



## RISK MANAGEMENT AND ENTERPRISE RISK MANAGEMENT IN NIGERIA: IMPLICATIONS FOR NATIONAL DEVELOPMENT AND GROWTH

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### Abstract

This paper examines the implications of risk management and Enterprise Risk Management (ERM) on national development and growth in Nigeria. The paper adopts an historical research methodology in order to establish facts and arrive at conclusions. The findings revealed that enterprise risk management is an essential tool in tackling uncertainty associated with businesses in Nigeria. The benefits and advantages of implementing enterprise risk management (ERM) have direct positive implication on National Development of Nigeria in different ways. When resources, time, assets income, property and personnel of organizations are saved it help to improve the efficiency and enhance productivity of such organization thereby accelerating the rate of national development of the Nigerian economy. It was concluded that the understanding of ERM and International Standard Organisation Risk Management Model are necessary to facilitate widely adoption and implementation of ERM in business enterprises in Nigeria for sustained economic development. Recommendations were that there is need to adopt a holistic approach to managing risk by individuals, communities, organizations, government as well as international communities. ERM should start in the management boardroom in order to positively influence the way companies thought about risk, and planned for eventualities. It is also imperative that organisations must integrate risk management into the organisation's philosophy, practices, and business plans; rather than being viewed or practiced as a separate programme. However, the international community should offer expertise, facilitate international policy coordination, and pool resources when risks exceed national capacity or cross national and generational boundaries. These systems have mutual interactions, often complementing and sometimes substituting for each other's risk management functions.

**Keywords** - Risk Management, Enterprise Risk Management, Economic Development, Economic Growth, Nigeria

### Introduction

The importance of risk management is of immense interest the world over. Individuals and business organizations have always sought for mediums of managing their risk challenges. While some individuals view their risk as a condition that can be avoided, others usually view theirs as part of a financial planning process that encompasses broader matters such as capital accumulation, retirement planning and estate planning. Usually, risk management is carried out informally without explicitly following any risk management process. In small organizations, risk management may not be a dedicated function, but one of the many tasks carried out by the owner or senior manager. However, in larger organizations, the risk management function is conducted as part of a formalized risk management program.

According to [1] risk management involves the efforts of individuals or organizations to effectively and efficiently access, control and finance risk in order to minimize the adverse effects of losses or missed opportunities. Enterprise Risk Management (ERM) is a body of knowledge – concepts, methods and techniques – that enables a firm to understand, measure and manage its overall risk so as to maximise the firm's value to shareholders and policy holders. Most existing literature on ERM focuses on specific concepts, methods and techniques for measuring particular risks and constructing an aggregate risk distribution for the firm as a whole [2]. Important issues include the selection of appropriate risk measures, techniques for measuring the distribution of particular risks, alternative ways of representing dependencies among different risks, methods of producing an aggregate measure of firm-wide risk and how to allocate capital among alternative sources of risk within a firm.

Every business organization is exposed to one form of risk or the other. According to [3], risk is defined as a condition in which there is a possibility of an adverse deviation from a desired outcome that is expected or hoped for. The adverse deviation from a desired outcome leads to uncertainty. This refers to the doubt in human mind concerning the future due to inability to predict the future. Risk management therefore becomes an essential tool in tackling uncertainty associated with business. Firms have always practice some forms of risk management, implicitly or explicitly [4]. In the past, risk management was rarely undertaken in a systematic and integrated manner across the firm. The holistic approach to managing organisation's risks differs substantially from historical practice, as typical firm's tends to aggregate risk (holistic risk management), rather than isolating them (traditional risk management) [5].

Traditional risk management views risk as a series of single elements, not related to others, where individual risk are categorized and managed separately [6]. The major deficiency of the traditional approach to risk management is the narrow focus on the threats, rather than focusing on both opportunities and threats. The holistic approach, often referred to as enterprise risk management (ERM), engages risks across a variety of levels in the organization; thus focusing on both opportunity and threat. Reference [7] defines ERM as an integrated framework for managing credit risk, market risk, operational risk, economic capital, and risk transfer in order to maximize firm value. Reference [8] defines Enterprise risk management (ERM) as a process of planning, organizing, leading and controlling the activities of an organization in order to minimize the effect of risk on an organizations' performance and to maximize opportunities to enhance the achievement of the organization's corporate objectives. This involves a risk management system which expands the process to include not just risk associated with accidental losses, but also financial, strategic, hazard and operating risks. Enterprise risk management is the holistic functional risks that are associated with all business entity in course of carrying out their business activities. Enterprise risk management is a process, affected by an entity board of directors 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 the entity objectives.

