

**Gordon Institute
of Business Science**
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Risk practitioner experiences of enterprise risk management in financial institutions

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ABSTRACT

The ability of financial institutions to strengthen enterprise risk management following the global financial crisis has been challenging. The uncertainties of the external environment within which these organisations operate and the complexity and speed of internal operations required to respond have continued to evolve. As a result, focus on the discipline of enterprise risk management has emerged, within academia and industry, to determine the broader risk implications to which financial institutions are exposed.

A qualitative study was undertaken with 16 risk practitioners engaged in daily risk management activities within financial institutions. The purpose of this research was to explore their experiences of enterprise risk management. This research intended to obtain a view of their involvement in various key components of the discipline, and to determine the challenges experienced with respect to effective management of enterprise risk, according to perception.

The results of the study identified a need for key components of enterprise risk management within financial institutions to be more effective in terms of; framework adoption, risk committee oversight, chief risk officer capabilities, and risk practitioner and business stakeholder education and coordination of risk.

The main findings identified the need for an evolved enterprise risk management model that acknowledged these key components and which were incorporated into an existing model. The results of this research provided additional insight to enhance the development of the enterprise risk management discipline within financial institutions.

KEYWORDS

Enterprise risk management, financial institutions, risk, education, accountability, integration

DECLARATION

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

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9 November 2015

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CHAPTER 1: INTRODUCTION TO THE RESEARCH PROBLEM

1.1. RESEARCH TITLE

Risk practitioner experiences of enterprise risk management in financial institutions

1.2. INTRODUCTION TO ENTERPRISE RISK MANAGEMENT

Enterprise risk management can be defined 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” (Committee of Sponsoring Organizations, 2004, p. 2).

This definition is commonly cited in academic journal articles when referring to the importance of corporate governance and risk management, particularly within financial institutions, and in light of the 2008/2009 global financial crisis (Shad & Lai, 2015; Arena, Arnaboldi, & Azzone, 2010; Gordon, Loeb, & Tseng, 2009; Beasley, Clune, & Hermanson, 2005).

Increased stakeholder expectations and regulatory requirements have also placed significant pressure on financial institutions to implement the necessary structures in order to improve the protection of value for stakeholders (Arena, Arnaboldi, & Azzone, 2010). As a result, the discipline of enterprise risk management is increasingly emphasised as a key component of effectively responding to corporate governance challenges.

Enterprise risk management differs from traditional risk management in its holistic intentions in which different risk types, including; strategic, operational, compliance and reporting risks are addressed at the same time rather than separately (Paape & Speklé, 2012). It is expected that this kind of integrated approach should assist financial institutions deal with risks as well as opportunities more effectively. Paape & Speklé (2012) also suggested that this would enhance the organisation’s ability to create and preserve value for its stakeholders.

1.3. EVOLVING NATURE OF ENTERPRISE RISK MANAGEMENT

While the discipline of enterprise risk management has become more widespread, it is argued that the treatment of risk management as a holistic discipline is not a new one and has its foundation in the insurance industry (1940's – 1950's) where various types of personal and corporate risk could be transferred to these organisations (Dickinson, 2001). These various risk types included natural disasters, accidents, human error or fraud, as well as commercial risk such as credit risk. This form of risk consolidation, by its nature, exposed the insurance industry to substantial financial risks that required robust risk management practices (Lin, Wen, & Yu, 2012).

Lin, Wen, & Yu (2012) noted that risk management also extended naturally and with more focus to the financial industry, given the similarity in risk types between industries, where various financial risks existed and were linked to financial instruments (e.g. exchange rates, commodity prices and interest rates). Within numerous academic papers (Ellul & Yerramilli, 2013; Aebi, Sabato, & Schmid, 2012; Wu & Olson, 2010), it was also contended that the occurrence of the 2008/2009 global financial crisis led to growing awareness and appreciation of the need for appropriate risk management frameworks, structures and processes within financial organisations.

The global financial crisis fundamentally changed perceptions of risk by all stakeholders including bank managers, customers, counterparties, investors and regulators. Therefore, global regulatory expectations were revised with additional focus placed on enterprise risk management requirements (Basel Committee on Banking Supervision, 2015).

It is argued that risk management practices were reviewed even beyond the regulatory minimum (Elliott, Salloy, & Oliveira Santos, 2012), acknowledging the potential value to financial industry leaders regarding a more detailed understanding of their own risks and positions.

Given the current socio-economic environment of uncertainty impacting organisations across the globe, attention to enterprise risk management, particularly within the financial industry, has become a focal point (Pergler, 2012).

1.4. NEED FOR THE STUDY

Aebi, Sabato & Schmid (2012) argued that while the role of risk governance in general has been noted in various publications, newspapers, and practitioner-led studies, it has been predominantly neglected in academic theory. The exploration of how risk governance operates in practice and how the organisation is designed to manage risk from an enterprise perspective does not consider the interdependence of varying risk types (Arena, Arnaboldi, & Azzone, 2010). In addition, the integration of enterprise risk in management decision-making processes and its entrenchment within business processes, according to Arena, Arnaboldi, & Azzone (2010), is largely unexplored.

Where academic research has been conducted on specific components of risk management, arguments have been made that these structures did not only curtail risk exposures, but also enhanced value to the organisation. This is demonstrated in Ellul & Yerramilli's (2013) quantitative research exploring the organisational structures of risk management functions and the quality of board oversight.

There are also macro-economic drivers motivating the need for sound enterprise risk management (Gillet, Hübner, & Plunus, 2010). From a financial industry perspective, Gillet, Hübner, & Plunus (2010) suggested that various major operational incidents (including the global financial crisis) identified in the European and US markets led both financial industry leaders and regulators to recognise the importance of enterprise risk management (Gillet, Hübner, & Plunus, 2010).

With specific reference to the US subprime mortgage market, it was acknowledged that a failure in risk management was among the reasons provided frequently by financial leaders, the regulatory community, as well as academics, of why financial institutions exposed themselves to such risks (Ellul & Yerramilli, 2013). Similarly in the UK, the global financial crisis resulted in a revision of the requirements of financial and risk management supervision (Hodson & Mabbett, 2009).

As a result, within the regulatory arena alone, attentiveness to enterprise risk management grew significantly in recent years. This was evidenced by the development of UK (Combined Code on Corporate Governance) and US (NYSE

Corporate Governance Rules and the Sarbanes Oxley Act) legislation, amongst others (Paape & Speklé, 2012). These regulatory requirements placed increased pressure on financial institutions to adopt a broader view of risks within their oversight activities (Arena, Arnaboldi, & Azzone, 2010).

These regulations also had an impact beyond the boundaries of the countries in which they were enacted, according to Arena, Arnaboldi, & Azzone (2010). Within the context of South African financial institutions, for example, with large footprints within the rest of Africa (Standard Bank Group, 2014; Absa Bank Limited, 2014; First Rand Group, 2014), the Companies act legally requires the board of directors to be responsible for risk management. The act stipulates that a policy should be adopted and implemented in order to assess and improve the effectiveness of risk management (Briers & Rossouw, 2009). As a result, failure to implement risk management processes within South African financial institutions is potentially a criminal offence.

Beyond the drivers to avert another global financial crisis or comply with increasingly stringent regulatory requirements, there are also macro-economic benefits to embracing risk management (Haq, 2012). For example, according to Haq (2012), the practices of risk management within developing countries have become a key constituent in the context of economic development. This is particularly noticeable in Africa, where the continent has become the focus of global organisations in search of new business ventures. This is also indicative of international trade which has increased to about 20 per cent of gross domestic product, including a growth of capital investment in the continent (Saville & White, 2013).

Good corporate governance, related risk governance structures and risk management practises are argued to have had an impact on organisational performance and reputation (Aebi, Sabato, & Schmid, 2012). This means they have also had a direct implication for managing investor relations and stakeholder engagement.

This relationship management process is evident by the integrated reports issued by financial institutions on an annual basis which include the management of enterprise risk through risk governance frameworks and related risk management activities

(The International Integrated Reporting Council, 2014). These reports are compiled and published to build investor and stakeholder confidence with respect to organisational performance and sustainable value creation.

According to Ernst & Young (2014), these reports also provide assurance that significant risks which could impact significantly on the execution of the financial institution's strategy are integrated into the organisation's decision-making process in order to reduce uncertainty in achieving organisational results.

Multinational financial institutions have revised their integrated reports with specific focus on enterprise risk management (Ernst & Young, 2014). These organisations acknowledge in their reporting the importance of active risk management activities in identifying and monitoring actual and potential risks facing the organisation, as well as in achieving long-term goals (Barclays Plc, 2014; Royal Bank of Canada, 2014; HSBC, 2014).

Within the context of South African multinational financial institutions, with footholds in broader Africa, their integrated reporting also includes comparable coverage to other multinational financial institutions in terms of acknowledging the importance of enterprise risk management (South African Reserve Bank, 2014; Standard Bank Group, 2014; Absa Bank Limited, 2014; First Rand Group, 2014). In fact, integrated reporting within South Africa was introduced in 2009 through King III, the corporate governance code, which was adopted by the Johannesburg Stock Exchange that required all listed companies to address specific corporate governance principles (Ernst & Young, 2014).

Specific mention is made to the "Three Lines of Defence" model when referencing enterprise risk management within the integrated reporting of several significant multinational financial institutions (Barclays Plc, 2014; Royal Bank of Canada, 2014; HSBC, 2014; Standard Bank Group, 2014; Absa Bank Limited, 2014; First Rand Group, 2014). According to McKinsey's working paper (Pergler, 2012), the "Three Lines of Defence" model it is regarded as a common model for management of risk especially within the financial industry.

The purpose of the model is to emphasise that the function of risk management does not operate in isolation and that robust management of risk requires all “Three Lines of Defence” to be in place and operating effectively. Further weight is added to the “Three Lines of Defence” model by the Basel Committee on Banking Supervision, a global organisation which sets global standards for regulation of banks (Basel Committee on Banking Supervision, 2015). The Institute of Internal Auditors also supports the “Three Lines of Defence” model as a means to improving risk and control management across the organisation (The Institute of Internal Auditors, 2013).

Therefore, just as organisations are dismantling risk silos and executing risk management practises to meet regulatory requirements, for financial performance and value creation, McShane, Nair, & Rustambekov (2011) argued that academic researchers may be required to engage across disciplines in order to gain a comprehensive understanding of risk management through the enterprise. Additional emphasis is placed by Aebi, Sabato & Schmid (2012) on the key point that the 2008/2009 global financial crisis has undoubtedly shown that the business of financial institutions is in the management of risk.

1.5. AIM OF THE RESEARCH

The purpose of this research was to explore stakeholder, specifically risk practitioner, experiences of enterprise risk management within multinational financial institutions operating in Johannesburg, South Africa. Within the context of this research, risk practitioners can be considered to be those individuals who engage primarily in risk management activities.

In order to answer the research question, two key objectives were identified for the research. These objectives were made up of a deductive assessment specifically to obtain a view of risk practitioner experiences of the enterprise risk management discipline and to determine what challenges experienced impacted risk management effectiveness, according to perception. The term “effective” can be defined as “successful in producing a desired or intended result” (Effective, 1989).

This research was intended to provide greater insight into the internal organisational environment in executing enterprise risk management activities, which Paape and Speklé (2012) argued has not been sufficiently explored.

CHAPTER 2: LITERATURE REVIEW

The relevant theory surrounding the enterprise risk management discipline was presented in this chapter. The definitions and importance of enterprise risk management was discussed in general, and more specifically within the financial industry. The literature review then considered the frameworks adopted within organisations and the process of defining appropriate measurements as an important aspect of the enterprise risk management process. The literature also debated the governing structures of enterprise risk management which included the role and importance of the chief risk officer as well as that of risk committees in driving the efforts of the discipline. Lastly, the practices of enterprise risk management were deliberated as it related to business and risk practitioner effectiveness in managing risk, including the key aspects of risk management coordination and execution of the “Three Lines of Defence” model. Figure 1 below describes the flow of the literature reviewed in this chapter.

Figure 1: The Flow of Literature Review



Source: (Researcher's Own)

2.1. ENTERPRISE RISK MANAGEMENT

2.1.1. An Understanding

For an organisation to manage risk successfully, it is first required to define and understand its risk (Hagigi & Sivakumar, 2009). There were several existing definitions associated with enterprise risk management which was indicative of Arena, M, & Azzone's (2011) argument that the discipline of enterprise risk management conveys different meanings to different stakeholders.

For instance, Alviniussen & Jankensgård (2009, p. 172) defined the discipline as “a holistic, integrated approach to managing a company's risks, in contrast to the so-called “silo-approach” prevalent in many firms in which risks are managed independently of each other”.

Enterprise risk management was also considered by Farrell (2015, p. 625) as “the discipline by which enterprises monitor, analyze, and control risks from across the enterprise, with the goal of identifying underlying correlations and thus optimizing the risk-taking behavior in a portfolio context”.

However, the definition considered to be the most commonly cited within academic literature (Shad & Lai, 2015; Arena, Arnaboldi, & Azzone, 2010; Gordon, Loeb, & Tseng, 2009; Beasley, Clune, & Hermanson, 2005) was provided by the Committee of Sponsoring Organisations (COSO). As mentioned in Chapter 1, COSO defined enterprise risk management 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” (Committee of Sponsoring Organizations, 2004, p. 2).

It was Lundqvist (2014) who recently argued, however, that the lack of agreement and consistency from various academics and governing bodies on what the definition of enterprise risk management is, as well as what factors hold the most importance, suggested that there were many different opinions and approaches to implementing enterprise risk management. Lundqvist (2014) highlighted this to be a

potential problem and source of uncertainty regarding the discipline's effective implementation within organisations.

2.1.2. The Importance

These varying definitions also highlighted the point that there were a number of different drivers that reinforced the importance of, and the need for, enterprise risk management (Lundqvist, 2014).

Erkens, Hung, & Matos (2012) referred to the unprecedented and exceptionally large number of financial institutional collapses or bail-outs during the 2008/2009 global financial which triggered the necessity for better enterprise risk management; this was also highlighted in several other academic journals (Mawutor, 2014; Ellul & Yerramilli, 2013; Gillet, Hübner, & Plunus, 2010).

Beasley, Branson, & Hancock (2011) suggested that the growth and intricacy of economic markets created increased challenges for the leadership of organisations to navigate. It was added that leaders were realising that the traditional approach to risk management required improvement in order to appropriately manage emerging risk; consequently, reference was made to a more holistic view and management of risk (Beasley, Branson, & Hancock, 2011).

As highlighted in Chapter 1, regulatory rigour with respect to management of enterprise risk, a notable outcome of the global financial crisis, placed further stringent expectations on financial institutions to improve risk management practises (Arena, Arnaboldi, & Azzone, 2010).

For example, the UK Combined Code on Corporate Governance dictated that publically listed organisations were required to provide a clearer and more comprehensive view of the feasibility of their risk management activities, including board accountability and internal control systems (The Financial Reporting Council, 2014; McShane, Nair, & Rustambekov, 2011). While in the US, the Sarbanes Oxley act required publically listed organisations to effectively manage internal controls in support of stronger risk management (Power, 2004; McShane, Nair, & Rustambekov, 2011). Furthermore, in South Africa, regulatory and governing bodies

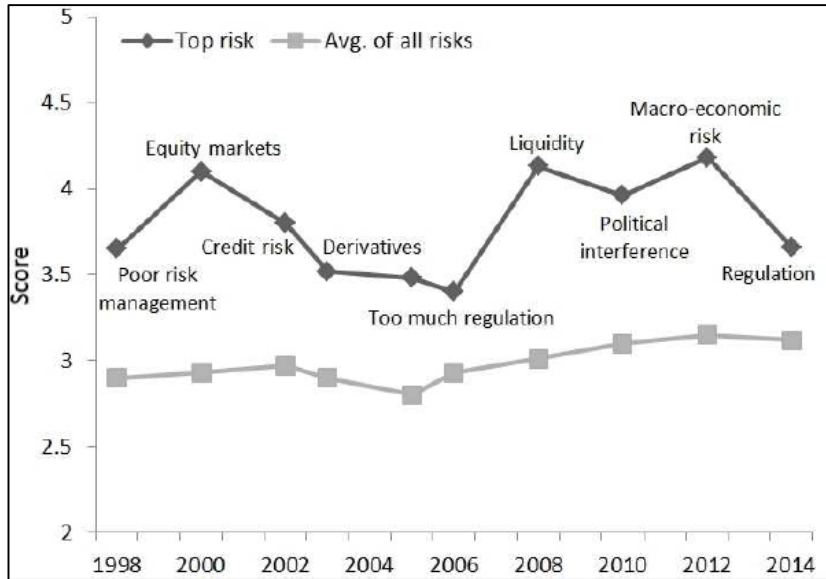
alike heightened focus on risk management and the need for appropriate risk practices (International Monetary Fund, 2015).

Within the context of good corporate governance and ensuring sustainable shareholder value, as noted in Chapter 1, financial institutions were expected to demonstrate an improved understanding of the key components making up the risk management discipline, including strong internal controls and compliance requirements (Basel Committee on Banking Supervision, 2015).

The Basel Committee on Banking Supervision (2015) issued specific guidelines for multinational financial institutions (both foreign and South African) with which to comply. These guidelines included key components supporting enterprise risk management, such as; the need for a risk management framework, requirements regarding chief risk officer and risk committee roles, robust risk management practices and execution of the “Three Lines of Defence” model. However, while financial industry leaders recognised the importance of having an enterprise view of risk, the means of effective implementation remained a concern for leadership within the financial industry (McShane, Nair, & Rustambekov, 2011).

Figure 2 below provides a year-on-year view regarding the primary concerns of financial industry leaders. It is evident that the ability to manage risk and regulation played a significant part of these concerns (Patel & Lascelles, 2014).

