

Benefits of Enterprise Risk Management: A Systematic Review of Literature

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ABSTRACT

In an enhanced risk climate, the firm's stakeholders desire a risk management framework that promises benefits of efficiencies, transparencies, and solutions for interrelated risks. This calls for a deepening and widening of insights into risk management. Enterprise risk management (ERM) is widely seen as a suitable instrument to address these issues. ERM challenges the traditional silos style approach to risk management. The core notion of ERM is to adopt a portfolio approach to managing risks. ERM seeks to create a 360-degree system of monitoring risks by actively engaging all personnel and facilitating coordination and communication among all departments within the firm. ERM promises to lower the firm's total risk by building resilience against systematic failures and monitoring growth opportunities. It aims to optimize performance and consequently increase the firm's value and longevity. Most definitions note ERM as a process conceived in consultation with the board of management, management, and other personnel to manage the firm's risk within its appetite. Studies from (Beasley, Pagach, & Warr, 2008; Hansen & Andersen, 2014; Hoyt & Liebenberg, 2011) confirms roles in value creation, risk reduction, performance enhancement, and strategic decision making. However, not all are convinced of ERM's benefits and performance. Researchers have criticized ERM as a management fad and noted that the research is centric to only the financial sector. Studies from (Arena, Arnaboldi, & Palermo, 2017; Bromiley, McShane, Nair, & Rustambekov, 2015) have found mixed to no evidence of ERM's role in delivering benefits to the firm. The criticism has only sharpened post-2007 when several firms claiming high standards of 'holistic' risk management failed in the face of the global financial crisis. Besides, researchers have also pointed out endogeneity issues with ERM research. This necessitates a review of extant literature and collating it to generate interrelated insights. Collating and reviewing these articles enables the mitigation of data gaps and provide directions for future research.

Keywords: Enterprise risk management (ERM), firm value, firm performance, ERM benefits, COVID19