Better implementation of ERM policy enhances the performance of organizations and national development as a whole. This is because risk management is a key part of growing the company's revenue and future profitability. Risk management links to conformance which leads to performance. Performance leads to sustainable profitability and growth. Hence, there is a direct linkage between risk management and profitability that leads to national development [8]. A business entities are expose to such risks as business risks, operating risks, strategic risks, political and legal/regulatory risks, economic risks, interest rate risks, credit risks, environmental risks, production risks, project risks, etc. These have affected the achievement of organizational objectives such as maximization of profit or shareholders wealth or growth. The business risk that is inherent to these organization's exposes them to injury or loss. These risks threaten the realization of the entity's objectives and in more serious cases, the organization's ongoing existence. In many organizations in Nigeria, due to poor ERM practices, there is lack of safety standards; where there are errors in equipment setting leading to poor quality in manufactured products and where there is failure to check product quality on a timely basis [9]. The inability of organizations in Nigeria to manage their risk and capital on all valuable investment opportunities make it impossible for them to meet up with their obligation to shareholders for the development and growth of the economy. Therefore, it is against this background that this paper seeks to determine the implications of risk management and enterprise risk management on national development and growth in Nigeria.

The main objective of this paper is to examine the implications of risk management and enterprise risk management on national development and growth in Nigeria. Other specific objectives are; to examine how risk management can be a powerful instrument for development of Nigerian economy; to examine the importance of risk management to Nigerian economy; to identify factors that influence firms to adopt ERM; to examine the International Organisation Standard (ISO) Risk Management Model; and to highlight the benefits of ERM to business enterprises and implications to national

economic development. The remainder of the study is presented in four sections which include; literature review, methodology, conclusion and recommendation.

## Literature Review

### *Conceptual Review*

Reference [10] defines ERM as a discipline by which an organization in any industry assesses, controls, exploits, finances, and monitors risks from all sources for the purposes of increasing the organisation's short-term and long-term value to its stakeholders. Reference [11] also defines ERM as a process, affected by an entity's board of directors, management and other personnel, applied in strategy-setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives. Similarly, [12] defines ERM as a decision-making discipline that addresses variation in company goals. Likewise, [13] emphasized that ERM is concerned about a holistic, company-wide approach in managing risks, and centralized the information according to risk exposures. ERM focuses on adopting a systematic and consistent approach in the form of a paradigm for managing the portfolio risks of firms operating in the country.

ERM supposed to reduce the probability of financial distress and allow firms to continue their investment strategies expecting smoother, steadier earnings. Reference [14] asserted that ERM has emerged as a new paradigm for managing the portfolio of risks that face organizations and policy makers continue to focus on mechanisms to improve corporate governance and risk management. Reference [15] in a related empirical study supported the view that reducing earnings volatility in the presence of a convex income tax schedule could also provide a motivation for risk management activities. The duo focused on the costs associated with financial distress and costly external financing, taxes and managerial risk aversion. According to them risk management in the traditional sense usually refers to offsetting known risks by either purchasing insurance or engaging in financial engineering using such derivatives as warrants bonuses etc.

The COSO committee break the definition of ERM into the following:- ERM as a process, it is ongoing and following through the entity; ERM is affected by people at every level of an organization; ERM is applied a strategy setting; ERM is applied across the enterprise at every level and every unit and include entity level portfolio view of risk; ERM is designed to identify potential events that in the event of their occurrence will attract the entity and manage the risk within it risk appetite; ERM is able to provide reasonable assurance to the management and board of directors of an entity.

ERM is generated toward objective in one or more separate but overlapping categories. It is worthy of note that risk management does not eliminate risk. But manages risks associated with firms operations thereby maximizes opportunities and minimizes threats, several processes and frame works have been developed in recent years to promote ERM in both developed and developing economies. The COSO definition also outlines the eight interrelated components of enterprise risk management. These disciplines are derived from the way management run an enterprise and are integrated with the management process. Some of these components are: Internal Environment: This encompasses the tone of an organization and it set the basis for how risk is viewed and addressed by an organization's people, including risk management philosophy and risk appetite, integrity and ethical values, and the environment in which they operate. Objective Setting: Objectives must exist before management can identify potential events.

### *How risk management can be a powerful instrument for development of Nigerian economy*

The past 25 years have witnessed unprecedented changes around the world—many of them for the better. Across the country, many countries have embarked on a path of international integration, economic reform, technological modernization, and democratic participation. Although challenges and inequalities remain, economies that had been stagnant for decades are growing, people whose families had suffered deprivation for generations are escaping poverty, and hundreds of millions are enjoying the benefits of improved living standards and scientific and cultural sharing across nations.