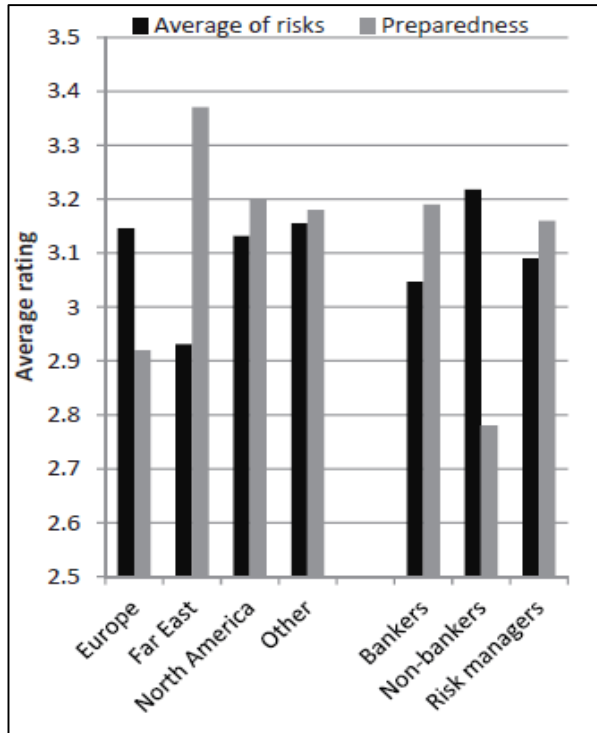
Figure 2: Time Series of Risk Management Anxiety Levels



Source: (Patel & Lascelles, 2014)

The perceived gap between the severity of risk and the preparedness to deal with them is elaborated below in Figure 3. From a global geographical view perspective, while Europe was deemed most severe in its outlook towards risk severity and readiness to manage them, other regions (including Africa) presented a more positive outlook towards risk management. Specifically from a South African perspective however, findings from Coetzee & Lubbe (2013) suggested that the maturity of organisations in terms of risk maturity was in fact relatively low.

Figure 3: Gap Analysis – Severity of Risk versus. Preparedness



Source: (Patel & Lascelles, 2014)

2.2. ENTERPRISE RISK MANAGEMENT FRAMEWORK

2.2.1. The Adoption

The notion that enterprise risk management is a key component of effective corporate governance has been generally accepted by the financial industry. Regardless, Paape & Speklé (2012) argued that organisations varied in the extent to which they adopted enterprise risk management frameworks. While some organisations invested in sophisticated systems of implementation, others relied on unplanned adoption as the need arose.

Supporting this finding was the argument presented by Beasley, Pagach, & Warr (2008) who suggested that while there were theoretical reasons explaining why enterprise risk management increased or decreased shareholder value, the motives for adoption depended on the characteristics of the individual organisation, which

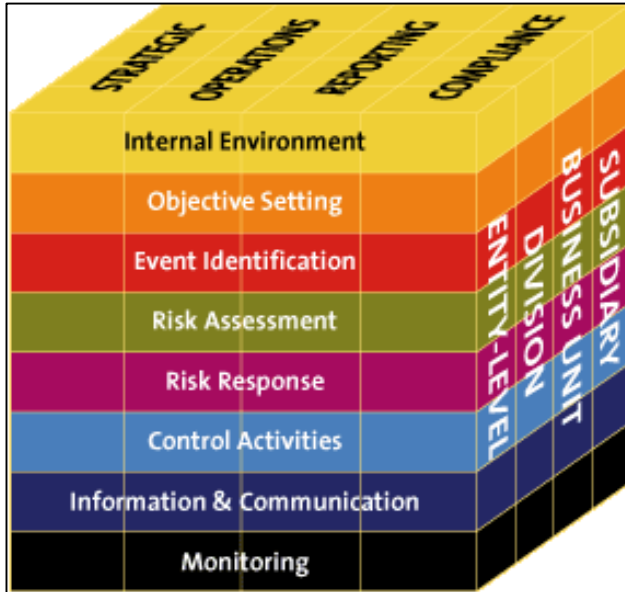
also implied that a conclusive testimonial regarding the costs versus benefits of enterprise risk management may not be possible.

Gordon, Loeb, & Tseng (2009) identified that an organisation with a greater size and complexity would more than likely have experienced challenges with respect to the integration and implementation of frameworks, or control systems, within organisations. However, in contradiction, it was also identified that the more complex the environment, the more it seemed organisations intended to adopt enterprise risk management frameworks (Hoyt & Liebenberg, 2011).

An addition to the debate were the numerous frameworks in existence that contributed to the general level of uncertainty regarding the key components of enterprise risk management. Lundqvist (2014) noted that each identified framework highlighted different components for adoption with varied compositions and meanings. So, while the principal of enterprise risk management was consistent, there were apparent inadequacies prevailing in existing industry frameworks.

Beasley, Branson, & Hancock (2010) specifically argued that the COSO framework, which they regarded as one of the most cited (and debated) frameworks, was considered vague and excessively theoretical by those individuals involved in driving enterprise risk management activities. Figure 4 below provides a view of the multiple layers that make up the COSO framework.

Figure 4: COSO Enterprise Risk Management Framework



Source: (Committee of Sponsoring Organizations, 2004)

As a result, it was not unusual to find in academic research that a number of organisations had resolved to create their own internal frameworks for implementing enterprise risk management, oftentimes guided by existing and more popular industry frameworks, such as COSO, ISO 31000-2009 and Basel II (Lundqvist, 2014).

Interestingly, there lacked existing academic studies examining the effects of frameworks on the effectiveness of risk management within organisations (Beasley, Pagach, & Warr, 2008). Further research was suggested with respect to identifying the way in which organisations attempt to integrated risk management, and to study the impact of the internal organisational environment on the effectiveness of risk management (Paape & Speklé, 2012).

2.2.2. The Measurements

The process of identifying and managing the risk appetite of an organisation is considered a key aspect of enterprise risk management. Risk appetite can be defined as “The aggregate level and types of risk a bank is willing to assume,

decided in advance and within its risk capacity, to achieve its strategic objectives and business plan” (Basel Committee on Banking Supervision, 2015, p. 1).

Power (2009) suggested that existing constructions of risk appetite were at the core of the global financial crisis. He argued that the notion of a singular risk appetite was flawed given existing limitations of the concept as an organisational process. Additionally, there was a lack of guidance with respect to the relationship between risk appetite and the components of governance and internal control. It was argued that in considering risk appetite, the lack of focus within organisations on human behaviour was an important source of failure within the enterprise risk management framework. Power (2009) argued that risk appetite involved values and situational experiences of a multitude of factors within organisations.

Paape & Speklé (2012) added to this opinion by suggesting that the need to consider and define risk appetite properly was a crucial prerequisite for successful risk management. Organisations, however, also needed to define their risk attitudes at lower levels of aggregation, where risk tolerances were considered against specific objectives. In effect, risk appetite expressed the organisation’s attitude towards risk at the broadest level of the organisation.

Accordingly, the argument presented by Stulz (2008) was that the first step in managing risk effectively was the ability to identify and measure risks accurately. The selection of risk metrics was considered the foundation of risk management because it determined what senior management learned about the risk position of the organisation. Stulz (2008) argued that there were a number of errors that could be made in the risk identification and measurements process including; known risks being measured incorrectly, ignoring important risks, not communicated risks, and failing to monitor and manage risks.

While Wahlström (2009) suggested that better approaches to risk measurement would see improvement in controlling risks within financial institutions. However, Stulz (2008) argued that once risk management moved away from quantitative analysis, the outcome would depend much more on the organisation’s risk appetite and culture, and less on its risk management models.

2.3. ENTERPRISE RISK MANAGEMENT GOVERNING STRUCTURES

2.3.1. Chief Risk Officer Effectiveness

The Basel Committee on Banking Supervision (2015) recommended specific responsibilities of the chief risk officer in providing oversight over the development and implementation of risk management functions. It was expected, amongst other duties, that the chief risk officer would be proactively involved in risk management activities with business lines and would monitor business management of risk (Basel Committee on Banking Supervision, 2015). There was also an expectation for chief risk officers to demonstrate the necessary skills to oversee the financial institutions risk management.

Aebi, Sabato, & Schmid (2012) suggested that the global financial crisis highlighted whether the role of the chief risk officer should not be more elevated within financial institutions. Similarly, the risk management challenges noted by Stulz (2008) referred directly to the potential inadequacies of the chief risk officer in supporting the relevant boards and risk committees in development of the risk appetite and risk tolerance structures within the organisation. These challenges included the chief risk officer's ability to communicate and influence effectively in order for business and committees to understand risks and the consequences for organisations (Stulz, 2008).

Various academic studies used the existence of the chief risk officer as the primary representation of enterprise risk management implementation (Pagach & Warr, 2011; Liebenberg & Hoyt, 2003). However, Lundqvist (2014) argued the validity of this assumption acknowledging that the appointment of just one individual did not necessarily equate to a well-executed and effective enterprise risk management framework.

Lundqvist (2014) suggested further the possibility of an organisation to appoint an individual to drive the execution of an enterprise risk management framework, and for the framework to be poorly implemented. In fact, assertions could be made regarding organisations that did implement enterprise risk management frameworks effectively, and that did so without a chief risk officer.

Beasley, Pagach, & Warr (2008) also argued that using the chief risk officer as a variable did not necessarily capture the extent of the implementation of enterprise risk management. The point was supported by Lundqvist (2014) in the argument that the appointment of a chief risk officer was but one dimension of the implementation of enterprise risk management and could not be considered in isolation of other key components. Pagach & Warr (2011) suggested that further research was needed to understand the role of the chief risk officer in terms of the inner works of the enterprise risk management efforts.

2.3.2. Risk Committee Effectiveness

Demidenko & McNutt (2010) argued that respective codes for good corporate governance suggested that regulators in general identified, amongst other key fundamentals, a risk committee as a critical success factor for effective risk governance. A key component of the expectations of the Basel Committee on Banking Supervision (2015) included that risk committees should have members with the appropriate experience in risk management issues and practices. While the comment was made that many financial institutions had progressed in assessing the skills and qualifications of risk committee members, there was however still further improvement required (Basel Committee on Banking Supervision, 2015).

While Beasley, Branson, & Hancock (2009) noted that business management were working towards a more structured approach to risk oversight, arguments were made by Yeh, Chung, & Liu (2011) that if committee members did not have sufficient information needed to assess relevant risk exposures, the governance for risk control would not be effective in providing organisations with sufficient protection against market challenges. In fact, it was suggested that committee members that were independent from managerial pressures could improve organisational performance during a crisis (Yeh, Chung, & Liu, 2011).

Berger, Kick, & Schaeck (2014) placed further emphasis on committee composition and suggested that a variation in members placed a significant role in the decision-making capability as different experiences enabled a more extensive analysis to be performed of risk.

Grace, Levery, Phillips, & Shimpi (2015) added to the point that having a cross-functional risk management committee was also more cost efficient. Furthermore, the combination of appointment of senior risk managers and their presence on risk committees was expected to enable risk management focus. These combinations could also potentially signal an organisation's commitment to an enterprise approach in managing risk.

2.4. ENTERPRISE RISK MANAGEMENT PRACTICES

Considering that the risk management journey has endeavoured to expand and integrate well beyond finance to include additional types of risk such as; reputational, operational and (more recently) strategic risk. Nocco & Stulz (2006) argued that enterprise risk management has become an integrated part of day-to-day activities for all organisational members.

Arena, Arnaboldi, & Azzone (2010) also proposed that the discipline of enterprise risk management should infiltrate into existing organisational activities as well as the behaviour of managers in everyday decision-making. However, they suggested a need to further explore the social network structures of organisations and their relationship to risk management. Gephart, Van Maanen, & Oberlechner (2009) supported this opinion, noting that there remained few significant contributions exploring the way in which enterprise risk management operates in practice, and even fewer addressing how organisational cultural arrangements had developed and contributed towards a risk management approach.

With this in mind, not only has risk become an important topic in financial and accounting research, but also an important concept in cultural and social research (Gephart, Van Maanen, & Oberlechner, 2009).

2.4.1. Business Effectiveness

While business stakeholders have always practiced some level of risk management historically, whether implicitly or explicitly, risk management has not traditionally occurred in an organised and integrated way across organisations (Meulbroek, 2002). The process of risk management integration has become a possibility as,

currently, the expectation is that managers can analyse and control various risks as part of a unified and integrated framework.

Meulbroek (2002) argued that to be effective, however, risk management required a thorough understanding of the organisation's broad risk profile, as well as an understanding of the organisation's operations and policies. Meulbroek (2002) shared this view with Lam (2014) that given the scope of organisation-specific knowledge required, risk management was a direct responsibility of senior management. Responsibility could not be delegated to external risk experts or to internal risk managers.

This view was supported by Palermo (2014) who suggested that providing an enterprise-wide view of all risks coexisted with business management's responsibility for identifying and managing these risks. It was argued that business managers were responsible for ensuring that the necessary arrangements were in place to identify, evaluate and prioritise risks in their area of responsibility. Thus the onus of risk management was with business (Palermo, 2014).

Demidenko & McNutt (2010) also shared the views expressed by Palermo (2014) adding further that the effectiveness of enterprise risk management was closely linked to the "tone at the top" set by senior management in integrating risk management into strategic decision-making, allowing corporate governance to evolve into an organisation's competitive advantage.

For risk governance to operate effectively, on-going risk assessment and management processes, as well as the appropriate expertise and training in risk management was necessary (Demidenko & McNutt, 2010). However, Hagigi & Sivakumar (2009) suggested that risk was not well understood by many managers, which had implications for the management of risk.

2.4.2. Risk Practitioner Effectiveness

As articulated by Ward (Ward, 2001, pp. 7-8), "risk managers should not be managers of risk at all; they should make their contribution around the risk management process". This view was echoed by Palermo (2014) who emphasised that to be effective risk managers were critically dependent on interpersonal skills,

professional experience, and business knowledge. These traits signalled a propensity for a risk management leadership approach that focused on communication and guidance rather than hierarchy or authority.

Power (2009) offered an argument centred on inhibiting rules-based and compliance-heavy models of risk management where many actions were required to solve problems and to give risk managers a sense of doing something which, was argued, would ultimately lead to capacity constraints. The challenge was in the expansion of processes to appropriately support the required interactions and dialogue between risk and business and to rather attempt to sustain a deep and varied risk management ecosystem (Power, 2009).

Soin & Collier (2013) supported this view in the opinion presented that in some organisations the risk management process could be considered a “tick box” exercise that did not have a value-added impact on organisational processes but, instead, simply represented a requirement for external representation of internal cohesion. It was argued that focus was very limited with respect to the actual management of risk and the effects of risk management within organisations and that, specifically, accountability and responsibility needed to be further researched (Soin & Collier, 2013).

2.4.3. Risk Management Coordination

The need to integrate risk and control within business processes is argued to be an undisputed imperative within organisations, yet it was suggested that there lacked sufficient elaboration on what that would involve (Power, 2009). Beasley, Branson, & Hancock (2009) added that there was also a critical need for existing risk management processes to be evaluated given perceived increased levels in the complexity and volume of unexpected operational incidents experienced by the organisation.

From a South African perspective, Coetzee & Lubbe (2013) suggested that the culture of the organisation did not support risk management efforts as business and risk practitioners were not equipped to manage risk.

Instead, it was suggested that regulators would search for the integration of risk management roles and responsibilities within job descriptions, and for business heads to be titled as risk owners. Power (2009) argued that entrenchment was in fact complex and difficult to achieve. Due to regulatory expectations of risk management assimilation articulated at a principle level, organisations were left to work out what that means in practice.

Fraser & Simkins (2007) emphasised the view that for enterprise risk management to be implemented effectively, all participants should clearly understand what the organisation is trying to achieve, and how enterprise risk management would enable the organisation's objective. Kleffner, Lee, & McGannon (2003) suggested that for those organisations where risk management was not part of the organisational culture, the potential for implementing enterprise risk management effectively was doubtful.

As mentioned in Chapter 1, to provide clarification regarding the roles and responsibilities in managing enterprise risk in an integrated way, the Basel Committee on Banking Supervision (2015) made reference to the "Three Lines of Defence" model, which comprised all stakeholders within the organisation. Reference was made to the following:

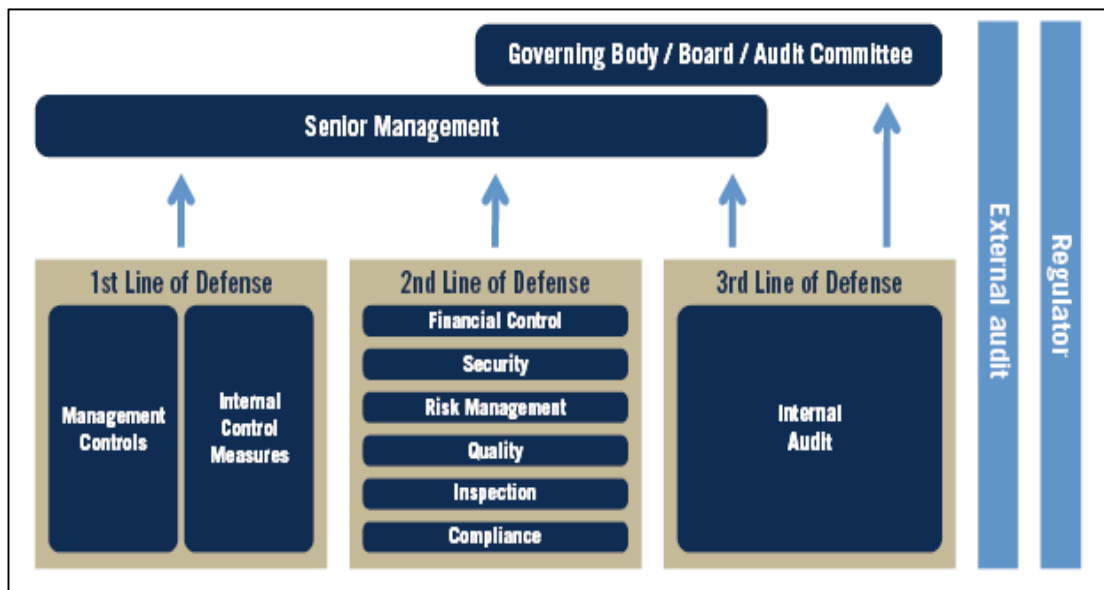
- The business line (first line of defence) identified as the owners of risk;
- The risk management and compliance functions (second line of defence) identified as being responsible for facilitating the risk management processes of the organisation; and
- The internal audit function (third line of defence) charged with providing assurance to the organisation's board regarding overall risk management.

