

# Enterprise Risk Management in the Business Operations

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## ABSTRACT

Companies are experiencing increased risks as they grow in size, which raises the need to develop effective risk management programs. Acknowledging the business complexity makes it easy to develop strategic risk response processes to ensure that an organization is ready for impending risks. Enterprise Risk Management (ERM) is an effective way for an organization to handle complex risks which might interfere with the business operations. The main driver is a risk analysis from a holistic approach that surveys risks from different departments and different organization sectors. An entity has the advantage of exploring the risk from a larger perspective simplifying the risk management processes. In such a situation, an organization is in a position to establish risk management processes to restore business efficiency and create a competitive advantage. ERM risk management process is an opportunity for companies to analyze potential risk and developing realistic risk response procedures. As a result, it is easy to ensure business efficiency and identify the business drivers to maintain a competitive advantage.

## ERM Implementation Process

One of the reasons organizations should implement ERM in business operations is establishing a strong framework to respond to complex risks that might interfere with business efficiency. The risk management framework identifies how an organization can deal with increasing sources of risk interfering with business efficiency. An organization is in a position to increase risk-taking capabilities by identifying weaknesses in business development. ERM risk management process ensures that an organization can analyze the risks from a holistic perspective. Research by Bohnert et al. (2019) indicated that the deployment of ERM risk management framework helps an organization understand the risks from a holistic purpose. For example, it is easy to develop an overall risk profile and manage complex sources of risk that may interfere with business efficiency. The ERM implementation process is an opportunity for an entity to reduce risk factors that might affect the business progress.

Implementing ERM in business operation is also an avenue for businesses to exploit the available opportunities in the competitive markets. ERM ensures that an organization has adequate resources to explore the market and create a competitive advantage. Indeed, Brustbauer (2016) indicated that small and medium-sized enterprises (SMEs) could utilize the ERM program to identify the market opportunities by adapting to the changing business environment. Organizations can understand the

market dynamics and focus on business development to create a competitive advantage. The strategic advantage is an opportunity for businesses to achieve the anticipated goals and objectives of developing quality service delivery. ERM gives organizations the confidence to explore the market due to a comprehensive risk management strategy. As a result, it is easy to maintain a competitive advantage and explore opportunities in the market due to the confidence in handling complex risks.

ERM Framework is also a baseline to determine the success and the health of an organization when it comes to engaging in business operations. ERM framework gives companies the advantage of exploding the health in the business operations since an entity can prepare for unforeseen vulnerabilities. The utilization of risk assessment protocol indicates the capabilities of an entity creating a competitive advantage. The risk assessment also indicates how an entity can deal with potential risk sources, hence making it healthy to engage in the competitive market. The effective distribution of resources due to the ERM implementation process promotes healthy business operations and increases the opportunities to engage in the dynamic market forces. For example, Yilmaz and Flouris (2017) affirmed that ERM is the foundation to create a positive organizational culture that can determine how an entity deals with different sources of risk. It increases the efficiency of analyzing the risk appetite, the risk culture and

establishing a positive business environment to deal with unforeseen risks. Hence, ERM is important in the business operation due to creating an opportunity to analyze the health of an entity when it comes to risk management.

### **Challenges and Solutions of Implementing ERM in Business**

One of the immediate challenges related to the ERM implementation process is the misconception related to the risk management process. Most organizations believe that ERM can help solve all the problems in business operations. As a result, companies may be overconfident while adopting the ERM framework, but the failure to solve some problems may be a discouraging factor. In this case, the misconception is that the ERM framework can solve all risks, and organizations may fail to put in the needed energy to respond to the risks. Additionally, some companies may underrate the ERM framework in the business operations, hence withdrawing the opportunity to support the business development. It limits the opportunities for the business to exploit ERM to the maximum.

The solution to the challenges is developing a comprehensive organizational culture acknowledging the importance of the ERM framework. The process can focus on training the employees to ensure they understand that they have to carry out detailed risk assessments to ensure business efficiency. It is important to ensure that employees have adequate skills and knowledge to incorporate ERM in business operations. The analysis helps eliminate the misconception that an organization can attain effective risk management without putting in efforts. Saeidi et al. (2020) indicated that training programs could play an important role in increasing skills among employees since they understand the roles and responsibilities in promoting the company's ERM system.

The lack of effective corporate culture can also be a barrier affecting efficiency in the ERM implementation process. Corporate culture plays an important role in determining the willingness of an organization to incorporate the ERM framework in business operations. For example, according to Fraser and Simkins (2016), the failure of collaborative teamwork among the senior management, staff, and board of directors can be a limiting factor towards the effective ERM implementation process. The leadership may not support the ERM implementation, which can interfere with business efficiency. In the

long run, an organization may not have an effective risk management framework which might interfere with the business development. The failure to develop effective corporate culture is a key driver towards failed ERM implementation process in the business operations.