As the world changes, a host of opportunities arise constantly. With them, however, appear old and new risks, from the possibility of job loss and disease to the potential for social unrest and environmental damage. If ignored, these risks can turn into crises that reverse hard-won gains and endanger the social and economic reforms that produced these gains. The solution is not to reject change in order to avoid risk but to prepare for the opportunities and risks that change entails. Managing risks responsibly and effectively has the potential to bring about security and a means of progress for

people in Nigeria and beyond. The World Development Report (WDR) 2014 focuses on the process of risk management, addressing these questions: why is risk management important for development, how should it be conducted, what obstacles prevent people and societies from conducting it effectively, and how can these obstacles be overcome? The WDR 2014's value added resides in its emphasis on managing risks in a proactive, systematic, and integrated way. These characteristics underscore the importance of forward-looking planning and preparation in a context of uncertainty. They also highlight the necessity to address all relevant risks jointly, using all available tools and institutions. For instance, international collaboration for information and intelligence sharing is a proactive risk management tool to curb the activities of insurgents in Nigeria.

From a policy maker's perspective, a proactive, systematic, and integrated approach to managing risks involves striking a proper balance between the contribution from the state and the contribution from individuals, civil society, and the private sector, with the goal of ensuring that these contributions are coordinated and complementary. Reference [16] argues that risk management can be a powerful instrument for development—not only by building people's resilience and thus reducing the effects of adverse events but also by allowing them to take advantage of opportunities for improvement. Reference [16] is not devoted to a detailed analysis of specific risks. Its framework, however, can be implemented to address particular, relevant sets of risks in given regions and countries. Focusing on the process of risk management allows [16] to consider the synergies, trade-offs, and priorities involved in addressing different risks in different contexts, with the single motivation of boosting development.

### ***Risk is a burden but also an opportunity for economic growth***

Why worry about risk? In recent years, a multitude of crises have disrupted the world economy and have had substantial negative consequences on development. Because of the 2008–09 global financial crisis, most economies around the world including Nigeria experienced sharp declines in growth rates, with ensuing loss of income and employment and setbacks in efforts to reduce poverty. When food prices spiked in 2008, riots broke out in more than a dozen countries in Africa and Asia, reflecting people's discontent and insecurity and causing widespread political unrest. The 2004 Asian tsunami, the 2010 earthquake in Haiti, and the 2011 multiple hazard disaster in northeastern Japan, insurgency in Nigeria as well as the present recession experience in Nigeria—to name but a few—have left a trail of fatalities and economic losses that exemplify the increased frequency and intensity of natural disasters. Concerns about the impact of climate change worldwide are growing, and so are fears about the spreading of deadly contagious diseases across borders. Indeed, the major economic crises and disasters that have occurred in recent years and those that may occur in the future underscore how vulnerable people, communities, and countries are to systemic risks, especially in developing nations. Idiosyncratic risks, which are specific to individuals or households, are no less important for people's welfare.

Losing a job or not finding one because of inadequate skills, falling victim to disease or crime, or suffering a family breakup from financial strain or forced migration can be overwhelming, particularly for vulnerable families and individuals. Households in Nigeria whose members experienced serious illness, for example, were forced to cut their consumption and continued to be negatively affected in later years. Health costs from high levels of crime and violence negatively affect gross domestic product (GDP), without even considering the impact of crime on lost output stemming from reduced investment and labor participation. Loss of employment not only has lowered income and consumption but has also reduced people's ability to find new work, worsened social cohesion, and in some cases increased domestic violence. Whether adverse consequences come from systemic or idiosyncratic risks, they may destroy lives, assets, trust, and social stability. And it is often the poor who are hit the hardest. Despite impressive progress in reducing poverty in the past three decades, a substantial proportion of people in developing countries remain poor and are vulnerable to falling into deeper poverty when they are struck by negative shocks. The mortality rate from illness and injury for adults are higher for women in low-income countries than in high-income countries, while the rate for children under age five is almost twenty times higher. Mounting evidence shows that adverse shocks—above all, health and weather shocks and economic crises—play a major role in pushing households below the poverty line and keeping them there. Moreover, realizing that a negative shock can push them into destitution, bankruptcy, or crisis, poor people may stick with technologies and livelihoods that appear relatively safe but are also stagnant [16].

### ***Following risk management process for sustainable development in Nigeria***

- 1) Taking on risks is necessary to pursue opportunities for development. The risk of inaction may well be the worst option of all.



- 2) To confront risk successfully, it is essential to shift from unplanned and ad hoc responses when crises occur to proactive, systematic, and integrated risk management.
- 3) Identifying risks is not enough: the trade-offs and obstacles to risk management must also be identified, prioritized, and addressed through private and public action.
- 4) For risks beyond the means of individuals to handle alone, risk management requires shared action and responsibility at different levels of society, from the household to the international community.
- 5) Governments have a critical role in managing systemic risks, providing an enabling environment for shared action and responsibility, and channeling direct support to vulnerable people.