With respect to the "Three Lines of Defence" model, its global presence was apparent and was highlighted in the integrated reporting of several multinational financial institutions (HSBC, 2014; Barclays Plc, 2014; Absa Bank Limited, 2014; Standard Bank Group, 2014). These reports clearly set the expectation that the "Three Lines of Defence" model was core to supporting the enterprise risk management efforts of financial institutions. Similarly, the Institute of Internal Auditors suggested the "Three Lines of Defence" model to be a key enabler to

supporting the risk and control management efforts of organisations (The Institute of Internal Auditors, 2013).

Figure 5 below provides a view of the “Three Lines of Defence” model, of which the primary objective was to assign specific roles and to coordinate effectively among these functions to ensure that there were neither gaps in risk management nor duplications of effort in managing risk.

Figure 5: An Overview of the “Three Lines of Defence” Model



Source: (The Institute of Internal Auditors, 2013)

Despite these various frameworks and models, Power (2009) argued that enterprise risk management was fundamentally unable to process and represent the internally systemic risk issues of the organisation since, in its existing form, it was unable to account for the interconnectedness of the organisation. This was further supported by Paape & Speklé (2012) who suggested that organisations only have a basic understanding of how decision-makers respond to information on risk, and how organisations integrate risk management in their management control structures to guide the behaviour of lower level managers.

2.5. CHAPTER CONCLUSION

Enterprise risk management has grown substantially during recent history with increased regulation and general good corporate governance expectations. However, while more organisations look to embrace the discipline, Arena, Arnaboldi & Azzone (2010) highlighted that its implementation remained poorly integrated within organisations. Furthermore, Paape & Speklé (2012) identified that the extent of enterprise risk management within organisations was influenced by a combination of internal factors. They suggested further research be conducted regarding the impact of the internal organisational environment on risk management effectiveness.

The reviewed literature identified the need for various important components of enterprise risk management to be in place within organisations and also suggested potential key challenges to effective implementation of these components. From a South African perspective, while existing literature was generally limited, the key components surrounding good corporate governance and regulation remained prevalent and the expectation for risk to be managed enterprise-wide was clear (Basel Committee on Banking Supervision, 2015; International Monetary Fund, 2015).

These key components referred to; the understanding and importance of enterprise risk management, the enterprise risk management framework and related adoption and measurement, governing structures including the chief risk officer and risk committee roles, and risk management practices including business and risk practitioner coordination and execution of the “Three Lines of Defence” model.

These components established the foundation of the research questions outlined in Chapter 3 and were used to guide the data gathering and analysis process in Chapter 4.

CHAPTER 3: THE RESEARCH QUESTIONS

The research considered global events and trends that have impacted the need for, and implementation of, enterprise risk management within the financial industry. Gordon, Loeb, & Tseng (2009) identified a paradigm shift regarding the manner in which organisations viewed risk management. Instead of the traditional silo-based view, the trend was to consider a view of risk management which was holistic. Lundqvist (2014) added recently that while growing acceptance of enterprise risk management had manifested in organisations to manage risk holistically, multiple frameworks for implementation contributed to an overall ambiguity regarding the important aspects of effectiveness.

It was therefore proposed that enterprise risk management activities, and related inhibitors to effective management, within financial institutions have not been sufficiently explored, particularly from the perspective of the risk practitioner.

The following open-ended questions were put forward for further exploration.

1.1. RESEARCH QUESTION 1

What have risk practitioners experienced of enterprise risk management in financial institutions?

1.2. RESEARCH QUESTION 2

What challenges experienced have impacted risk management effectiveness, according to perception?

The term “effective” can be defined as “successful in producing a desired or intended result” (Effective, 1989).

CHAPTER 4: THE RESEARCH METHODOLOGY

4.1. INTRODUCTION

The research undertaken was probing in nature in order to explore risk practitioner experiences of enterprise risk management, specifically to obtain their views of the discipline and to determine how the challenges experienced impacted risk management effectiveness, according to perception. As a result, a qualitative approach was followed to “seek new insights, ask new questions and to assess topics in a new light” (Saunders & Lewis, 2012, p. 110).

Saunders & Lewis (2012) suggested that exploratory studies be conducted when discovering general information related to a topic that the researcher does not understand well. With reference to the academic literature in Chapter 2, the results of which were largely informed by quantitative and secondary data for descriptive studies (answering the “what”), the researcher deemed it appropriate to perform exploratory and qualitative research informed by primary data to investigate risk practitioner experiences within the context of the internal organisation (answering the “why”).

This chapter presented a view of the research design adopted for this study, the population and unit of analysis, and the sampling method. The chapter also included a view of the interview process and method, as well as the data gathering and analysis process. Lastly, the chapter concluded with identified limitations of the proposed research approach.

4.2. RESEARCH DESIGN

Exploratory research by nature provides information on a topic that requires further investigation (Clough & Nutbrown, 2012). The research approach followed a qualitative and exploratory process due to aspects of enterprise risk management that were unexplored, particularly from the perspective of risk practitioner experiences, as noted in Chapter 2.

The qualitative process comprised of semi-structured interviews with risk practitioners who were involved primarily in risk management activities within

financial institutions. Myers (2013) described the process of interviews to be a crucial component of data gathering for qualitative researchers in a business context. The purpose of the interviews was to gain a deeper understanding of risk practitioner experiences of enterprise risk management, with specific focus on multinational financial institutions.

The qualitative process of semi-structured interviews allowed interviewees to share and expand on their organisational experiences. The interview process also offered the researcher the opportunity to probe interviewees further in order to gain a more in-depth understanding of the topics or themes of discussion and investigate further for any implicit information (Qu & Dumay, 2011).

The research approach adopted was deductive in nature as the study sought to examine existing academic theories with respect to effectiveness of key components of enterprise risk management implemented within organisations. Based on the literature review process, no specific framework or model was identified as a basis. However, the “Three Lines of defence model” was adapted from Chapter 2 as an opportunity to improve on existing models, which was presented in Chapter 7.

4.3. UNIT OF ANALYSIS

The unit of analysis focused on risk practitioners who were involved primarily in risk management activities within financial institutions.

The proposed scope of this research was focused on multinational financial institutions with office locations in Johannesburg, South Africa.

4.4. POPULATION

This research did not have access to the entire population of risk practitioners within financial institutions. Therefore, the population focused on financial institutions in the Johannesburg region within South Africa, as a result of the convenience of access.

4.5. SAMPLE AND SAMPLING METHOD

Due to lack of a pre-determined universe, and access to, the full population of risk practitioners, the process of interviewee selection was not random as is typical in

statistical studies (Saunders & Lewis, 2012). This research can be referred to as a non-probability study, where the units of sampling were selected on the basis of convenience or personal judgment.

A total of 16 interviews were conducted in this regard. The risk practitioners interviewed held different risk management positions in different portfolios which were expected to facilitate diversity in views and depth of insight. Several risk practitioners had worked in more than one risk management portfolio within, and across, financial institutions. Three of the 16 interviewees provided external risk management services to multiple financial institutions and were included in the sample for their broad viewpoint.

The intention of the research was to interview more than one person from each financial institution. The purpose was to broaden the extent of insight gathered, without compromising depth. As Tracy (2010) suggested, demonstrating rigour of research considers the number of interviews and breadth of the sample with the objectives of the study in mind.

However, it was not always possible to interview more than one person per organisation due to the availability of interviewees. Additionally, some risk practitioners had experience across risk functions, which provided the additional insight sought. Acknowledging Guest, Bunce, & Johnson's (2006) view that twelve interviews were appropriate to gain the required level of insight, the 16 interviews conducted in this research was regarded as sufficient.

The method of sampling was based on a snowball (convenience) technique. This was a form of sampling where successive interviewees were identified by the initially sampled interviewee. This method is used when it is potentially a challenge to identify or access members of the population (Saunders & Lewis, 2012). In this study, the researcher did not know or have access to risk practitioners engaged in risk management activities within all identified financial institution represented in Johannesburg. Participants were therefore encouraged to refer the relevant members of the target population.

In order to ensure that the data received would be credible, the researcher conducted initial discussions with the risk practitioners to ensure their experience with enterprise risk management activities. The researcher also explained and confirmed the use of the interview schedule prior to the research being undertaken.

4.6. INTERVIEW PROCESS AND METHOD

Saunders & Lewis (2012) suggested that semi-structured, or qualitative research interviews, are particularly useful when; the researcher is unsure of the answers that will be given, the questions are complicated, or the researcher may need to vary the type and order of questions asked to gain further insight. In this research, the exploratory nature of risk practitioner experiences within the context of enterprise risk management required a level of probing. As a result, qualitative research was undertaken by means of semi-structured, one-on-one interviews. The interview process and schedule was also piloted in order to account for any potential data gathering issues (refer to Appendix 1 for the interview guide).

The interviews were expected to last between 45 minutes and one hour. The interviews were conducted face-to-face, where possible, as this minimised non-response bias, and was appropriate given the exploratory nature of the research (Saunders & Lewis, 2012). Where interviewees could not meet in person, due to logistical constraints, the researcher applied the alternative of conference calls. Interviewees that were unable to be interviewed directly (either face-to-face or via conference call) responded to questions from the interview schedule via email. Follow-up questions were emailed to these interviewees, in need, for any further clarity or insight required.

In an effort to ensure interviewee comfort in providing information and offering any insight on the topic of enterprise risk management, the researcher explained the purpose of the study where emphasis was placed on the confidentiality of the research, and anonymity of interviewees and their financial institutions. Interviewees also signed a consent form to indicate voluntary participation in the research (refer to Appendix 2 for the consent form).

4.7. DATA GATHERING AND ANALYSIS PROCESS

All interviews were recorded in audio format and dialogues were independently transferred onto transcripts. To facilitate the process of analysis of the qualitative data, a technology-based analysis tool (Atlas.ti) was used to assist in the coding process. The codes and categories were defined, and then refined further through an iterative process (Saunders & Lewis, 2012).

The initial coding of the transcriptions was based on patterns identified during the first phase of analysis. This included an in-depth review of the transcribed data, which identified meaningful units of analysis, to ensure data was coded accurately and appropriately (Stirling, 2001). Through subsequent revisions of the transcriptions and coding structures, these were further developed into categories. Finally, codes and categories were arranged according to the themes identified in the literature review conducted in Chapter 2.

Once the process of codification was completed queries were run based on codes and categories where relationships existed. This was conducted to determine the frequency of specific codes and categories within themes that were referred to in the data. In order to ensure accuracy through the coding and categorisation process, each phrase within the transcriptions was reviewed through an iterative process (Stirling, 2001).

4.8. LIMITATIONS

Based on existing organisation confidentiality agreements, interviewees may not have disclosed certain key information for this research, which may have inhibited the formulation of key findings in this study and for possible future research options. Interviewees also provided insight and understanding based on available times which may also have limited the depth of their responses accordingly.

The nature of qualitative research permits the opportunity for exploration of new ideas and understandings without the means to extrapolate to the broader population typically required of data-centric, quantitative methods. As a result, generalisation to a larger population may not be possible and quantitative research may be required to bridge this gap (Saunders & Lewis, 2012).

Interviewees were not always available for the interviews. Whilst questions were responded to via email, key information may have been missed that could have been obtained in a face-to-face interview. Also, the method of sampling applied was that of a snowball (convenience) technique and was based on interviewee availability and references provided. The use of a snowball sampling technique and the choice involved in identifying the target population may introduce a homogeneous sample (Saunders & Lewis, 2012).

Translation error may have occurred during the data gathering and analysis process which would have impacted on the validity of the results.

CHAPTER 5: RESULTS

5.1. INTRODUCTION

The interviewees provided varying insights on their experiences of enterprise risk management within financial institutions. The research questions are re-stated as follows for ease of reference:

Research Question 1

What have risk practitioners experienced of enterprise risk management in financial institutions?

Research Question 2

What challenges experienced have impacted risk management effectiveness, according to perception?

The term “effective” can be defined as “successful in producing a desired or intended result” (Effective, 1989).

This chapter is structured based on the above-mentioned research questions. An explanation is provided of the interviews held, as well as a description provided of the interviewees. This is followed by themes covered within the enterprise risk management topic, with reference to Chapter 2 themes. This chapter also includes the open-ended questions that were asked of interviewees according to the themes presented. Interviewee insights are provided in the form of key response categories, as well as pertinent interviewee quotes that have been carefully chosen relating to these categories. Appendix 3 contains the full set of applicable categories, codes and quotes. This chapter concludes with new emerging findings identified and a brief summary of the chapter presented, which is further interpreted in Chapter 6.

5.2. SUMMARY OF INTERVIEWEES AND INTERVIEWS

Interviews were conducted with 16 risk practitioners within financial institutions who were involved on a daily basis primarily in risk management activities. The interviewed risk practitioners held different risk management positions in different

portfolios within financial institutions. Several risk practitioners had worked in more than one risk management portfolio within, and across, financial institutions. Three of the 16 interviewees provided external risk management services to multiple financial institutions and were included in the sample for their broad perspective.

Eight interviews were conducted face-to-face in an office location, seven interviews were conducted via telephone, and one interview was responded to electronically due to time and availability constraints. Interview questions were generally unstructured to allow interviewees the opportunity to respond without restriction.

As noted in Chapter 4, ethical approval was obtained for this research on the basis that the interviewees and their financial institutions would remain anonymous and that no identification would be presented in this research report. However, certain information regarding interviewee and financial institution representation is presented in Table 1 below.

Table 1: Summary of Interviewees and Financial Institutions

Interviewee Identifier	Financial Institution Identifier
P1	Financial Institution A
P2	Financial Institution A
P3	Financial Institution A
P4	Financial Institution A
P5	Financial Institution B
P6	Financial Institution B
P7	Financial Institution B
P8	Financial Institution C
P9	Financial Institution C
P10	Financial Institution D
P11	Financial Institution E
P12	Financial Institution F
P13	Financial Institution G
P14	Multiple Financial Institutions
P15	Multiple Financial Institutions
P16	Multiple Financial Institutions

Source: (Researcher's Own)

5.3. SUMMARY OF QUESTIONS AND RESPONSES

5.3.1. Enterprise Risk Management

In order to explore the research comprehensively, the interviews commenced with questions regarding risk practitioner understanding of enterprise risk management, as well as their views on the importance of the discipline in financial institutions.

5.3.1.1. Understanding Enterprise Risk Management

Question: What does enterprise risk management mean to you, according to your own understanding of the discipline?

This question was intended to obtain a view of the level of understanding that interviewees had of enterprise risk management. Most interviewees responded confidently, which was indicative of their daily involvement in risk management activities. All interviewees were able to respond to this question and were able to clearly articulate their understanding of enterprise risk management. Interviewee responses were grouped into the categories of; a holistic and integrated view of risk and tone at the top of the organisation.

i.) Holistic and Integrated View of Risk

There was commonality with respect to interviewee definitions of enterprise risk management. 14 of the 16 interviewees offered a view that enterprise risk management was a discipline which provided a holistic and integrated view of risk across the organisation. This concept of a holistic and integrated view of risk was related to varying organisational characteristics. One aspect included business and risk practitioners working together in managing risk; a view communicated by several interviewees including interviewee 1 below.

“It needs to be intertwined and integrated... it needs to be very holistic, not just a one silo approach... it needs to be an integrated process between business and the people that are meant to support them.” [P1]

A few interviewees expressed their opinion that enterprise risk management was a discipline that enabled different risk types to be integrated in order to provide an enterprise view of risk within organisations. Interviewee 2 noted some of the various risks that needed to be integrated, which was also considered by interviewee 4, while interviewee 15 extended the definition to include the risks that were external to the organisation. These views are presented in the quotes below.

“It encompasses everything, if you look at audit, operational risk, regulatory risk, compliance risk, enterprise risk should encompass everything.” [P2]

“From a global perspective (sic) looking at your credit risk, operational risk, things like health and safety and looking at your market risk, those sorts of all-encompassing risks of an organisation.” [P4]

“Enterprise risk is not just what’s happening within my organisation... it is also all the third parties so, so in a nutshell it is every facet or every process which can positively or negatively influence my business process lines.” [P15]

Some interviewees also highlighted in their definitions of enterprise risk management a standardised process to manage risk consistently, as well as a risk management framework to support risk management efforts across organisations. Interviewee 5 and 9 expressed these sentiments in their responses below.

“Enterprise risk management is defining a standardised way of implementing risk management across the entire enterprise or entire organisation and it relates to quite a few different things.” [P5]

“Having a risk management framework of some sort which is broad as opposed to having a single view into a specific risk type (sic) the risk types should simply form small pieces of the bigger enterprise risk management framework.” [P9]

Interviewee 13 summarised the broader context of the enterprise risk management discipline in the definition offered, as it also took into account the link to organisational objectives.

“You have got risk you have got opportunities, you’ve got objectives and they are all aligned.” [P13]

ii.) **Tone at the Top of the Organisation**

Two interviewees (8 and 16 quoted below) offered in their definitions of enterprise risk management the characteristics of leadership that included; having a risk mind-set, behaving ethically and embedding a risk culture within financial institutions. These were interesting insights as they stood out from general interviewee definitions with respect to risk types and risk management processes.