Developing acceptable corporate culture can be a response strategy to ensure an effective ERM implementation process. One of the strategies is creating a collaborative working environment by ensuring that the leaders agree with the ERM implementation process. Leaders assume important responsibilities in creating a positive culture to run the business operations. The effective leadership process is an opportunity to improve the corporate culture and increase organizational performance (Puni & Bosco, 2016). In this case, an entity can develop an effective training program to ensure that leaders have adequate skills and knowledge to foster a positive corporate culture. Leaders can help bring the employees on board to understand the importance of ERM in the risk management processes. Additionally, it will be easy to attain a competitive advantage by developing positive interactions at the workplace.

The failure to develop a comprehensive time frame to implement ERM in the business operations is also a barrier towards an effective ERM implementation process. An organization needs to develop a time frame to identify related probabilities of different risks. Amazingly, only a few organizations adhere to the time frame for the ERM implementation process (Fraser & Simkins, 2016). The organization may fail to develop a comprehensive plan on the time frame of different risk sources and the impact on the business operations. It increases the challenges of developing the probability of an incident occurring in the company. As a result, in case of a threat or a risk in the business, the organization is not in a position to respond to the risk due to a lack of a comprehensive framework. It also makes it challenging to develop a risk response program to deal with unforeseen threats.

The best response strategy to the challenge is establishing a comprehensive framework that analyses risks from a holistic perspective. At this juncture, an entity has an advantageous position to pinpoint potential sources of failure related to the business development. The development of a timeframe to deal with unforeseen threats increases the success of setting aside adequate resources to respond to a risk source. For example, an organization can always anticipate a cybersecurity-

related risk due to technological advancement. In such a case, an entity should set aside adequate resources to respond to cybersecurity-related risks at any particular time. The process helps develop a timeframe to deal with the complex sources of risk that need immediate attention.

### **Effective ERM Engagement Process**

An effective ERM implementation process should create a strategic way to engage the organization in the risk management process. It is important to create a collaborative working environment to consider the key stakeholders in risk management. An effective ERM analysis should consider the key business drivers and establish a neutral ground to focus on the risk management process. Shad et al. (2019) indicated that ERM is a comprehensive risk management process that analyses the risk from a holistic approach to increase business sustainability. It raises the need for an organization to establish the relationship in the business progress and available sources of risk. Risk management has to conceptualize all potential sources of risk and how they might affect the business's efficiency.

Therefore, a successful ERM management process should analyze the business from a holistic approach and integrate the key business operations. It is important to develop a strong organizational culture and corporate culture aware of the importance of ensuring effective risk management. The process can bring all the key players on board and create a comprehensive working environment. Leaders are in a position to lead the employees as they focus on risk management. Consequently, it is easy to explore different sources of risk and develop realistic risk response programs. For example, an entity can easily be categorized and prioritize risk depending on severity. The framework increases the success of ERM implementation and promotes business success.

### **Akzo Nobel N.V. ERM Implementation**

Akzo Nobel N.V. Is one of the companies that have successfully incorporated ERM in the business operation by developing a competitive advantage to respond to the customers' needs. The company has focused on decentralized and diverse business operations, with the results in need to adopt ERM strategies. The diversity in the business operation raises the need to incorporate ERM strategies to facilitate an effective decision-making process. The company relies on drivers, including

changing risk arena, corporate governance, shareholder and stakeholder engagement, and dynamic and complex business environment. The business approach raises the need to develop effective risk management processes. The company has successfully gained a competitive market position, making it possible to secure a position in the 500 fortune companies. The company relies on the ERM strategies to understand the market dynamics and establish a neutral ground to respond to risks related to the business operations. Developing a comprehensive risk assessment process aids in identifying potential sources of risk and recommend alternatives to restore the business efficiency. As a result, the company is in a position to understand the market dynamics and respond to customer needs.

In conclusion, Businesses need to incorporate ERM framework to facilitate effective decision-making process to respond to complex the risk related to the business operations. Companies should establish a neutral ground to roll out the ERM framework to create a competitive advantage by responding to the customers' needs. Organizations have to understand the market diversity and incorporate a realistic risk response framework to maintain a competitive advantage. For example, Akzo Nobel N.V. is one of the companies that have successfully Incorporated ERM to understand the market dynamics. Exploring diverse and complex businesses makes it important for the company to roll ERM and respond to the business needs. Companies should understand the ERM complexity to establish a neutral ground to facilitate business advancement.

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