### ***Importance of risk management to Nigerian economy***

The importance of risk management to Nigerian economy cannot be overemphasized. The purpose of risk management is to minimize the adverse effects of the occurrence of risk. Its importance to Nigerian economy according to [17] is discussed below.

### **Improving the profit earnings in the economy**

Risk management helps to prevent and reduce accidental economic losses via the application of risk management tools with physical and financial risk control methods such as avoidance, retention, transfer, etc. However, the method applied depends on the operating business environment and the goals. Risk management makes it possible for firms to improve their profit earnings which translate to more money supply in the economy.

### **Effective risk management reduces anxiety and stress**

Managers of firms within the economy are able to assume speculative risk because the pure risk components have been effectively taken care of. For instance, if a firm has adequately provided for industrial injuries, employees would be more willing to exploit new markets and take adventurous risk on the company's behalf. The exploitation of new markets by the employees leads to increase productivity and improvement of corporate image thereby reducing the stress level of managers.

### **Increasing the production of goods and services in the economy**

Effective risk management adopts both physical and financial risk control techniques aimed at minimizing adverse effect of contingencies and ensures that the asset-earning capacity of the organization are not threatened. This provides a good environment for organizations to go into large scale productions of goods to satisfy the needs of the society.

### **Improve the quality of decisions**

Risk management makes managers aware of the associated pure risks in their speculative ventures. For instance, a firm which is considering the enlargement of her customer base by opening a sales branch office in the far north, must reach a wrong decision if it ignored the risk of haulage. Also, in the Nigeria, when the president appoints unqualified persons to head each sector of the economy as ministers, he is negating the principle of risk management because these ministers would not make quality decisions due to incompetency. Effective risk management improves the quality of decisions that would minimize adverse effect of risk exposures in the economy.

### **Enhances pre-loss and post loss management**

Risk management through preparations makes it possible to continue operations before and after a loss. This is evidence when the government adopts different proactive strategies to avert future occurrence of losses or contingencies. These strategies are pre-loss control techniques put in place before the losses occur. The concentration of the Nigerian economy in the oil sector alone brings the possibility of global fall in prices of oil and gas. Diversification of the economy is a risk management tool that can develop the Nigerian economy. Reactive strategies are adopted when the losses have occurred. For instance, when insurgents raid a particular community, the government agencies move the victims to internally displaced camps.

### **Providing peace of mind and satisfaction to citizens**

When citizens are aware that effective risk management policy is in place, they can be proud of their country.

### **Improving social responsibility and good public image within the economy**

When firms are socially responsible, the problems of their host communities are solved thereby helping the society to grow as well as the economy. Furthermore, effective risk management plan is highly beneficial to the individuals and families too. With good risk management, a family may be able to reduce the cost of insuring risk i.e. premium payable. By becoming risk-aware and embarking on loss reduction measures, the family improves its risk and earns a discount for good physical and moral risk hazards. Effective risk management plan can make a family to retain high risks which she ought not to. For instance, protection against accidental death by choosing an occupation with less risk, or protection against poor health by providing good food for the breadwinner and other members of the family. Also, protection against the risk of theft or damage to their property can enable a family to assume and retain higher risks. By protecting against the financial effects of catastrophic losses like death of parents, a family unit cohesion remains without disruption and the mental and physical strain for a loss would be eliminated [18]. Since organizations and families belong to the economy, to the extent that individuals and companies gain from good risk management plans, the Nigerian economy benefits. The social costs associated with business and family losses that are averted by business/individual risk reduction methods are gains to the Nigerian economy.

### **Factors influencing the level of adoption of ERM**

There are factors that influence the adoption of ERM in the organization. They include;- Adequacy of risk governance structure, Quality of organizational culture, Intensity of regulatory environment and the Size of the organization

#### **Adequacy of Risk Governance Structure**

Risk governance provides the hierarchical structure, which include the way in which the ERM rule and responsibilities are divided among individuals and groups. The organizational structure including; reporting relationship and authorities involved in ERM, the policy and procedures documents that cover ERM. According to [19] and [20] the risk governance structure of an organization is influential in the adoption of ERM as it determines how risk management will be organized in the organization. According to the Deloitte Global Risk Management Survey (2006), the size and complexity of the larger institutions make ERM more important, on the other hand, the size and complexity also make it harder to achieve an enterprise – wide view of risk.

Reference [21] suggests that larger firms are likely to engage in ERM due to their relatively high complexity. The fact that they face a wider array of risks and their institutional size which enables them to bear the administrative cost of ERM adoption therefore enhance the benefit of economy of scale in their operations, which contribute to the development of the national economy due to large scale production embark on by the organization through the adoption of ERM.