“It’s firstly how the organisation not runs and manages risk, but how they see risk and the possible impact on the organisation and the tone at the top in terms of defining that and living that and that mind-set of risk is something we need to keep our eye on. Then implementing that in a practical way across the business.” [P8]

“The ethics of an organisation boils down to the ethics of the people in that organisation. If you have leaders within your organisation who are unethical it drives the type of business you are going to work in. If you have employees that are unethical that is a reputational risk for your business.” [P16]

5.3.1.2. Understanding Effective Enterprise Risk Management

Question: What does effective enterprise risk management mean to you?

This question sought to establish interviewee interpretations of effective enterprise risk management. Explanations in this regard did not differ significantly from views provided on the definition of enterprise risk management itself. However, additional emphasis was placed on the need to have risk management processes embedded within the activities of financial institutions and for key measurements or metrics to be in place.

i.) Risk Management Processes

Interviewees emphasised the need for risk to be understood and managed proactively as an integrated part of business processes in order for enterprise risk management to be effective. Interviewee 3, for instance, felt that business stakeholders should not just have a view of their risks, but that they should also have an end-to-end understanding of the risks across their business processes (cited below). Interviewee 1, also quoted below, felt that risk practitioners should be involved at the point when business decisions were made in order for enterprise risk management to be effective. In essence, interviewees provided general feedback on the need for risk management practises to be embedded within the culture of the organisation, as was encapsulated by interviewee 5 below.

“It’s about the guy in the frontline understanding his risk landscape and how different risks impact one another. And how do you aggregate that information upwards and also be able to draw that down.” [P3]

“Where business is making the decisions, being there to guide the business... instead of trying to do monitoring (sic) after the fact.” [P1]

“It’s not just finding them it’s about understanding and being intimate and then having it embedded in the culture of the organisation... it’s not an ad hoc (sic) extra thing that they do on the side as a paper base or check point exercise and there’s a real culture of understanding risk management.” [P5]

ii.) Risk Management Metrics

Some interviewees also re-iterated the need for enterprise risk management frameworks and metrics to be in place, fit for purpose, and monitored to ensure the effectiveness of enterprise risk management as a discipline. Interviewees 9 and 4 articulated these sentiments in their responses provided below.

“What would be relevant and what would work as opposed to simply having a risk management framework for the sake of having one... a risk management or enterprise wide risk management framework has to be relevant, it has to be influenced by the sources of the risks.” [P9]

“Having the metrics in place and confident monitoring and not only having it there, but having active reviews of these things.” [P4]

5.3.1.3. Importance of Enterprise Risk Management

Question: Is enterprise risk management an important discipline and why?

This question was intended to obtain interviewee insights regarding whether the enterprise risk management discipline was considered to be important to them. The researcher sought to identify whether negative responses would be indicative of challenges to risk management effectiveness. However, all 16 interviewees responded with emphasis that enterprise risk management was indeed an important discipline, and insights categorised according to organisational sustainability and corporate governance were provided in this regard.

i.) Organizational Sustainability

References were made by interviewees to corporate incidents that have occurred in the past, and that may occur in the future, as a key motivation for the importance of enterprise risk management. These views were highlighted by interviewees 2, 6 and 14 in the context of safeguarding financial institutions and protecting shareholder value.

“If you look at incidents that happened across the globe, Royal Bank of Scotland, Barclays, being fined, if enterprise risk management is not effective things like that will continue to happen and it will happen on a large scale... so it’s really important.” [P2]

“Businesses operate in a volatile environment where there are so many risks that business will encounter, this can be from operational risk, capital risk, financial risk and regulatory risk.” [P6]

“It is quite important because you would want to be in a position where you have understood all sorts of risks that your organisation has been exposed to and you have sufficient mitigating controls to ensure that those risks do not materialise. So it is pretty much about safeguarding the whole organization. And the shareholders.” [P14]

Interviewees also cited the importance of enterprise risk management for organisations to balance opportunities in the environment with the risk attached to achieving organisational objectives. Interviewees 3 and 16 articulated these sentiments in their responses below.

“If we think of a really big picture – what will make us more sustainable as a bank going forward? It’s not coming up with the most innovative ideas; it’s not about

coming up with the strategy that will make us the most money. It's about the balance between opportunity and risk – balancing the threat, and that's what's (sic) so important – it makes us more sustainable as a bank going forward.” [P3]

“I think it is important because of the going concern of any company. If you are running a serious business and you would like to be around twenty years from now and you would like to move from a growing business into a big business then it is something you need to build from an early stage.” [P16]

ii.) Corporate Governance

Interviewees noted enterprise risk management to be a critical component supporting good corporate governance. The topic of corporate governance was used as a reference point for ensuring compliance to organisational requirements (refer to interviewee 4 quote below), ensuring the appropriate organisational oversight (refer to interviewee 8 quote below), and enabling consistency with respect to operational practises (refer to interviewee 11 quote below).

“I think definitely from a (sic) governance and compliance perspective it is important because if we don't comply with those things I don't think I am going to be employed or the bank is going to do too well. So I would say it is important from that perspective as well as internal good practice.” [P4]

“If you don't have that type of function or overseeing role or responsibility not all your risks will be identified and you won't be responding to them appropriately and timeously.” [P8]

“When we have a consistent way of managing the risks that we have, we also give people opportunity of talking the same language, so when we describe the risk

appetite within the organisation we understand exactly what the criteria is or how we are coming to the risk appetite for the business, or how we are rating a particular risk, or how we are coming up with the response plan. The process is standardised. We have a consistent way of doing it. It is very important for us to have an enterprise risk management framework within the organisation to ensure that everything is consistent.” [P11]

Interviewee 5 offered a unique insight emphasising in the response that, within the context of good corporate governance, enterprise risk management was important in enabling the appropriate risk culture of the organisation.

“It can make a massive difference in the organisation in terms of the risk management culture and really what is implanted from a control perspective.” [P5]

5.3.2. Enterprise Risk Management Framework

To enable further research exploration into the extent of financial institution implementations of enterprise risk management as a discipline. The questions asked of interviewees related to adoption and measurement of enterprise risk management frameworks.

5.3.2.1. The Adoption

Question: What enterprise risk management framework has the organisation adopted and what challenges have you experience with its effectiveness?

This question sought to obtain interviewee insights into the extent of implementation of enterprise risk management frameworks within financial institutions, and to explore why these frameworks may not have been effectively implemented.

Interviewees generally responded that the adoption of enterprise risk management frameworks were at different phases of implementation within financial institutions. Some organisations had not yet implemented enterprise risk management

frameworks, while others had though to varying degrees. No response had been received indicating that frameworks were fully implemented and effective, without some level of challenge experienced.

i.) Frameworks Not Yet Implemented

Some interviewees noted that enterprise risk management frameworks and supporting guidance did not yet exist within organisations. This tended to be due to the lack of industry frameworks that could be easily adaptable or due to the complexity involved in creating a fit-for-purpose framework within the organisation itself. Interviewees that were in the planning stage of implementation noted that industry frameworks were at least being used as a reference point as organisations looked to develop their own frameworks. This was encapsulated by interviewee 3 below.

“We’ve looked at COSO, we’ve looked at ISO31000, we’ve looked at what’s out there...so we haven’t adopted any specific ones of those – our framework is informed by that, but we’re still in the process of putting our framework together. It’s informed by those components, but it is not dictated – it doesn’t dictate what we do. I think what we need to do is make sure it is practical and fit for purpose.” [P3]

The lack of frameworks within organisations, according to interviewees, resulted in a number of challenges with respect to managing enterprise risk effectively. For some, there existed separate frameworks per risk type which proved difficult to consolidate and integrate in order to obtain a holistic view of risk. For others, the absence of a set framework and supporting standards meant that the nature of decision-making in organisations tended to be subjective and dependent on the individual or group making the decisions; this was highlighted by interviewees 7 and 8 below.

“We are doing something and we are talking, but (sic) frameworks are not in the place where it is supposed to be. It hasn’t been accepted by all so it is difficult to measure against. We get into meetings and it is my opinion against your opinion.”

[P7]

“There is not a set standard for me of what is acceptable. It is very autonomous and it is up to the project teams or individuals in areas to determine that.” [P8]

It is worth noting that a few interviewees were unsure of whether enterprise risk management frameworks existed within their organisations, which was indicative of the improvements required, in general, with respect to communication and education regarding enterprise risk management.

ii.) **Framework Implementation In Progress**

There were enterprise risk management frameworks implemented in organisations, according to a few interviewees. However, these were noted as being a work in progress as organisations had either experienced changes with existing frameworks, or governing structures had changed, or there appeared to be implementation challenges with respect to organisational complexities. Interviewees 5 and 6 made reference to these changes within their organisations.

“We have gone through a deep exercise now, because (sic) the whole frame work has changed.” [P5]

“The only problem at the moment or the challenge that the company is facing is where to place all the governance structures and the risk structures as well as compliance, how (sic) they work together, that is where the challenge becomes huge.” [P6]

Interviewee 10 felt quite strongly that while enterprise risk management was implemented in the organisation, it was not effective because the framework did not

provide a holistic view of risk. The lack of appropriate frameworks was also echoed by interviewee 15.

“ERM is implemented but is not effective ERM because there is no complete view of risks and also a holistic picture of what each business looks like in terms of risk management.” [P10]

“The problem with most of these risk frameworks... is that most of them are just a data dump, so it is a reflection of what a second or third line of defence found, or what management’s view is (sic) but very few of them are a combination of also having some triggers.” [P15]

5.3.2.2. The Measurements

Question: What enterprise risk metrics are used within the organisation and what challenges have you experienced with their effectiveness?

This question was intended to explore the extent of interviewee knowledge regarding enterprise risk metrics used within organisations, such as risk thresholds and tolerance levels. The question also sought to identify whether interviewees experienced any challenges with respect to effective implementation of these metrics within organisations. Interviewees tended not to respond with clarity or confidence when discussing risk metrics, feedback tended to be vague, or interviewees admitted to not having knowledge of risk metrics. Consequently, interviewee feedback provided was categorised into challenges with respect to; risk practitioner awareness and understanding, business awareness and understanding, and inappropriate risk metrics.

i.) Risk Practitioner Awareness and Understanding

A few interviewees admitted to being unfamiliar with existing risk metrics within their organisations. The resulting challenges identified however, from this experience,

was that there were no specific tangible measures that could be used to determine whether business decisions were appropriate and therefore risk tended to be written off. This was articulated by interviewee 1 below.

“I am not aware of it, it doesn’t exist. I have never come across it. So the reality of it is that where things go wrong it is just written off and then there is risk acceptance. So there are no specific tangible measures that I have come across in my portfolio.” [P1]

Other interviewees highlighted that they had knowledge of existing risk metrics, to some extent, but made the point that there was a lack of understanding of business and therefore the existing tolerance levels were not necessarily appropriately applied to business processes and therefore it hindered business’ ability to be productive. Interviewee 10 covered these aspects in the viewpoint provided.

“I am aware of the compliance risk requirements but not the organisations complete risk appetite. I think there is a lack of understanding of business hence the tolerance specified does not fully talk to business and in some cases hinder productivity.” [P10]

ii.) **Business Awareness and Understanding**

Interviewees appeared to have similar views in their engagement with business stakeholders, regarding the lack of awareness and understanding of risk metrics. Interviewee 5 highlighted that a risk appetite was being developed in the organisation, however, business were not aware of it because of their level of understanding of how risk operates. Interviewee 2 also noted that business perhaps needed a senior person to create this awareness, which was indicative of the need to have the right risk culture in place.

“For the first time I think in this bank we had an IT risk appetite being developed. Although it is still going through the approval stages, I don’t think they are aware of it, simply because of the level of understanding of risk and how risk operates in our organisation.” [P5]

“I think there needs to be more awareness, sit them down in a room and get a senior person to talk to them... But this is fighting a battle for a very long time... I think it’s the culture, risk culture is important.” [P2]

Interviewees 3 and 16 took a slightly different view with respect to awareness and understanding of risk metrics in their organisation, as noted in the quotes below, and suggested that metrics were in fact understood at a senior level in the organisation, though the level of understanding may be reduced as the lower levels of the organisation are engaged.

“The “embeddedness” of risk appetite across the organisation is (sic) at different levels and you’ll find for example credit risk is, on the risk appetitive level, is 100% embedded – everyone understands the metrics at top level. And then as it filters down, it gets less and less.” [P3]

“I think the people at the top are aware because ultimately they are the ones that have to answer to the Reserve Bank, but the people on the ground I think for them sometimes... it is just ticks and checks and boxes. In their day to day operations I don’t think people are aware.” [P16]

iii.) Inappropriate Risk Metrics

Interviewees responded that risk metrics were either not in place or were not fit for purpose within organisations. For some, the creation of metrics within business

processes seemed to be a challenge as a result of business buy-in. Interviewee 2 quote these challenges below with a sense of frustration. Other interviewees added that the lack of specific thresholds meant that decisions made were very much based on subjectivity.

"We don't have key risk indicators, every time you put something people just don't like it; they don't buy into it." [P2]

Those interviewees that cited existing metrics to be inappropriate also noted that they at times led to business exposures not getting the required attention. Interviewees added that metrics may be in place at the higher levels, but they were not necessarily created at the lower levels of the organisation. Additionally, within the context of multinational organisations, the metrics used in one location was not necessarily appropriate, and therefore effective, in other locations. This was highlighted by interviewees 6 and 11.

"We can do better if the limit or the thresholds are equated to local and international, if you can get the balance between the international threshold level and the local threshold level." [P6]

"There are some that we feel we should be measuring based on the environment that we have in Africa. The environment in Africa and the UK obviously are different." [P11]

All interviewees tended to agree that, regardless of the challenges faced in defining metrics for organisations, they were important to have as a means to managing enterprise risk effectively, and there was a need for all stakeholders to be aware of, and understand, what they meant. Interviewee 15 emphasised this in the view quoted below.

“I truly believe that the one thing which is (sic) the most important is that you have to have definitions of you know what your risk tolerance and risk appetite levels are (sic).” [P15]

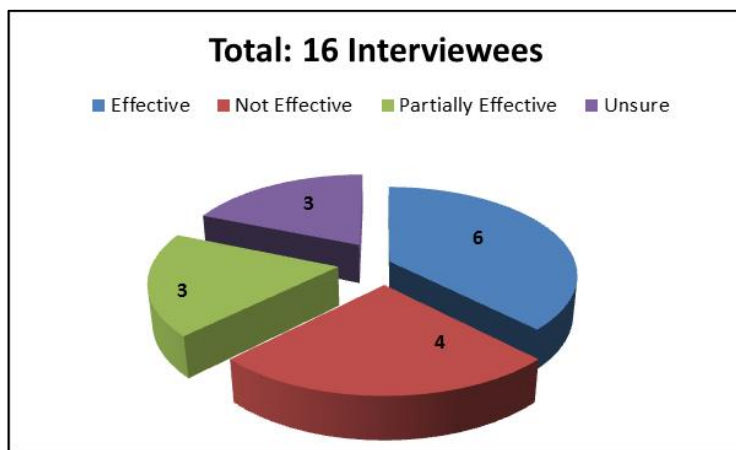
5.3.3. Enterprise Risk Management Governing Structures

5.3.3.1. Chief Risk Officer Effectiveness

Question: Do you think that the chief risk officer is effective in driving the risk management efforts of the organisation and what are the challenges experienced in this regard?

This question aimed to explore interviewee experiences of chief risk officers and to identify whether they perceived chief risk officers to be effective in driving enterprise risk management activities within financial institutions. The question also sought to identify challenges impeding chief risk officer effectiveness. Of the 16 interviewees that responded; six viewed chief risk officers to be effective, three viewed chief risk officers to be partially effective, four viewed chief risk officers to be ineffective, and three interviewees were unsure due to a lack of engagement. Figure 7 summarises the interviewee grouped responses.

Figure 6: Interviewee Responses – Chief Risk Officer Effectiveness



Source: (Researcher's Own)

The reasons six interviewees regarded chief risk officers to be effectiveness related to strength of leadership and communication. However, the largest number of interviewees (7 in total) identified chief risk officers to be either partially effective or ineffective. Key insights related to interviewee challenges were grouped according to the categories of chief risk officer; engagement with business, approach to risk management, and skills and experience.

i.) Engagement with Business

There was a need identified by interviewees for chief risk officers to educate business, including executives, on risk through regular engagement. This was a key aspect lacking in chief risk officer effectiveness. This was also suggested acknowledging that every aspect of business involves risk, and yet risk was not something business considers in their everyday activities. According to interviewees, this was not to say that business was not aware of risk, but it was considered to be too high level and it was not driven across the organisation. Interviewee 1 reflected these sentiments in the response provided below.

“Every facet of our businesses is affected by risk, but I think it is the lack of education and I think that is what a chief risk officer needs to be driving. I know that the job is very onerous, but I think it is an education about these (sic) things... I think it is just too much at a high level and it is not driven across the organisation enough and that would make it more effective.” [P1]

ii.) Approach to Risk Management

Interviewees that found chief risk officers to be ineffective felt that these individuals lacked accountability. Interviewees 1 and 8 noted in their feedback below that the chief risk officers delegated responsibilities which resulted in effectiveness of the role being dependent on those individuals that took on the responsibilities. Interviewee 1 also noted that this behaviour set the tone of the risk culture of the organisation.

“I think it is just that he is good at delegating responsibility to each of his risk heads to run and not really taking all of that accountability upon himself. I think he is very relaxed, I think his approach is very relaxed as well and I think that drives the culture. So clearly there is room for improvement.” [P1]

“In terms of effectiveness I feel a lot of the responsibilities are delegated to others – to committees, to subcommittees, to certain individuals. The effectiveness of the risk officer would then be dependent on the effectiveness of those.” [P8]

Some interviewees felt that the role played by chief risk officers was in itself ineffective; this related to risk management activities spent coordinating and consolidating risk reports, as opposed to being “in the coalface” (as highlighted by interviewee 7) of risk management activities.

iii.) Skills and Experience

A few interviewees felt that existing chief risk officers did not have sufficient levels of risk management experience. It was suggested that chief risk officers tended to be hired because they understood the business well but they did not have the expertise to provide an appropriate risk oversight role. Even in instances where chief risk officers did have experience in risk management activities, some interviewees felt that this was limited to specific risk types and that these chief risk officers were not sufficiently well rounded in terms of experience of various risk types. These sentiments were included in responses from interviewees 5 and 13.

