views to get it right.

We have been in consultation with Mr Thando Gwintsa of the ELIDZ, and hereby request access to interview other business unit managers within the IDZ to get their perspectives. We request for 75 minutes at most of the respective managers' time during the month of October 2011.

We are aware of the need to treat our findings with utmost confidentiality. No source, individual, will be identified or comment attributed without the express permission of the originator.

One of our intended outputs will be a report summarizing our findings and we will be sending a copy of this to each of the participants in the study.

Thank you for assistance

Yours sincerely

Luvo Tutani
Researcher

Korien Sander
Supervisor
ADDENDUM B

SEMI-STRUCTURED INTERVIEW QUESTIONS

1. Connectivity between risk management and key processes.
   a. How is connectivity of risk management to key management processes achieved?
   b. What processes do you have in place for anticipating extreme risk scenarios that could derail execution of the strategy?
   c. How do you avoid unacceptable risk taking or unnecessary risk-averse activity?
   d. Poor alignment of risk responses with strategy and enterprise performance management?

2. Has management integrated strategic plans, risk management and performance management effectively? What steps are taken to:
   a. Proactively identify, source and mitigate the risks inherent in the company’s strategy?
   b. Communicate and deploy the strategy, including risk responses, consistently across the enterprise?
   c. Provide needed transparency into the enterprise’s operations, including the management of its key risks?

3. What do we do if critical assumptions underlying our strategy are no longer valid?

4. How would we know our assumptions are no longer valid?

5. Is there a common understanding between management and the board as to the critical assumptions underlying the enterprise’s strategy?

6. Is there a process for challenging underlying assumptions?

7. Are key factors that provide insight regarding the continued validity of the key underlying assumptions monitored over time?