#### **Regulatory Environment**

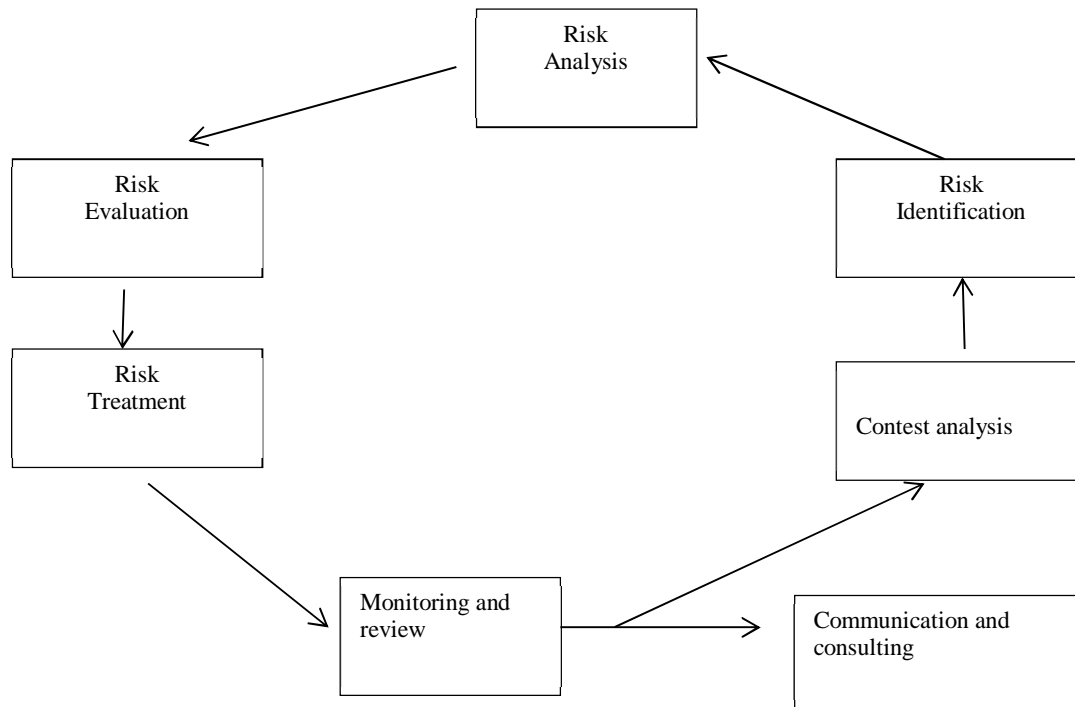
Enterprise Risk Management Survey of 2008, noted that the primary driving force behind the implementation of ERM is the regulation and regulatory complexity. The increased interagency of regulatory oversight by regulatory agencies is also acknowledged by [22] as a major external factors that has driven the trend toward ERM. Examples of the regulatory agencies are the Basel accord, SOX disclose regulation etc. It is worthy of note that when organizations operate based on compliance with laws made by regulatory authorities, it make such organization not to pay default penalties which leads to financial losses and hence enhance high profitability and contribute positively to economy development of the country.

#### **Organizational Culture**

An organizational culture centre on risk management as an essential component of enterprise risk management adoption. There is a correlation between taking culture into account and implementing ERM.

## Size of Organization

It is clear that the size of organization is one of the determinants for the implementation of ERM. When the size is large and complex it is capable of accommodating the entire process of the ERM. This facilitates the smooth operation of the organization thereby, increasing the productivity and contribute to national economic development. Risk management does not eliminate risks, but manages risk associated with firms operations thereby maximizes opportunities and minimizes threats. Several processes and framework have been developed in recent years to promote ERM in both developed and developing economics. Generally the main stages of ERM are shown below in figure one.



**Figure 1: Stages for effective risk management**

Organizations focus varies as they are subject to different types of risk. Similarly the degree of risk managers' actions varies among business enterprises, subject to corporate risk culture and risk appetite. The fundamental difference is that corporate risk culture is a chosen response while corporate risk appetite exists as a tendency independent of human choices [23]. The success of an organization depends upon the successful implementation of ERM [24] and [25]. ERM can align with the business assumptions and proactively help in overcoming the possibilities of business failures [26]. Likewise ERM reduces earning volatility, maximizes value for shareholders and promote job security and financial security in the organization [27]. Reference [28] identifies four factors which have contributed to the relative immaturity of risk management in most organizations.

- 1) Lack of executive commitment to risk management
- 2) Fragmented risk management activities
- 3) Viewing risk from historical perspective not predictive perspective
- 4) Finally, lack of alignment among corporate strategy strategic planning and risk management.