“A lot of CROs don’t actually have any risk experience or very little risk experience so many times they are actually employed, because they know business very well or they are very good in something else, but they don’t necessarily do a lot of risk management or they haven’t done a lot of it.” [P5]

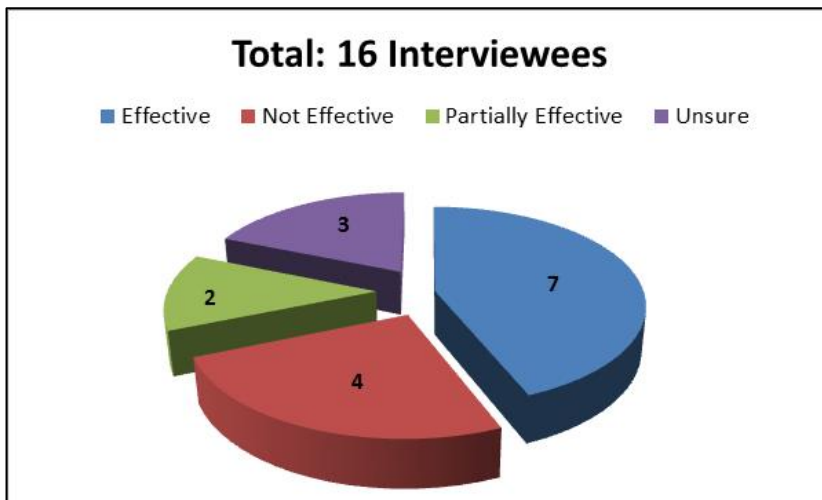
“So what you find, it’s normally a chief risk officer who is very strong in one risk types trying to grapple with all these other risk types.” [P13]

5.3.3.2. Risk Committee Effectiveness

Question: Do you think that the risk committee is effective in driving the enterprise risk management effort of the organisation and what are the challenges in this regard?

The intention of this question was to explore interviewee experiences of existing risk committees and to identify what challenges existed with risk committee effectiveness within financial institutions. Of the 16 interviewees that responded; seven viewed risk committees to be effective, two viewed risk committees to be partially effective, four viewed risk committees to be ineffective and three interviewees were unsure due to a lack of involvement in risk committee activities. Figure 8 summarises the interviewee grouped responses.

Figure 7: Interviewee Responses – Risk Committee Effectiveness



Source: (Researcher's Own)

The largest number of interviewees (7 in total) identified risk committees to be effective primarily due to their ability to hold people accountable and apply diligence when dealing risk. In terms of interviewee challenges experienced, feedback was categorised according to risk committee operating model and risk committee composition.

i.) Risk Committee Operating Model

Interviewees that cited challenges experienced with risk committee effectiveness referred to the issue of a lack of committee accountability and authority / priority. Interviewee 1 in particular noted below the need for risk committees to hold executives responsible when things go wrong, rather than drive the culture of allowing incidents to occur without consequence.

“I think maybe it has a lot to do with the culture of the bank. I think when things go wrong we don’t hold people accountable be it executives, be it people within the business. So I think a committee needs to have some teeth and when things go wrong hold people to account. I think we overlook a lot of things, it is a culture of saying it is okay, we’ll fix it the next time or the next time.” [P1]

Interviewees also found that the lack of an integrated view of metrics and reporting meant that committees could not be effective. Additionally, comments were made that committee attendees tended to focus on their risks alone and were not necessarily interested in other risk types, unless they were impacted. Interviewees 3 and 6 highlighted their experience in this regard.

“I don’t think the committees are effective at this point to understand the inter-relationships between the different risk types and how it could affect one-another. And to define metrics that will mean something to everyone around the table because everyone’s just looking at their own metrics.” [P3]

“They are not necessarily working together in all aspects of risk; that becomes a challenge for effectiveness.” [P6]

Interviewee 16 also felt that risk committees tended to operate in isolation from the rest of the organisation in that there was a lack of communication of committee activities and outcomes to the lower levels of the organisation.

“Having SMEs from the different areas that are responsible for reporting to the risk committee or sitting within the risk committee so that you have that two-way communication (sic)... I think it sits in a silo. The committee is just there.” [P16]

i.) Risk Committee Composition

A few interviewees commented on ineffective committees with respect to their composition. Interviewee 9 maintained the opinion that there was not a match between business stakeholders and risk practitioners supporting them in attendance at these committees. Interviewee 15 felt that risk practitioners in attendance tended to be experts in certain components of risk, but were not necessarily educated in the business of the organisation, which made them ill-equipped to provide the right level of support and challenge at committee meetings.

“Ideally there should be a match between people who are in business and people in the second or third line of defence.” [P9]

“You know the problem with most of these board committees are they tend to have experts, so to say experts, in a particular field but they are not necessarily an expert in the way your organisation does business.” [P15]

Interviewee 16 provided the viewpoint openly that risk committees did not have the appropriate people in attendance:

“I mean these things need to be driven more by the committees. That is probably because the committees don’t have the right people.” [P16]

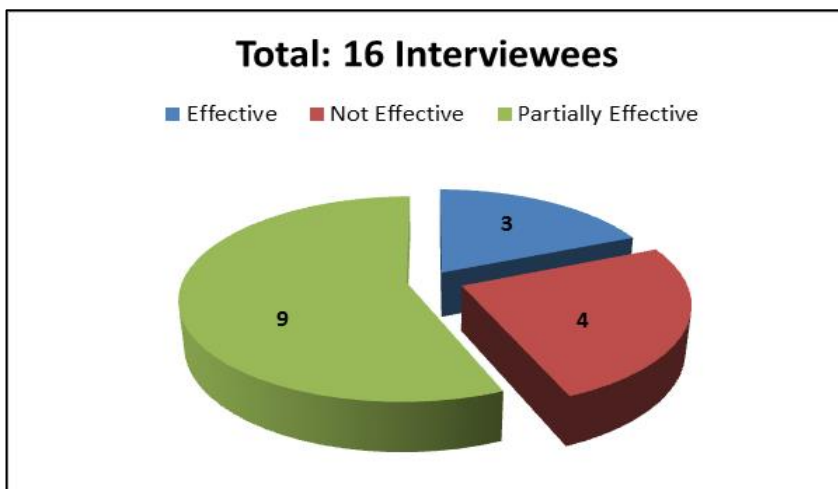
5.3.4. Enterprise Risk Management Practices

5.3.4.1. Business Effectiveness

Question: Do you think that business is effective in managing their risk and what are the challenges you have experienced in this regard?

The purpose of this question was to explore interviewee experiences of business stakeholders’ ability to manage their risk effectively within financial institutions, and to identify the challenges to effective risk management. Of the 16 interviewees that responded; three viewed business stakeholders to be effective, nine viewed business stakeholders to be partially effective and four viewed business stakeholders to be effective. Figure 9 summarises the interviewee grouped responses.

Figure 8: Interviewee Responses – Business Effectiveness



Source: (Researcher’s Own)

The majority of interviewees (13 in total) felt that business stakeholders were either partially effective or not effective. Based on the themes of insight received, these challenges were categorised into; business understanding of risk, business ownership of risk and the attitude of business.

i.) Business Understanding of Risk

Several comments were made by interviewees regarding the lack of business understanding as it relates to the discipline of risk and related risk management activities. A number of consequences were also highlighted as a result. Some interviewees felt that it resulted in a number of operational incidents in their risk portfolios (refer to interviewee 1 quote below), while others suggested that responsibilities were passed onto risk practitioners due to lack of knowledge of how to self-manage risk (refer to interviewee 2 quote below). Where business did not understand the nature of risk in their environment, it was suggested that they lacked a desire to ask for help.

“We talk about risk appetite and risk culture and monitoring of thresholds and doing all of these things, but I think the education is just not there. It is very much at the higher levels, a person... doesn’t understand what he is (sic) doing let alone what it translates to in terms of (sic) risk.” [P1]

“I am not saying it doesn’t exist through the whole organisation, but for my portfolio there are just so many things going wrong.” [P1]

“There is a very detrimental impact because these guys always see me as a face of doing it, they don’t understand the reasoning behind it; they don’t understand the benefits of doing it (sic) themselves.” [P2]

Business were also found to push back on risk management activities as they did not understand that it was integrated into their business processes, and not a separate activity which risk practitioners were responsible for. A few interviewees

suggested that it was an indication of low maturity levels in their organisations from a risk perspective, and this was reflected in interviewee 11's quote below.

"When I say maturity journey I am saying there are items that I personally feel they are supposed to be doing (sic)... but because Business is not at that matured level for them to take over those activities we are still performing those activities over and above the governance role that we are performing." [P11]

ii.) Business Ownership of Risk

There was a general view from interviewees that organisations lacked the leadership to take accountability of risks within their environments, at times even when the understanding of risk existed. Interviewee 2 felt quite strongly in the point made below. This view was also echoed by interviewee 8 below.

"The risk culture needs to be improved, also leadership needs to take accountability and start driving risk, and (sic) if leadership don't do it then I don't know." [P2]

"I think the issue is taking accountability for the risks in your realm. The thing I have seen, whether it is Business/IT whoever it is always someone else's problem." [P8]

iii.) Attitude of Business

Interviewees tended to have a negative experience with respect to business attitude during engagements. Interviewee 1 expressed the opinion that business stakeholders were only transparent when they were not being audited. Similarly, interviewee 5 commented that business stakeholders viewed risk practitioners as "policeman" rather than partners.

“The only time that they are open, fully open and transparent is when something doesn’t result in an audit. So if we say this is on the basis of us just being aware and we will provide you with some level of assurance without rating you then they are very transparent and open and you are sitting around the table and you are having a very different discussion.” [P1]

“A lot of first line believe that the risk teams – first or second line – are their policemen and are going to hit them over the stick if they do something wrong instead of seeing them as a partnership so they can work on the risk management holistically and work together from a business perspective.” [P5]

Interviewees also commented on business’ attitude in executing business processes. It was felt that business stakeholders lacked consideration for what the consequence might be, from a risk perspective, to overlook controls. These sentiments were felt by interviewee 13 as articulated in the quote below. Interviewee 15, also quoted below, felt that the consequence of business attitude resulted in the increased level of risk the organisation was exposed to.

“You are just ticking a box and putting your signature there as opposed to actually doing what is required.” [P13]

“I think half of all the key controls in any organisation are not what it’s supposed to be.” [P15]

Interviewee 16 highlighted that business’ appetite to be prudent with risk was linked to the level of consequence attached.

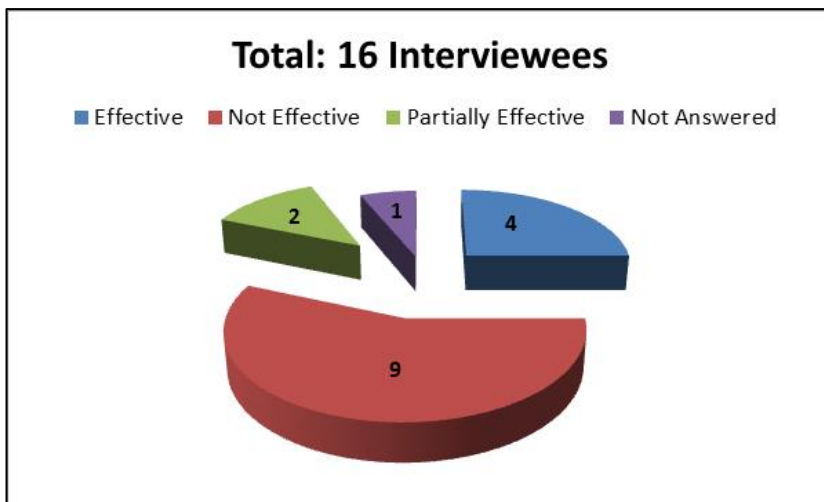
“What I have typically found is that the employees’ appetite to be risk compliant is directly proportional to how big the stick is at the top.” [P16]

5.3.4.2. Risk Practitioner Effectiveness

Question: Do you think that risk practitioners are effective in supporting the risk management efforts of the organisation and what are the challenges experienced in this regard?

This question was intended to allow interviewees to consider themselves and the risk functions in which they operate. The question sought to explore whether interviewees saw themselves and fellow colleagues as effective in supporting enterprise risk within organisations. Figure 10 below summarises the interviewee grouped responses.

Figure 9: Interviewee Responses – Risk Practitioner Effectiveness



Source: (Researcher's Own)

From the responses received, 11 of the 15 interviewees noted that they did not view risk practitioners to be effective in supporting the risk management efforts of the organisation. These interviewees made up the majority of responses which were reflected in the categories identified below of; risk practitioner understanding of business and risk, and perception of business.

i.) Risk Practitioner Understanding of Business and Risk

Interviewees were generally of the view that risk practitioners did not understand business or risk well enough to be effective in their discipline. Some interviewees felt that there were risk practitioners that were knowledgeable of business and risk, but that this occurred in pockets. A few interviewees also suggested that risk practitioners were usually not adding much value as a result, though there may have been some value where regulatory requirements needed to be met requiring risk practitioner involvement. The comment was made by interviewee 5 below that effective management of risk within organisations could be achieved in risk practitioners' ability to understand risk, and that this was where value could be found.

"I find some of the guys will be very good and will really have a lot of risk experience and know what they are doing, but we also have a lot of situations where we unfortunately have people in risk in second line who doesn't really understand risk management... And then (sic) a lot of our third line audit guys really don't have a clue." [P5]

"Actually start understanding the business and really start to understand how to add value – that is where the difference is." [P5]

From an auditing perspective, interviewee 1 remarked below that risk practitioners tended to audit against policy and process rather than properly understand the risk of the business and audit against that. Interviewee 1 noted how few times a risk had been identified which was not already known by someone else.

"How many times have we actually come out with an audit that says something totally different and highlighted a major business risk that someone else didn't think about? I don't think that it happens; it is (sic) - in my mind for what we do - still very generic." [P1]

This view was also supported by interviewee 18 in terms of challenges experienced with respect to understanding business and risk when trying to provide assurance to business.

“We do understanding of the environment, understanding of client risks, but I don’t feel that it is focussed on enough. So we do that at the start and think we have a grasp on it. When you get into the detail of your work you realise, but hang on there are other things. You go back, oh yes that was also a risk.” P8]

One interviewee also highlighted the fact that, due to a lack of business and risk understanding, auditing became a training session as opposed to an actual audit. Acknowledging this challenge, some interviewees noted that certain environments within the organisation were complex and required a fair amount of time to understand the business and risk; this was echoed by interviewee 2 in the comment made.

“Certain environments are difficult to deal with, it takes a lot of time to understand and know what is happening.” [P2]

“It’s a beast, we all know that.” [P2]

The problem put forward by interviewee 9 was that instead of risk practitioners working towards obtaining a better understanding of the business and risk within the organisation, they were working towards obtaining generic degrees in business and management of risk.

“At the moment a lot of young risk professionals who are occupying a lot of risk positions, if you ask them what they are doing to improve their knowledge they are doing a degree.” [P9]

ii.) Perception of Business

Views were also presented that business stakeholder perception of risk practitioners needed to change in order for risk practitioners to be more effective. Business stakeholders tended not to be open to risk practitioners which inhibited risk practitioner ability to effectively understand the business and risks associated with it. A number of interviewees felt that business stakeholders found them to be a hindrance to their business activities and had in fact communicated that, as was the case with interviewee 8 quoted below.

“The majority of feedback that I get... (sic) is you don’t understand my business and you say things that aren’t practical for me to implement or apply and you don’t know where you are coming from; you don’t deal with this stuff day in and day out.”
[P8]

Interviewee 9 summarised the view of business perception towards risk practitioners:

“Very few people are comfortable with risk management functions.” [P9]

5.3.4.3. Risk Management Coordination

Question: What is your experience of the organisation’s coordination of risk management and the “three lines of defence” model, and what challenges have you experienced with respect to their effective implementation?

This question sought to explore what interviewees experienced with respect to organisational interactions, including in terms of the “three lines of defence” model. Of interest were the challenges that prevented effective risk management across the organisation. Interviewee feedback with respect to challenges experienced were categorised according to coordination of risk activities and execution of the “Three Lines of Defence” model.

i.) Coordination of Risk Activities

Interviewee insights noted that business stakeholders tended to operate without the involvement of risk practitioners. The term “working in silos” featured on several occasions during interviewee descriptions of risk management coordination within organisations. Interviewees felt that the lack of alignment meant missed opportunities in terms of working together and leveraging off risk management work already done so as to enable organisational efficiencies within risk management activities. Comments were made regarding duplication of effort given the lack of communication and integration. The outcome, for instance, being that risk practitioners would audit the same environment; a view put forward by interviewee 5.

“They will go and audit the same thing ten times that has already been audited from a regulatory perspective... but they haven’t coordinated that effort or they don’t coordinate between the different audit teams never mind with second or first line.” [P5]

Interviewees also emphasised the need for business and risk practitioners to communicate better. Interactions at all levels was felt to be a key requirement for proper coordination, though this was deemed to be lacking, as was highlighted by interviewee 8 below who also emphasised that the tone at the top was key to ensuring the organisation was effectively integrated and coordinated in terms of risk management activities.

“More interactions on the right levels. That is for me the biggest barrier. To read stuff through papers it is too late and to give input then is irrelevant. I am going back to the buy-in and tone at the top. If that is really something that is important to an organisation they will push that the right people sit in the right meetings and give the right input.” [P8]

i.) Execution of “Three Lines Of Defence” Model

The implementation of the “Three Lines of Defence” model, as a mechanism to support enterprise risk management in organisations, seemed to create a number of challenges according to interviewee insights. Awareness and education surrounding the model was found to be lacking which resulted in a sense of confusion between business and risk practitioners with respect to roles and responsibilities. One interviewee felt that it caused overlap of efforts due to the lack of clarity of roles and responsibilities, while another interviewee felt that it had caused a lot of conflict between stakeholders in terms of understanding what each person should be doing; this was specifically highlighted in interviewee 12’s response below.

“It has been quite a journey in terms of understanding what each person is (sic) doing... there would be some fights among the teams in terms of... second and third line of defence with expectations of what each person (sic) is supposed to be doing.” [P12]

Interviewees 13 and 15 summed up the general sentiment in their viewpoints featured below that there was still a lot of work to be done where perhaps attitudes needed to change, and that at the point of on-boarding is perhaps when the education should start.

“There are a lot of issues coming up so I think there is still a lot of work that needs to be done; people’s attitudes maybe needs to change.” [P13]

“At (sic) on-boarding... part of your roles and responsibilities they should actually give you a definition of first, second and third” [P15]

5.4. CHAPTER CONCLUSION

The objective of this research was to explore risk practitioner experiences of enterprise risk management, specifically to obtain a view of their experiences of the discipline and to determine the challenges experienced with respect to effectively managing enterprise risk, according to perception. This chapter presented the results of 16 semi-structured interviews with risk practitioners providing insights across 10+ financial institutions

A table providing an overall view of the research themes, key headings (category of challenges) and summary of findings are presented in Appendix 4.

CHAPTER 6: DISCUSSION OF RESULTS

6.1. INTRODUCTION

This chapter intends to discuss the results of the research exploring risk practitioner experiences of enterprise risk management. Particular emphasis is placed on challenges experienced that inhibited enterprise risk management effectiveness. The results are also discussed with reference to the existing literature surrounding this topic, which was discussed in Chapter 2.

The discussion of results is presented in sub-sections, according to the various themes (components) of enterprise risk management, also as presented in Chapters 2 and 5.

6.2. RESEARCH QUESTIONS

Research Question 1

What have risk practitioners experienced of enterprise risk management in financial institutions?

Research Question 2

What challenges experienced have impacted risk management effectiveness, according to perception?

The term “effective” can be defined as “successful in producing a desired or intended result” (Effective, 1989).

6.3. INTERPRETATION OF RESULTS

6.3.1. Enterprise Risk Management

6.3.1.1. An Understanding

The research conducted in Chapter 2 alluded to numerous definitions provided over the years and by various academics of enterprise risk management. However, interviewee insights showed alignment to these varying definitions provided in the

literature, as a result of commonalities in certain key themes. For example, Alviniussen & Jankensgård's (2009) definition of a more holistic and integrated approach versus operating in silos was echoed in interviewee responses (quotes restated from Chapter 5).

"It needs to be intertwined and integrated... it needs to be very holistic, not just a one silo approach... it needs to be an integrated process between business and the people that are meant to support them." [P1]

"It encompasses everything, if you look at audit, operational risk, regulatory risk, compliance risk, enterprise risk should encompass everything." [P2]

The COSO definition of "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" (Committee of Sponsoring Organizations, 2004, p. 2), which is regarded as the most frequently cited definition according to literature (Shad & Lai, 2015; Arena, Arnaboldi, & Azzone, 2010; Gordon, Loeb, & Tseng, 2009; Beasley, Clune, & Hermanson, 2005), was also implicit within interviewee responses defining enterprise risk management. In fact, in interviewee interpretations of enterprise risk management effectiveness, the embeddedness of the discipline in business processes could be further identified within the COSO definition and framework referred to in Figure 4 of Chapter 2.

Of interest however were the additional interviewee definitions provided (quote restated below from Chapter 5) that included organisational leadership elements of a risk mind-set, ethical behaviour and an embedded risk culture – the tone at the top – which were not explicit in existing definitions, particularly in COSO as the most cited definition.

“It’s firstly how the organisation not runs and manages risk, but how they see risk and the possible impact on the organisation and the tone at the top in terms of defining that and living that and that mind-set of risk is something we need to keep our eye on. Then implementing that in a practical way across the business.” [P8]

6.3.1.2. The Importance

The large number of financial institutional collapses and incidents referred to in several academic journals (Mawutor, 2014; Ellul & Yerramilli, 2013; Erkens, Hung, & Matos 2012; Gillet, Hübner, & Plunus, 2010), appeared to resonate with interviewees in their justifications supporting the importance of enterprise risk management; not just with respect to incidents that have occurred in the past, but in the context of incidents that may still occur. This also supported the view that enterprise risk management is key to corporate sustainability in view of the economic uncertainty impacting the financial industry (quotes restated from Chapter 5).

“If you look at incidents that happened across the globe, Royal Bank of Scotland, Barclays, being fined, if enterprise risk management is not effective things like that will continue to happen and it will happen on a large scale... so it’s really important.” [P2]

“It is quite important because you would want to be in a position where you have understood all sorts of risks that your organisation has been exposed to and you have sufficient mitigating controls to ensure that those risks do not materialise. So it is pretty much about safeguarding the whole organization. And the shareholders.” [P14]

Interviewee insights on the importance of enterprise risk management as a discipline supporting good corporate governance also resonated in the literature from Chapter 2 (quote below restated from Chapter 5). A clear link could be seen to the Basel Committee on Banking Supervision (2015) as well South African regulation (International Monetary Fund, 2015) which has an expectation of financial institutions to demonstrate robust risk and compliance management.

“I think definitely from a (sic) governance and compliance perspective it is important because if we don’t comply with those things I don’t think I am going to be employed or the bank is going to do too well. So I would say it is important from that perspective as well as internal good practice.” [P4]

6.3.1.3. Conclusion

All 16 interviewees demonstrated confidence and clarity with respect to their interpretations of the definition of enterprise risk management as well as in their motivations for the importance of enterprise risk management as a discipline. Interviewee insights also largely supported the existing literature regarding key aspects of the enterprise risk management discipline definition as it related to a holistic and integrated view of risks. Interviewee definitions of effectiveness of the discipline were directed to the embeddedness of enterprise risk management processes and metrics within business activities. Additional support for the literature was found in the importance of enterprise risk management as it related to organisational sustainability and corporate governance expectations.

6.3.2. Enterprise Risk Management Framework

6.3.2.1. The Adoption

Beasley, Pagach, & Warr (2008) suggested that the justification for adoption of enterprise risk management was dependent on each individual organisation. The results of this study indicated that while organisations may, or may not have implemented enterprise risk management within their organisations, there certainly

were intentions to do so. The reason for adoption seemed to be aligned to the importance attached to the discipline, which was commented on by interviewees.

From an enterprise risk management framework perspective, Lundqvist (2014) noted that there were apparent inadequacies prevailing in existing industry frameworks. It was suggested that while the underlying concepts were broadly the same, the extent of guidance was lacking. Further to these findings, Beasley, Branson, & Hancock (2010) argued specifically that the popular COSO framework was vague and excessively theoretical. Similarly, in the results of this research, interviewees did not specify any industry framework that was being used for adoption within their organisation. However, mention was made of various existing frameworks that were at least being used as reference points. Rather, organisations sought to use their own frameworks given the perceived uniqueness and complex nature of their environments (quote restated from Chapter 5).

“We’ve looked at COSO, we’ve looked at ISO31000, we’ve looked at what’s out there...so we haven’t adopted any specific ones of those – our framework is informed by that, but we’re still in the process of putting our framework together. It’s informed by those components, but it is not dictated – it doesn’t dictate what we do. I think what we need to do is make sure it is practical and fit for purpose.” [P3]

This tied directly to Lundqvist’s (2014) comment that it was not uncommon to discover that organisations had decided to create their own internal frameworks using industry frameworks merely as guidelines.

Also, while Lundqvist (2014) argued that the inability to implement effective enterprise risk management frameworks in organisations may also have been due to the lack of agreement and consistency on the definition of the discipline, in this study, interviewees indicated that implementation (and therefore effectiveness) challenges were rather as a result of organisational complexities. This finding however supported the study conducted by Gordon, Loeb, & Tseng, (2009) who identified that greater organisational complexity would create challenges for the implementation of management control systems.

6.3.2.2. The Measurements

Interviewees in this research generally provided a view that the process of identifying and managing risk metrics (i.e. risk appetite and tolerance levels) was important to effective enterprise risk management (quote restated from Chapter 5). This view was much aligned to the views of banking governing bodies (Basel Committee on Banking Supervision, 2015) and academic studies (Paape & Speklé, 2012)

“I truly believe that the one thing which is (sic) the most important is that you have to have definitions of you know what your risk tolerance and risk appetite levels are (sic).” [P15]

However, the results also identified challenges with respect to identification and implementation of risk metrics within organisations. As a result, Power’s (2009) argument that a singular risk appetite was flawed, given existing organisational dynamics, was supported by and large in this research. Interviewees cited existing complexities in terms of metrics not being in place, or were not fit for purpose, particularly given the nature of large, multinational financial institutions (quote restated from Chapter 5).

“There are some that we feel we should be measuring based on the environment that we have in Africa. The environment in Africa and the UK obviously are different.” [P11]

Stulz (2008) suggested that there were a number of errors that could be made in the risk identification and measurements process. This view supported Power’s (2009) argument that understanding of risk metrics and their implications was weak, as part of the implementation of enterprise risk management. Aligned to the existing research, this study found that inadequacies existed in the lack of awareness and understanding of organisational risk measurements, both from a risk practitioner and

business stakeholder perspective. This meant that implementation across organisations wasn't necessarily consistent in terms of maturity (quote restated from Chapter 5).

“The “embeddedness” of risk appetite across the organisation is (sic) at different levels and you’ll find for example credit risk is, on the risk appetitive level, is 100% embedded – everyone understands the metrics at top level. And then as it filters down, it gets less and less.” [P3]

6.3.2.3. Conclusion

Interviewees tended to be less confident in their views describing the extent of adoption of enterprise risk management frameworks as well as the metrics in place to support effective enterprise risk management, which implied a lack of exposure to these components, with reference to research question 1. Interviewees generally agreed however on the importance of frameworks and the need to have appropriate metrics in place, which supported existing academic literature, though interviewee awareness and understanding of these varied.

Also supporting existing literature were the challenges experienced by interviewees in the adoption and implementation of frameworks and metrics within organisations. This study identified organisational complexities and a general lack of stakeholder awareness and understanding of these risk structures as reasons for implementation challenges. Consequently, in terms of research question 2, enterprise risk management frameworks and measures were either planned or a work in progress and were not identified as being altogether effective.

6.3.3. Enterprise Risk Management Governing Structures

6.3.3.1. Chief Risk Officer Effectiveness

Taking a financial industry view of the expectations of chief risk officers, governing bodies articulated the roles and responsibilities to include the proactive

management of risk activities within the organisation and proactive engagement with business stakeholders (Basel Committee on Banking Supervision, 2014).

These governing body requirements also stipulated that chief risk officers should have the required expertise to oversee risk management activities of the organisation. However, this was not always the experience of interviewees in this research. Interviewees cited challenges with respect to chief risk officer risk engagement with business in driving the risk education agenda. Interviewees also felt that chief risk officers were not adequately skilled or experienced to drive the risk management agenda (quotes restated from Chapter 5).

“Every facet of our businesses is affected by risk, but I think it is the lack of education and I think that is what a chief risk officer needs to be driving. I know that the job is very onerous, but I think it is an education about these (sic) things... I think it is just too much at a high level and it is not driven across the organisation enough and that would make it more effective.” [P1]

“So what you find, it’s normally a chief risk officer who is very strong in one risk types trying to grapple with all these other risk types.” [P9]

The challenge of communication and risk education in business engagement tied to existing literature (Stulz, 2008) regarding the ability of chief risk officers (risk managers) to engage and communicate effectively in order for business and committees to understand risk and the consequences for organisations. However, literature appeared to be lacking in terms of assessing specific chief risk officer skills, experience and capabilities. As Beasley, Pagach, & Warr (2008) highlighted, using the chief risk officer as a variable does not necessarily capture the extent of the implementation of enterprise risk management. Perhaps it would be more beneficial to explore the effectiveness of the role itself.

6.3.3.2. Conclusion

There were generally mixed experiences of chief risk officers, with respect to research question 1 (refer to Figure 7 in Chapter 5). Interviewees that had positive experiences referred to strong leadership and communication traits. However, with reference to research question 2, general challenges identified with chief risk officer effectiveness related to inadequate business engagement and the inability of chief risk officers to educate stakeholders. Additionally, the expertise of chief risk officers in terms of broad risk management was questioned. From the results of this study, there existed some support for existing literature; however it appeared that further research may be needed on chief risk officer skills, capabilities and experience to effectively drive risk management efforts of organisations.

6.3.3.3. Risk Committee Effectiveness

The argument was made by Yeh, Chung, & Liu (2011) that if risk committee members did not have enough information needed to assess relevant risk exposures, the governance for risk and control would not be effective. This study supported the existing literature as the findings suggested that there was a lack of an integrated view and focus on risk by members. This was supported directly by interviewee statements regarding risk committee limitations with respect to risk metrics and reporting (quote restated from Chapter 5).

“I don’t think the committees are effective at this point to understand the inter-relationships between the different risk types and how it could affect one-another. And to define metrics that will mean something to everyone around the table because everyone’s just looking at their own metrics.” [P3]

According to the views of the Basel Committee on Banking Supervision (2015), despite there being a requirement for bank risk committees to include members that have the appropriate experience in risk management issues and practices, it identified that there was still further improvement required within the financial industry. These views were also supported by the results of this research, as

interviewees made various comments of inadequacy regarding committee composition, as it related to the expertise of risk practitioners to drive the requirement risk management discussions. It was felt that risk practitioners lacked a consolidated knowledge of risk to effectively challenge business at risk committees (quote restated from Chapter 5).

“You know the problem with most of these board committees are they tend to have experts, so to say experts, in a particular field but they are not necessarily an expert in the way your organisation does business.” [P15]

There were some findings not specifically cited in the literature. This included the authority of risk committees to hold people accountable and to drive communication of the outcomes of the risk agenda to the rest of the organisation. However, these findings could be seen as a consequence of risk committees without the appropriate mix of attendees with the relevant experience and skills, which supported existing literature.

6.3.3.4. Conclusion

The largest number of interviewees identified risk committees to be effective (refer to Figure 8 in Chapter 5). Therefore experiences were regarded as fairly positive, with respect to research question 1, and were motivated by risk committees' ability to hold people accountable and apply diligence when dealing risk. Where interviewees identified challenges to effectiveness, linked to research question 2, these related to a lack of holistic views and oversight of risk as well as the skills and experience lacking in risk practitioners. The need for these supported existing literature to some extent. However, findings that may require further investigation, as they were inferred outcomes, related to risk committee authority to hold people accountable to integrate the risk agenda to the rest of the organisation.

6.3.4. Enterprise Risk Management Practices

6.3.4.1. Business Effectiveness

The theme of a lack of business awareness, understanding and education of the enterprise risk management discipline and its requirements in terms of proper risk management resonated quite strongly with interviewees in this study (quote restated from Chapter 5). This supported Demidenko & McNutt's (2010) view that for risk governance to operate effectively, on-going risk management processes and the appropriate expertise and training in risk management is necessary. This lack of business knowledge and understanding of risk could be seen as a cause for the poor attitude of business towards risk practitioners.

"We talk about risk appetite and risk culture and monitoring of thresholds and doing all of these things, but I think the education is just not there. It is very much at the higher levels, a person... doesn't understand what he is (sic) doing let alone what it translates to in terms of (sic) risk." [P1]

"I am not saying it doesn't exist through the whole organisation, but for my portfolio there are just so many things going wrong." [P1]

The consequences of a lack of business understanding were felt by many interviewees in their day to day risk management activities. Some interviewees responded with frustration that business tended to push back, or pass on, responsibility of risk management to risk practitioners instead of taking on responsibility or asking for help. This showed support for Meulbroek (2002) in his argument that, to be effective, risk management was a direct responsibility of senior management, and that responsibility could not be delegated to risk practitioners. Palermo (2014) argued much the same that the onus of risk management was with business.

Interviewees felt that these challenges were indicative of low levels of maturity within the business. Given the research results presented earlier with respect to adoption

challenges of enterprise risk management frameworks within organisations, as well as issues regarding the clarity of measurements; this would seem to align to maturity levels within the organisation with respect to risk management and business' ability to execute good practice in general.

The view of interviewees regarding the lack of leadership accountability (quote restated from Chapter 5) to support effective risk management supported Demidenko & McNutt (2010) and Palermo (2014) in their argument that the effectiveness of enterprise risk management was closely linked to the “tone at the top” set by senior management. This was considered key to allowing corporate governance to evolve and organisations to realise competitive advantage.

“The risk culture needs to be improved, also leadership needs to take accountability and start driving risk, and (sic) if leadership don’t do it then I don’t know.” [P2]

6.3.4.2. Conclusion

With reference to research question 1, the experiences of interviewees of business were not altogether positive as the majority (13 in total) of interviewees identified business to be either ineffective (4) or partially effective (9) in managing their risk (refer to Figure 9 in Chapter 5). With respect to research question 2 and interviewee challenges experienced, key insights related to a general view that business lacked awareness and understanding of risk as well as accountability for driving risk management efforts. Interviewee views were negative in this regard, highlighting that business lacked transparency and consideration of risk, exposing business to increased risk as a result. The results of the research supported by and large existing academic literature on the need for business risk education and accountability to be effective.

6.3.4.3. Risk Practitioner Effectiveness

There was general sentiment from interviewees that risk practitioners did not have the appropriate levels of business and risk understanding and expertise to be

effective. This view was echoed by Palermo (2014) who emphasised that to be effective risk managers were critically dependent on risk experience and knowledge of business.