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

The ISO 31000:2009 (Risk Management – Principles and Guidelines) is developed by ISO. The ISO risk management model comprises five key activities: communication and consultation, establishing the context, risk assessment, risk treatment and monitoring and review.

## **Communication and consultation**

This is seen as an integral part of all risk management activities which should take place at all stages of the risk management process. This entails engaging framework prior risk management process; thus engaging internal and external stakeholders throughout the risk management process. The framework promotes 'consultative team approach' in order to facilitate good communication with key stakeholders, from the outset [29]. This is to ensure that those accountable for implementing the risk management process and stakeholders understand the basis in which decisions are made, and the reason why particular actions are required. Consequently, in both the planning and execution of the risk management process, it is necessary to ensure that adequate opportunity is given to all those who need to be involved to do so. The stakeholders must be kept informed of development in the understanding of risks and the measures taken to deal with them.

## **Establishing the Context**

Risk management is undertaking within the context of organization's goals in order to establish the internal and external context in which the rest of the process will take place. Here, the organization defines the internal and external parameters to be considered when managing risk. Establishing the context is about setting the boundaries around the organisation's risk appetite and risk management activities. This requires consideration of the external factors (e.g cultural, social, political and economic) and the internal factors (e.g resources, strategy and capacities).

## **Risk assessment**

This comprises the process of identifying (risk identification), analyzing (risk analysis) and evaluating (risk evaluation) risks. The first activity, i.e. risk identification, establishes the exposure of the organization to risk and uncertainty; thus generate a comprehensive list of risks which may affect the attainment of the organisation's objectives. This requires an intimate knowledge of the organization, the market, legal, social, political and cultural environment in which it operates. The second activity (risk analysis), considers possible causes, sources, likelihoods and consequences to establish the inherent risks. The result of the risk analysis provides an input to risk evaluation and risk treatment. This result can be used to prepare a risk profile which gives rating of significant to each risk and provides a tool for prioritizing risk treatment efforts. The third activity (risk evaluation), entails evaluation of the level of risk to make decisions about further risk treatment. This involves comparing the level of risk, determined during the risk analysis and risk evaluation, with the defined risk criteria to prioritize the implementation of adequate measures for treatment and/or mitigating the risk [29].

## **Risk Treatment**

This involves selection and implementation of the appropriate control measures. Risk treatment techniques include avoidance, reductions, transfer/share and retention. It is necessary that risk treatment techniques should provide efficient and effective internal control because risk treatment itself can introduce new risks such as the failure or ineffectiveness of risk treatment techniques [30]. These activities center on development and implementation of specific cost effective strategies as well as action plans for increasing potential benefits. Risk treatment entails determination of what will be done in response to the identified risks. The purpose of risk treatment is to reduce the level of unacceptable risks to an acceptable level. Potential treatment options are developed based on the chosen treatment strategy. The treatment strategies will be directed towards; avoiding the risk by discontinuing the activity that generates it; reducing the likelihood of the occurrence; reducing the consequences of the occurrence; transferring the risk; and retaining the risk. The selection of the preferred treatment options takes into account factors such as the costs and effectiveness.

## **Monitoring and Review**

This ensures that the organization monitors risk performance and learn from experience. Planned regular monitoring and review of risks and ERM framework is crucial in order to keep the framework relevant to the changing needs of the organization and external influence. It is also necessary to monitor the effectiveness of all steps involved in the risk management process. This is necessary to ensure that changing circumstances do not alter priorities, and to facilitate easy identification and treatment of new risks as they arise. It is therefore paramount to maintain adequate process records for monitoring and review purposes [29].



## Benefits of ERM to business enterprises and implications to national economic development and growth

Risk management provides a clear and structured approach to identifying, measuring and prioritizing risk in order to take appropriate actions to minimize losses. An ERM practice does not eliminate risks. But minimize risks implementation and maintenance of ERM indicates that a firm is committed to improved business processes efficiency.

Basically, the benefits of ERM include;

- 1) Saving resources, the assets income, property and personnel
- 2) Protection of an organization reputation and public image
- 3) Prevention or reduction of legal liabilities
- 4) Increasing the stability of operations and promoting continuous improvement
- 5) Protecting people and environment from harm.
- 6) Avoiding times for corporate non-compliance with regulations and legislations
- 7) Enhancing the stability to prepare for unforeseen and unexpected circumstances
- 8) Enhancing competitive advantage through improve decision support and market intelligence based on more accurate risk – adjusted management information
- 9) Improved shareholder value and confidence, which is more valuable in times of crisis when shareholder trust is stressed to its maximum limit.
- 10)Assisting in clearly defining suitable risk management techniques, including insurance needs.

The benefits of implementing enterprise risk management (ERM) have direct positive implication on National Development of Nigeria in the following ways: when resources, time, assets income, property and personnel of organizations are saved it help to improve the efficiency and enhance productivity of such organization thereby accelerating the rate of national development of the Nigerian economy. Other benefits are protection of an organization reputation and public image (Strategic risk): This implies that people confidence is strengthening thereby creating a conducive investment environment for investors both domestic and international. Reduction of legal liabilities when business organizations are faced with enormous cost actions or litigation arising out of their operations, it result to financial losses. This consequently lowered the expansion of the business and adversely affects the national development of the Nigerian economy Increasing the stability of operations and promoting continuous improvement: This result into continuous growth of the organization in terms of increasing profits, provision of employment opportunities, increase in turnover etc. Protecting people and environment from harm, when the working environment is safe for the workers it enhances greater productivity and help to boost the economy thereby promoting national development.

Avoiding time for corporate non-compliance with regulations and legislation when enterprise risk management is strictly applied by organization, it saves them from the payment of fines and other penalties resulting from non-compliance with established regulations and legislation governing their operations. These funds will be used by the organizations for other meaningful ventures and investment that will contribute to national development. Enhancing the ability to prepare for unforeseen and unexpected circumstances through the practice of ERM, organizations are able to predict accurately into the future occurrence of certain unforeseeable risk that would have affected the operations thereby causing the interruption of the programmes of the organization to reduce their turnover when this is avoided there will be consistency in the operations and steady flow of income.

Enhancing competitive advantage through improved decision support and market intelligence based on more accurate risk-adjusted management information through the practice of ERM by organization. It enhances high level of competition by improving the quality of decision taking to support the operations of the firm. Risks are accurately predicted through adjusted management information. Improved shareholder value and confidence, which is especially valuable in times of crisis when shareholder trust is stressed to its maximum limit. The practice of ERM also improves the level of profitability of firms thereby enhancing the value of investment for the shareholders of the organization and also improved their confidence in the business. Especially in the period of economic crisis when there trust or hope is almost lost.

Finally, the practice of ERM also helps to clearly define suitable risk management techniques including insurance that will be suitable for a particular organization. The players in the ERM program of an enterprise comprise everyone from top to bottom from management to the lowest level of staff, while everyone is responsible for the effective and efficient running of the programme. The ultimate responsibility rest on the chief executive officer, who assume ownership of all the risks the enterprise is exposed to and reports to the board of directors. Basically, effective enterprise

risk management has significant impact on the national economic development of the country. Its main implication is to improve high level of organizational performance and efficiency through the organization's risk culture and risk appetite.

### **Strategies for the implementation of ERM by organisations in Nigeria for national development**

To facilitate widely adoption and implementation of ERM in business enterprises in Nigeria, the following strategies should be adopted;

1. Internal auditors can help the implementation effort by learning all they can about ERM and by networking with risk professionals. They also need to challenge the external auditors to get appropriate support for this initiative. The auditors should educate their board about ERM to ensure the right outcomes.
2. It is necessary that the board drive the implementation exercise. Everyone in the organization must be responsible for managing some aspect of risk. All individuals must be trained in basic risk management skills, a risk framework must be adapted to the organisation's needs, and risk tolerances must be set by the board.
3. It is imperative that an organization must clearly articulate its risk appetite and develop good risk culture. A strong risk culture and clearer stated risk appetite are critical in determining an organisation's health and performance. This is because the degree of risk management actions varies among different organizations within an industry, subject to respective organisation's risk culture and risk appetite. If the risk appetite is specifically known, any decision made by the organization to curb risks may be parallel with the firm's objective.
4. Policymakers and firm managers who advocate ERM adoption must recognize that there are some factors which should be considered before making decision about implementing an ERM framework in a firm. Also, they need to understand which factors stimulate business enterprises, in their sector or industry, to adopt and implement ERM.

### **Methodology**

This paper employed historical research methodology. Historical research seeks to explore and interpret past trends of attitude, event, and facts. Reference [31] stated that historical research is an attempt to establish facts and arrive at conclusions concerning past event. By exploring the literature, the significance of the result obtained from the literature was deemed sufficient to establish the research rationale.

### **Conclusion**

The literature shows that, although ERM is known as an effective and useful tool for managing modern firm's risk exposures, not many firms have adopted ERM. Specifically, only few firms have embraced and adopted ERM in Nigeria. To enhance national development and avoidance of economic wastes in Nigeria, ERM should be effectively implemented by all organizations. It is therefore necessary to understand ERM, its benefits; factors stimulating firms to adopt ERM, and ISO risk management model or principles. The outcome of the study suggests that business enterprises in Nigeria have not understood and embraced ERM; thus, not widely adopted by Nigerian business enterprises. Consequently, a suitable ERM framework is recommended for use in Nigeria, subject to firm's specific features. Furthermore, it is concluded that the understanding of ERM is necessary to facilitate widely adoption and implementation of ERM in business enterprises in Nigeria for sustained economic development.