The argument that Power (2009) made that a rules-based and compliance-heavy model of risk management inhibited appropriate support and dialogue between risk and business was supported by this study as well; one interviewee made specific mention of the approach taken to provide assurance, which added minimal value to risk identification and management (quote restated from Chapter 5).

“How many times have we actually come out with an audit that says something totally different and highlighted a major business risk that someone else didn’t think about? I don’t think that it happens; it is (sic) - in my mind for what we do - still very generic.” [P1]

Interviewee insights that risk practitioners were seen by business as a hindrance aligned to the point that risk practitioners were also not perceived to have the appropriate business and risk understanding to be effective, and to add value. This point supported Demidenko & McNutt’s (2010) view that the “tone at the top” should be set by senior management to integrate risk management into business activities, as well as the view that appropriate expertise and training in risk management is necessary.

6.3.4.4. Conclusion

From the responses received, 11 of the 15 interviewees noted that they did not view risk practitioners to be effective in supporting the risk management efforts of the organisation (refer to Figure 10 in Chapter 5). With reference to research question 1, this was suggestive of a fairly negative view towards risk practitioners. In terms of research question 2, key insights were noted regarding a common view that risk practitioners lacked appropriate levels of awareness and understanding in both business and risk, to be effective and to add value. These views were in support of existing literature articulating the necessity of risk practitioner understanding of business and risk to be effective.

6.3.4.5. Risk Management Coordination

The findings in the research strongly supported Power's (2009) argument that, while the need to integrate risk and control within business processes was an undisputed imperative, there lacked sufficient elaboration on what that would involve. This was clearly identified in interviewee responses where stakeholders tended not to integrate which resulted in missed opportunities to leverage efforts and achieve organisational efficiencies within risk management activities (restated from Chapter 5).

"They will go and audit the same thing ten times that has already been audited from a regulatory perspective... but they haven't coordinated that effort or they don't coordinate between the different audit teams never mind with second or first line." [P5]

In the argument put forward by Fraser & Simkins (2007), it was highlighted that for enterprise risk management to be implemented effectively, all stakeholders should clearly understand how this should be executed. This argument was supported by the findings in this research, and in the context of the "Three Lines of Defence" model. Awareness and education surrounding the model was found to be lacking which resulted in a sense of confusion between business and risk practitioners with respect to roles and responsibilities (quote restated from Chapter 5).

"It has been quite a journey in terms of understanding what each person is (sic) doing... there would be some fights among the teams in terms of... second and third line of defence with expectations of what each person (sic) is supposed to be doing." [P12]

It would then seem that while the Basel Committee on Banking Supervision (2015) has attempted to provide clarification regarding the roles and responsibilities in

managing enterprise risk in an integrated way via the “Three Lines of Defence” model, this has yet to take effect within organisations.

6.3.4.6. Conclusion

Interviewee insights highlighted that risk management coordination and execution of the “Three Lines Defence” was on the whole a negative experience (research question 1). In terms of research question 2, there were a number of challenges experienced with respect to clarity and understanding roles and responsibilities between stakeholders and lines of business. The findings also supported literature highlighting that the absence of coordination and integration within the organisation was an inhibitor to enterprise risk management effectiveness.

6.4. CHAPTER CONCLUSION

The objective of the research was to explore risk practitioner experiences of enterprise risk management, specifically to obtain a view of their experiences of the discipline and to determine the challenges experienced with respect to effectively managing enterprise risk, according to perception. This objective was met by answering the research questions according to the themes set out in Chapter 2, and which were responded to in Chapter 5. On the whole, the existing literature was supported by the findings in this research.

Chapter 7 will highlight the main findings of this research, and the additional insights that were not explicitly covered in the literature will be presented in Chapter 7 for future research recommendations.

CHAPTER 7: RESEARCH CONCLUSION

This chapter re-examines the objectives of the research in view of the discussion of findings presented in Chapter 6. A summary of the main findings is provided, followed by a proposed enterprise risk management model. This model is a revision of the existing “Three Lines of Defence” model presented in the literature review of Chapter 2 and is updated with the main findings in this chapter. Recommendations are provided to consultants, senior management and boards / committees, as well as risk practitioners and business, considering the Chapter 5 findings and the research limitations identified. Lastly, recommendations for future research are offered to enrich the existing findings, which are followed by a conclusion to the study.

7.1. REVIEW OF RESEARCH OBJECTIVES

The global corporate environment has evolved rapidly over the last few years, together with the role that risk practitioners play within organisations. The increased complexities of connected risks have called for an integrated and holistic approach to risk management (McShane, Nair, & Rustambekov, 2011). Risk management within financial industries now considers a multitude of types of risk. As a result, the practice of risk is also no longer viewed as an activity that can be executed within the traditional silo approach. This holistic approach is intended to achieve a coordinated management of all significant risks to which the organisation is exposed. This integrated approach to the accumulation of risk is generally known as enterprise risk management (McShane, Nair, & Rustambekov, 2011).

The purpose of this research was to explore risk practitioner experiences of enterprise risk management. This research intended to obtain a view of their involvement in various key components of the discipline and to determine the challenges experienced, according to perception, with respect to effectively managing enterprise risk.

7.2. MAIN FINDINGS

The approach to this research was qualitative and exploratory in nature. The study involved 16 semi-structured interviews with risk practitioners engaged in risk management activities within financial institutions. Insights were obtained which were directly linked to the research questions presented in Chapter 3. The findings of this research emphasised the need for enhancement of the “Three Lines of Defence” model, acknowledging that its presentation within the financial industry is used to support effective enterprise risk management.

7.2.1. Enterprise Risk Management

7.2.1.1. Understanding and Importance

There has been an increase in importance and attention of the enterprise risk management discipline over the last few years, as much in academia as in industry, particularly over organisational sustainability and corporate governance (Paape & Speklé, 2012). This reflected in the commonality of the results regarding understanding and significance of the enterprise risk management. The main finding showed that the discipline was important to the holistic and integrated view and management of risk. Embedding of an appropriate framework with applicable risk metrics was important to achieving effective risk management, and leadership were expected to set a suitable tone for the risk culture of organisations.

7.2.2. Enterprise Risk Management Framework

7.2.2.1. Adoption and Measurements

Results varied with respect to awareness of existing frameworks and metrics in place within organisations. This was indicative of insufficient exposure to these governing structures. The main finding identified that frameworks and measurements were at different stages of implementation which suggested differing levels of maturity regarding adoption. The principle challenges identified were with awareness of frameworks and metrics, organisational complexities, and frameworks that did not provide a holistic view of risk; these challenges seemed to be a barrier to effective implementation.

7.2.3. Enterprise Risk Management Governing Structures

7.2.3.1. Chief Risk Officer Effectiveness

The main finding highlighted mixed experiences and views of chief risk officer effectiveness. Where challenges or areas of ineffectiveness were identified, there were two key points of improvement suggested. Firstly, the skills and experience of chief risk officers required enhancement to enable a more adept risk expert to drive holistic risk management activities. This was aligned to the recommendations of the Basel Committee on Banking Supervision (2015). Secondly, the responsibility of chief risk officers required emphasis on education of top-down business stakeholders of enterprise risk management and its requirements, which was also generally supported by existing literature (Stulz, 2008).

The role of chief risk officers was not pronounced in the “Three Lines of Defence” model, and yet the role expectation plays a significant part of the enterprise risk management discipline, as stated in various academic papers.

7.2.3.2. Risk Committee Effectiveness

The results indicated a positive experience and view of risk committee effectiveness. With respect to identified challenges, the Basel Committee on Banking Supervision (2015) recommendations highlighted the need for the appropriate set of skills and discussions to be present at committees in order to enhance oversight functions. The main finding supported this view as challenges that prevented risk committee effectiveness were evident in a lack of risk practitioner skillset and experience to obtain a holistic risk view in order to challenge business appropriately. A key finding also highlighted a need for risk committees to broaden their own view of holistic risk. These requirements for effectiveness were generally in support of existing literature, with the exception of risk committees and the practice of holding people accountable in terms of consequence management; this suggested further research.

From a “Three Lines of Defence” model perspective, the risk committee was not specifically included in the governing structures identified, though it did form an important component of the oversight function in the management of enterprise risk.

7.2.4. Enterprise Risk Management Practices

7.2.4.1. Business and Risk Practitioner Effectiveness

The results were indicative of similar negative experiences and views of both business and risk practitioner effectiveness. The main finding showed a need for better education of the enterprise risk management discipline and what the requirements are from a business and risk practitioner point of view. The requirement for education also extended to risk practitioner understanding of business. This supported Palermo's (2014) view that, to be effective, there was a critical dependency on risk experience and knowledge of business.

In the absence of this education, awareness and understanding of risk requirements in daily activities was a challenge, therefore; business were not taking accountability for their risks and were not transparent, and risk practitioners were not supporting business effectively on risk management efforts. Consequently, the engagement between these stakeholders was ineffective.

The "Three Lines of Defence" model did not consider the role of risk education. However, risk education was seen to be important across all levels supporting the enterprise risk management discipline.

7.2.4.2. Risk Management Coordination

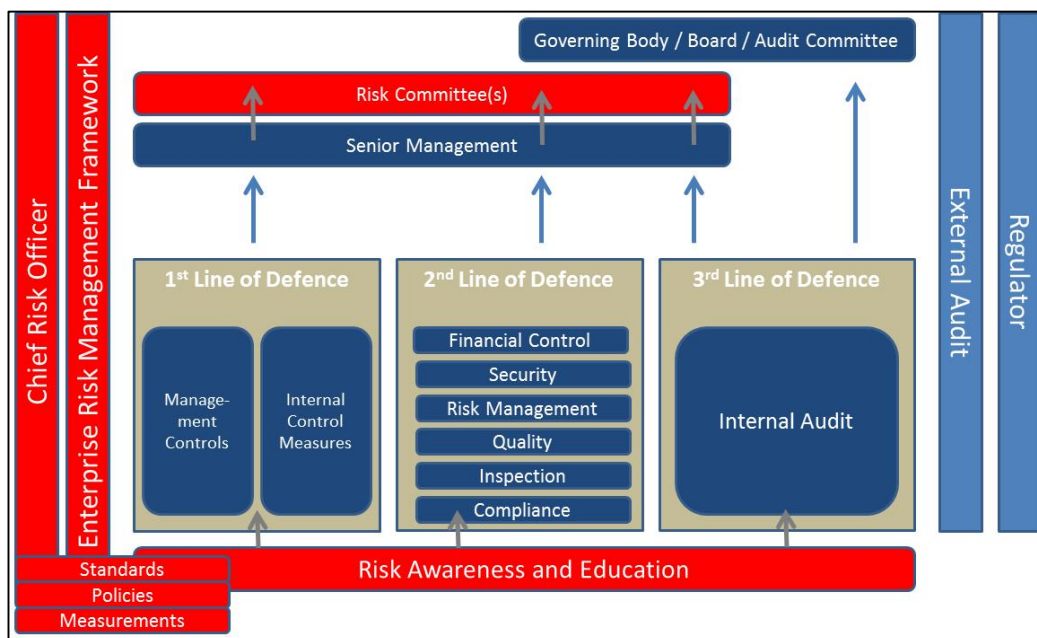
Fraser & Simkins (2007) commented on the need for stakeholders to understand clearly how enterprise risk management should be executed for the discipline to be implemented effectively. The main finding supported this view, as the coordination of risk management activities and execution of the "Three Lines Defence" model lacked clarity with respect to roles and responsibilities between business and risk practitioners. This supported the general finding regarding the education required of the enterprise risk management discipline and its requirements. The lack of education was evident in duplication of efforts and missed opportunities to leverage risk management efforts within organisations.

7.2.4.3. Proposed “Three Lines of Defence” Model

The main findings have been applied to the “Three Lines of Defence” model presented in Figure 12 below. The model depicts a method of enhancing communications for risk management and control by way of providing clarification of roles and responsibilities. It is intended to aid the continuous management of risk activities in an effort to support effective enterprise risk management (The Institute of Internal Auditors, 2013). The model portrays the various lines of defence within the organisation and provides a functional view of the levels of risk and control assurance interactions.

The variables noted in red have been added from the main findings of this research.

Figure 10: Propose “Three Lines of Defence” Model



Source: (The Institute of Internal Auditors, 2013)

At the lower level of the model is the process of risk awareness and education which is meant to form the basis of risk understanding, as well as effective execution of risk management activities, from a bottom-up perspective within the organisation. To the left of the model is the enterprise risk management framework, supported by integrated risk standards, policies and measurements (metrics) which are meant to

aid the process of risk awareness and education across the organisation, as well as improve the effectiveness of risk management efforts. The chief risk officer role is positioned behind the framework as the individual accountable for the promulgation of the enterprise risk management framework within the organisation, including the process of creating awareness and embedding a risk educated organisation (top-down and bottom-up).

The risk committee has been incorporated at the top of the model as an important component of the risk oversight function.

The model is intended to act as a guide to ensure that these key components of enterprise risk management are afforded the appropriate focus when used as a reference point for implementation.

7.3. RECOMMENDATIONS

Based on the main findings identified within the research, the recommendations below have been provided for consideration per applicable groups.

7.3.1. Recommendations for Consultants

The research highlighted challenges with respect to the ability of financial institutions to identify and assimilate the various industry enterprise risk management frameworks into models that were fit for purpose for organisations. As a result, this inhibited improved maturity levels of adoption. Additionally, the multifaceted nature of larger financial institutions added an additional layer of complexity to framework adoption.

There is an opportunity for consultants within the risk management industry to formulate a framework, or a set of risk management guidelines, that are flexible and practical which can be adopted within financial institutions. Given the broad nature of the enterprise risk management framework, successful application of a fit for purpose framework would provide consultants with a competitive advantage, and could also lead to additional opportunity to assist financial institutions with improvements required in other components of the discipline.

7.3.2. Recommendations for Senior Management, Risk Committees and Boards

Several areas of improvement were identified within organisational practices with respect to enterprise risk management. Risk committee challenges identified included; the ability to provide appropriate oversight of risk management activities, the ability to hold people accountable for poor risk management, and the appropriateness of attendee (risk practitioner) skills and experience. Additionally, the ability of the risk committee to integrated risk management activities to the lower levels of the organisation was lacking. This provides an opportunity for the leadership of financial institutions to revise its committee operating model and composition to ensure the appropriate quality of risk management oversight and integration into the organisation is achieved.

In instances where the chief risk officer role was found to be lacking in skills and expertise, as well as in driving risk education across the organisation, there is an opportunity for leadership to revise the requirements of these roles and the expectations of individuals fulfilling the role, to ensure that enterprise risk management efforts of organisations (including the framework and “Three Lines of Defence” model adoption) receives the appropriate attention and strength of support.

The role of leadership in driving enterprise risk management efforts is vitally important to ensure the success and sustainability of organisations, given that the business of financial institutions is in fact the management of risk (Aebi, Sabato, & Schmid, 2012). It is also critical that the leadership permeate a culture of risk awareness and education, as they ultimately set the tone for the way in which risk is managed across all levels of the organisation.

7.3.3. Recommendations for Risk Practitioners and Business

The need for awareness and education of enterprise risk management and its requirements resonated strongly in this research. A need for awareness and education was also identified regarding roles and responsibilities as it related to risk

management coordination and implementation of the “Three Lines of Defence” model.

There is an opportunity for risk practitioners and business to build risk awareness and education programmes into their practises to ensure an increase and alignment of understanding and implementation of risk management. This would result in risk management efforts that are leveraged to promote organisational efficiencies, as well as avoid duplication of efforts. Additionally, the engagement between risk practitioners and business would be more value-add as individuals would be working off the same understanding and expectation with respect to enterprise risk management. Lastly, this would result in lower risk profiles within organisations and would enable organisations to respond quicker to market opportunities.

7.4. LIMITATIONS OF THE RESEARCH

Limitations of this research are articulated further in section 4.8 and make reference to the approach of this research, which was qualitative in nature. This qualitative research method permits the opportunity for exploration of new ideas and understandings without the means to extrapolate to the broader population typically required of data-centric, quantitative methods. As a result, generalisation to a larger population may not be possible and quantitative research may be required to bridge this gap.

Additionally, the method of sampling applied was that of snowball (convenience) sampling and was based on interviewee availability and references provided. The use of a snowball sampling technique and the choice involved in identifying the target population may introduce a homogeneous sample.

Based on existing organisation confidentiality agreements, interviewees may not have disclosed certain key information for this research, which may have inhibited the formulation of key findings in this study and for possible future research options

Lastly, there are potential limitations due to data translation error as a result of the data gathering and analysis process which would impact on the validity of the results.

7.5. SUGGESTIONS FOR FUTURE RESEARCH

The topical subject of enterprise risk management has continued to grow within academia and industry. The exploratory nature of this study suggests that research can be extended further. The following areas of research are suggested, based on the new insights uncovered within this research.

- The placement of risk strategy in financial institutions and determinants of successful implementation.
- Determining the skills, competencies and experience mix of chief risk officers that are successful in fulfilling the role.
- The ability of risk committees to hold people accountable for poor risk management practises and organisational implications.
- The impact of organisational changes and re-structures on enterprise risk management embeddedness.
- The impact of digitisation in financial institutions on enterprise risk management.
- The exploration of innovation and its relationship to enterprise risk management.
- The challenges of data quality in supporting enterprise risk management efforts.

7.6. CONCLUDING REMARKS

As highlighted in Chapter 1 and 2 of this research, increased stakeholder expectations and regulatory requirements have placed significant pressure on financial institutions to ensure the necessary structures are in place for effective enterprise risk management, in particular to protect shareholder value (Arena, Arnaboldi, & Azzone, 2010). Additionally, effective risk management is generally regarded as an important discipline to allow corporate governance to evolve into an organisation's competitive advantage (Palermo, 2014).

In view of the further research required to gain a comprehensive understanding of risk management through the inner workings of the organisation (McShane, Nair, & Rustambekov, 2011) this study was conducted to explore the experiences of

enterprise risk management through the lens of risk practitioners within the financial industry.