Risk management plays significant role in the Nigerian economy. Confronting risk, as the possibility of loss, is a burden—but it is also necessary to the pursuit of opportunity. Risk and opportunity go hand in hand in most decisions and actions taken by countries, enterprises, and families as they seek to improve their fate. Indeed, risk taking is intrinsic to the process of development. Consider a few examples. Since the 1990s, most developing countries including Nigeria have opened their borders to seek international integration and higher economic growth, but in the process they have also increased their exposure to international shocks. Firms around the world have made investments to upgrade their technologies and increase profitability, but the debt required to do so have made them more vulnerable to changes in demand and credit conditions. From south to north, east to west of Nigeria, millions of families have migrated to cities to seek better job opportunities and health and education services, where they have also become more exposed to higher crime and benefit less from communal support. The motivation behind these actions is the quest for improvement, but risk arises because favorable outcomes are seldom guaranteed. This makes the importance of traditional risk management as well as enterprise risk management more feasible in the development and growth of Nigerian economy.

## Recommendations

- There is need to adopt a holistic approach to managing risk. Although individuals' own efforts, initiative, and responsibility are essential for managing risk, their success will be limited without a supportive external environment. While individuals on their own may be capable of dealing with many risks, they are inherently ill-equipped to confront large shocks (such as the head of a household falling ill), systemic shocks (such as a natural hazard or an international financial crisis), or multiple shocks that occur either simultaneously or sequentially (for example, a drought followed by a food price shock and food insecurity). People can successfully confront risks that are beyond their means by sharing their risk management with others. They can pool their risk collectively through various overlapping social and economic groupings (systems). Indeed, the need to manage risk and pursue opportunity collectively may often be a key reason why these groups or systems form in the first place. These systems extend in size and complexity—from the household to the international community. They have the potential to support people's risk management in different yet complementary ways. Their different scope may allow them to handle shocks and exposures that match their scale.
- The household is the primary instance of support, pooling resources, protecting its members—especially the vulnerable—and allowing them to invest in their future.
- Communities provide informal networks of insurance and protection, helping people deal with idiosyncratic risks and pooling resources to confront common risks.
- Enterprises can help absorb shocks and exploit the opportunity side of risk, contributing to more stable employment, growing income, and greater innovation and productivity.
- The financial system can facilitate useful risk management tools such as savings, insurance, and credit, while managing its own risks responsibly.
- The nation has the scale and tools to manage systemic risks at the national and regional levels, to provide an enabling environment for the other systems to function, and to provide direct support to vulnerable people. These roles can be achieved through the provision of social protection (social insurance and assistance), public goods (national defense, infrastructure, law and order), and public policy (sound regulation, economic management).
- The international community should offer expertise, facilitate international policy coordination, and pool resources when risks exceed national capacity or cross national and generational boundaries. These systems have mutual interactions, often complementing and sometimes substituting for each other's risk management functions. For instance, various mechanisms of protection and insurance provided by communities, enterprises, the financial system, and the state can complement and improve households' self-protection and self-insurance. Enterprises rely on macroeconomic stability, public services, and financial products to remain dynamic and continue to provide income and employment to people. The financial system can provide tools of insurance, saving, and credit only if enough households and enterprises are able to participate in the system, and if the economy features a certain degree of stability and predictability.

Markets, in general, can provide risk management tools and resources at a growing scale if the necessary public services, such as the rule of law and a sound regulatory framework, are in place and effective. The international community relies in part on responsible governments that are willing to cooperate to address global risks; in turn, the international community can help governments and countries that lack resources and capacity for risk management. The relative importance of these systems changes with the level of development. In less advanced countries, and especially in fragile and conflict-affected countries, informal mechanisms tend to be more prevalent and the relative roles of the household and the community are larger. For these countries, the international community may also play a larger role through financial assistance and capacity building. As countries advance—and informal mechanisms give way to formal ones—the relative importance of the contributions from the enterprise sector and the financial system grow. The potential role of the state is larger in less developed countries, but in these cases the state tends to suffer from more severe capacity and resource constraints. These limitations call for a mutual, symbiotic relationship between the state, civil society, the private sector, and the international community, as countries develop.

- ERM must start in the management boardroom in order to positively influence the way companies thought about risk, and planned for eventualities. It is also imperative that organisations must integrate risk management into the organisation's philosophy, practices, and business plans; rather than being viewed or practiced as a separate

programme. However, government should provide suitable regulatory environment for businesses to thrive to ensure that benefits of ERM are feasible in business enterprises and the economy.

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