There was a mix of experiences and views regarding key components of the enterprise risk management discipline. However, as focus was placed on challenges experienced, these were summarised into the main findings, which suggested that the embeddedness of the discipline has yet to occur and that it requires a renewed focus for successful implementation.

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APPENDIX 1: INTERVIEW SCHEDULE

Gordon Institute of Business Science University of Pretoria

Risk practitioners were asked the following questions during the interview process in a semi-structured manner.

A. Opening / Introductory Questions:

1. How did you enter into the risk management field, and how did you end up in the role that you currently have?
2. What do you enjoy about your role?
3. What do you not enjoy about your role?

B. Research Questions on Enterprise Risk Management:

1. What does enterprise risk management mean to you, according to your own understanding of the discipline?
2. What does **effective* enterprise risk management mean to you?
3. Is enterprise risk management an important discipline and why?
4. What enterprise risk management framework has the organisation adopted and what challenges have you experienced with its effectiveness?
5. What enterprise risk metrics are used within the organisation and what challenges have you experienced with their effectiveness?
6. Do you think that the chief risk officer is effective in supporting the risk management efforts of the organisation and what are the challenges experienced in this regard?
7. Do you think that the risk committee is effective in supporting the enterprise risk management efforts of the organisation and what are the challenges in this regard?
8. Do you think that business is effective in managing their risk and what are the challenges you have experienced in this regard?
9. Do you think that risk practitioners are effective in supporting the risk management efforts of organisations and what are the challenges experienced in this regard?
4. What is your experience of the organisation's coordination of risk management and the "three lines of defence" model, and what challenges have you experienced with respect to their effective implementation?

*The term "effective" can be defined as "successful in producing a desired or intended result". (*The definition of "effective" was retrieved from the Oxford English dictionary online (2nd edition)*)

APPENDIX 2: INFORMED CONSENT LETTER

Gordon Institute of Business Science University of Pretoria

INFORMED CONSENT

Risk practitioner experiences of enterprise risk management in financial institutions

Background

As part of the GIBS MBA program, I am conducting exploratory research on enterprise risk management in financial institutions. The aim of the research is to understand:

1. What have risk practitioners experienced of enterprise risk management in financial institutions?
2. What challenges experienced have impacted risk management effectiveness, according to perception?

The term “effective” can be defined as “successful in producing a desired or intended result”. (*The definition of “effective” was retrieved from the Oxford English dictionary online (2nd edition)*)

Request

As an individual involved daily in risk management activities, your experience could provide valuable insights into this area of study. I would greatly appreciate your participation by agreeing to be interviewed on the subject matter. Your participation is voluntary and can be withdrawn at any time without penalty. The interview will be semi-structured and in-depth, and will last approximately 45 minutes. Following which, I may call upon you where applicable for further elaboration. All personal data and information will be kept confidential and will only be submitted to the GIBS Faculty for review purposes. Extracts from the research report, including non-personal content from the interview, may be made publically available and may be used as contribution towards academic journal articles, books, etc.

If you have any concerns, you are welcome to contact me on any of the details provided below. I look forward to hearing from you.

Kind regards,

Researcher: Levina Pillay

Cell: 079 566 8588

Email: levinapi@gmail.com

Research Supervisor: Thea Pieterse

Email: thea.pieterse@iliad.co.za

Participant consent

Name and Surname:

Signature:

APPENDIX 3: LIST OF INTERVIEWEE CODES, CATEGORIES AND QUOTES

Categories	Codes	Quotes
Theme 1: Enterprise Risk Management		
Understanding Enterprise Risk Management		
Holistic and integrated view of risk	<ul style="list-style-type: none"> • Working together • Integrating risk • Standardisation • Broad risk view 	<p><i>“It is supposed to be all encompassing, it is supposed to transcend first, second, third (sic) lines of business and where people need to think of risk holistically.” [P1]</i></p> <p><i>“It needs to be intertwined and integrated... it needs to be very holistic, not just a one silo approach... it needs to be an integrated process between business and the people that are meant to support them.” [P1]</i></p> <p><i>“It encompasses everything, if you look at audit, operational risk, regulatory risk, compliance risk, enterprise risk should encompass everything.” [P2]</i></p> <p><i>“From a global perspective (sic) looking at your credit risk, operational risk, things like health and safety and looking at your market risk, those sorts of all-encompassing risks of an organisation.” [P4]</i></p> <p><i>“I think the whole point of enterprise risk management is to try and put down those principles to apply no matter what type of risk you working with as well as standardise some of the risk management.” [P5]</i></p> <p><i>“It is more about looking at risk from a holistic perspective. You no longer go in with your blinkers. Traditionally you have silos of different things and you can manage risk at a lower level from that perspective but as you grow to the top you need to have a holistic view. You need to know the dynamics, interactions and the (sic) whole thing... and it is a bit challenging because what has been driving market risk might not be driving ops risk probably. Yes, you are going to make a big loss on ops risk and minimal loss on market risk but at a group level enterprise-wise what are the diversifications, what happens?” [P7]</i></p> <p><i>“Having a risk management framework of some sort which is broad as opposed to having a single view into a specific risk type (sic) the risk</i></p>

		<p><i>types should simply form small pieces of the bigger enterprise risk management framework.” [P9]</i></p> <p><i>“A process to manage relevant key risks effectively and efficiently in an integrated manner to give an organisation a competitive advantage. It protects both the organisation and customer against unforeseen circumstances or mitigates the impact of risks.” [P10]</i></p> <p><i>“That would be a holistic view of a risk from first, second to third line of defence, how you are managing risk and how it is integrated within the organisation.” [P12]</i></p> <p><i>“You have got risk you have got opportunities, you’ve got objectives and they are all aligned.” [P13]</i></p> <p><i>“It is not limited to one function, per say, but it is a holistic understanding of all kinds of risk that an organization is exposed to.” [P14]</i></p> <p><i>“Enterprise risk is not just what’s happening within my organisation... it is also all the third parties so, so in a nutshell it is every facet or every process which can positively or negatively influence my business process lines.” [P15]</i></p> <p><i>“They are internal risks, external risks. They are (sic) organisational risks.” [P16]</i></p>
<p>Tone at the top of the organisation</p>	<ul style="list-style-type: none"> • Risk mind-set • Ethical behaviour • Culture 	<p><i>“It’s firstly how the organisation not runs and manages risk, but how they see risk and the possible impact on the organisation and the tone at the top in terms of defining that and living that and that mind-set of risk is something we need to keep our eye on. Then implementing that in a practical way across the business.” [P8]</i></p> <p><i>“That is what I would see as a defining difference between where it is really engrained in the culture, a risk mind-set, versus just something that we have to tick off. Where the employees on every level are so risk aware of the risks the organisation faces that in their everyday dealings it is front and centre to what they do.” [P8]</i></p> <p><i>“The ethics of an organisation boils down to the ethics of the people in that organisation. If you have leaders within your organisation who are</i></p>

		<i>unethical it drives the type of business you are going to work in. If you have employees that are unethical that is a reputational risk for your business.” [P16]</i>
Understanding Effective Enterprise Risk Management		
Risk management processes	<ul style="list-style-type: none"> • Proactive risk management • Understanding risk landscape 	<p><i>“Where business is making the decisions, being there to guide the business... instead of trying to do monitoring (sic) after the fact.” [P1]</i></p> <p><i>“A strong controlled environment... standing up and saying I trust my controlled environment, I know what happens, I am able to mitigate this.” [P2]</i></p> <p><i>“It’s about the guy in the frontline understanding his risk landscape and how different risks impact one another. And how do you aggregate that information upwards and also be able to draw that down.” [P3]</i></p> <p><i>“It’s less about the top-down approach of ERM; it’s more about the bottom-up.” [P3]</i></p> <p><i>“It’s not just finding them it’s about understanding and being intimate and then having it embedded in the culture of the organisation... it’s not an ad hoc (sic) extra thing that they do on the side as a paper base or check point exercise and there’s a real culture of understanding risk management.” [P5]</i></p> <p><i>“You can’t just (say) you are doing risk and have no frameworks and other things in place, guiding and putting in what is right and what is not wrong.” [P7]</i></p> <p><i>“I should be able to bring about my understanding of risk from various angles to enable me to discharge my job effectively.” [P14]</i></p>
Risk management metrics	<ul style="list-style-type: none"> • Relevant framework • Metrics and monitoring 	<p><i>“Having the metrics in place and confident monitoring and not only having it there, but having active reviews of these things.” [P4]</i></p> <p><i>“You need to be able to set the tone at the top at a high level within the group on what is the framework and what needs to be done for each of the risks and entities.” [P7]</i></p> <p><i>“What would be relevant and what would work as opposed to simply having a risk management framework for the sake of having</i></p>

		<p>one... a risk management or enterprise wide risk management framework has to be relevant, it has to be influenced by the sources of the risks.” [P9]</p>
<p>Importance of Enterprise Risk Management</p>		
<p>Organisational sustainability</p>	<ul style="list-style-type: none"> • Occurring incidents • Balancing opportunity and risk • Environment volatility • Regulation 	<p>“If you look at incidents that happened across the globe, Royal Bank of Scotland, Barclays, being fined, if enterprise risk management is not effective things like that will continue to happen and it will happen on a large scale... so it’s really important.” [P2]</p> <p>“If we think of a really big picture – what will make us more sustainable as a bank going forward? It’s not coming up with the most innovative ideas; it’s not about coming up with the strategy that will make us the most money. It’s about the balance between opportunity and risk – balancing the threat, and that’s what’s (sic) so important – it makes us more sustainable as a bank going forward.” [P3]</p> <p>“Every person in the organisation, no matter what that job is, needs to be aware of risk, understand control and they need to have that mind-set whenever they do something, because wherever we have a person or process there is a chance that something can go wrong, a chance of risk materialising.” [P5]</p> <p>“Businesses operate in a volatile environment where there are so many risks that business will encounter, this can be from operational risk, capital risk, financial risk and regulatory risk.” [P6]</p> <p>“There is so much happening and if I just take social media reacting to incidents, etc... if you are the leader... not having the appropriate contingency plans to deal with it, then you are actually at a disadvantage.” [P8]</p> <p>“At the moment it’s so important because of the whole atmosphere, our economic environment world-wide.” [P9]</p> <p>“It is quite important because you would want to be in a position where you have understood all sorts of risks that your organisation has been exposed to and you have sufficient mitigating controls to ensure that those risks do not materialise. So it is pretty much about safeguarding the whole organization. And the</p>

		<p>shareholders.” [P14]</p> <p>“I think the most critical thing is to make sure that everybody, whether it’s on the board or and exec level, really understands what (sic) risk means, because you know and can (sic) really envisage... the what-if scenarios.” [P15]</p> <p>“I think it is important because of the going concern of any company. If you are running a serious business and you would like to be around twenty years from now and you would like to move from a growing business into a big business then it is something you need to build from an early stage.” [P16]</p>
<p>Corporate governance</p>	<ul style="list-style-type: none"> • Compliance • Good practice • Culture • Standardisation 	<p>“I think definitely from a (sic) governance and compliance perspective it is important because if we don’t comply with those things I don’t think I am going to be employed or the bank is going to do too well. So I would say it is important from that perspective as well as internal good practice.” [P4]</p> <p>“It can make a massive difference in the organisation in terms of the risk management culture and really what is implanted from a control perspective.” [P5]</p> <p>“If you don’t have that type of function or overseeing role or responsibility not all your risks will be identified and you won’t be responding to them appropriately and timeously.” [P8]</p> <p>“When we have a consistent way of managing the risks that we have, we also give people opportunity of talking the same language, so when we describe the risk appetite within the organisation we understand exactly what the criteria is or how we are coming to the risk appetite for the business, or how we are rating a particular risk, or how we are coming up with the response plan. The process is standardised. We have a consistent way of doing it. It is very important for us to have an enterprise risk management framework within the organisation to ensure that everything is consistent.” [P11]</p> <p>“Working hand in hand (sic) brings the holistic view and managing of risk because each line of defence has a certain role that they take.” [P12]</p>
<p>Theme 2: Enterprise Risk Management Framework</p>		

The Adoption		
<p>Frameworks not yet implemented</p>	<ul style="list-style-type: none"> • Stakeholder awareness • Maturity levels • Organisational complexity • Good practice guidelines 	<p><i>“I actually can’t give you any details on what the model is; I have no clue. I know that someone somewhere is working on it and it is actually being thought of.” [P1]</i></p> <p><i>“We’ve looked at COSO, we’ve looked at ISO31000, we’ve looked at what’s out there...so we haven’t adopted any specific ones of those – our framework is informed by that, but we’re still in the process of putting our framework together. It’s informed by those components, but it is not dictated – it doesn’t dictate what we do. I think what we need to do is make sure it is practical and fit for purpose. So we do not really take those two seriously at this point, especially since there is not regulatory requirement.” [P3]</i></p> <p><i>“For us it is very... difficult because you almost have it already – you have the experience in the bank already, because you can look at those frameworks, but it is not high level and fit for purpose enough to be able to make it into something that easily translate into “what do we need to do next.” [P3]</i></p> <p><i>“We have Group Risk Taxonomies, Group Risk framework, Risk and Capital Management frameworks – there’s so many documentation that you need to go through.” [P3]</i></p> <p><i>“If we had those frameworks... we could see how we operate in our industry or company... we have these goals we want to achieve... we are not there. Everyone does whatever they think needs to be done.” [P6]</i></p> <p><i>“I think for me part of the thing we probably could improve on is the frameworks and policies. Spending time and putting the frameworks and policies together (sic) and drafting and putting those things in order and ensuring that there is a buy-in.” [P7]</i></p> <p><i>“We are doing something and we are talking, but (sic) frameworks are not in the place where it is supposed to be. It hasn’t been accepted by all so it is difficult to measure against. We get into meetings and it is my opinion against your opinion.” [P7]</i></p> <p><i>“There is not a set standard for me of what is acceptable. It is very autonomous and it is up to the project teams or individuals in areas to</i></p>

		<p>determine that.” [P8]</p> <p>“I have not seen it that formalised. I have seen it almost be driven by certain individuals... but it is not a set framework... it is very limited.” [P8]</p> <p>“So there has got to be something, I am not certain, I don’t know for sure. I just know that each function has its own framework that is aligned to global best practices.” [P14]</p> <p>“I actually don’t know hey, because I am not sure of its existence in the first place.” [P14]</p>
<p>Framework implementation in progress</p>	<ul style="list-style-type: none"> • Framework change • Governance • Awareness and communication 	<p>“We have gone through a deep exercise now, because (sic) the whole frame work has changed.” [P5]</p> <p>“How do they work together? That is where the challenge becomes huge.” [P5]</p> <p>“ERM is implemented but is not effective ERM because there is no complete view of risks and also a holistic picture of what each business looks like in terms of risk management.” [P10]</p> <p>“I know there is, but that’s what I’m saying the communication between different leaders that was one of the challenges.” [P12]</p> <p>“The problem with most of these risk frameworks... is that most of them are just a data dump, so it is a reflection of what a second or third line of defence found, or what management’s view is (sic) but very few of them are a combination of also having some triggers.” [P15]</p>
<p>The Measurements</p>		
<p>Risk practitioner awareness and understanding</p>	<ul style="list-style-type: none"> • Knowledge • Culture 	<p>“I am not aware of it, it doesn’t exist. I have never come across it. So the reality of it is that where things go wrong it is just written off and then there is risk acceptance. So there are no specific tangible measures that I have come across in my portfolio.” [P1]</p> <p>“I am aware of the compliance risk requirements but not the organisations complete risk appetite. I think there is a lack of understanding of business hence the tolerance specified does not fully talk to business and in some cases hinder productivity.” [P10]</p>

		<p><i>"I am remotely aware because I have seen something when the reporting is done there are some thresholds, different business units that you are looking at reports for, but I am not too sure about that." [P14]</i></p>
<p>Business awareness and understanding</p>	<ul style="list-style-type: none"> • Knowledge • Culture • Embeddedness • Holistic risk view • Top-down approach 	<p><i>"For the first time I think in this bank we had an IT risk appetite being developed. Although it is still going through the approval stages, I don't think they are aware of it, simply because of the level of understanding of risk and how risk operates in our organisation." [P2]</i></p> <p><i>"I think there needs to be more awareness, sit them down in a room and get a senior person to talk to them... But this is fighting a battle for a very long time... I think it's the culture, risk culture is important." [P2]</i></p> <p><i>"If we say that our risk environment is strong... (sic) the level of unsatisfactory audits should be minimal, we should have key risk indicators to be able to inform us that you know what, (sic) something is about to go wrong, this is the area we need to look at." [P2]</i></p> <p><i>"The "embeddedness" of risk appetite across the organisation is (sic) at different levels and you'll find for example credit risk is, on the risk appetitive level, is 100% embedded – everyone understands the metrics at top level. And then as it filters down, it gets less and less." [P3]</i></p> <p><i>"The employees are not aware of what is it that they need to adhere to and how to follow the controls that have been defined." [P6]</i></p> <p><i>"All these minor incidents that are costing you a lot of money but not realizing when you accumulate them, it (sic) becomes a challenge." [P6]</i></p> <p><i>"I think the people at the top are aware because ultimately they are the ones that have to answer to the Reserve Bank, but the people on the ground I think for them sometimes... it is just ticks and checks and boxes. In their day to day operations I don't think people are aware." [P16]</i></p>
<p>Inappropriate risk metrics</p>	<ul style="list-style-type: none"> • Materiality levels • Thresholds • Top-down approach • Definitions 	<p><i>"We have such a high materiality level for things that can go wrong a lot of things just get lost in the system and I think that's the problem." [P1]</i></p>

		<p><i>"We don't have key risk indicators, every time you put something people just don't like it; they don't buy into it." [P2]</i></p> <p><i>"There aren't specific thresholds in place so a lot of it is still based very much on subjectively." [P5]</i></p> <p><i>"If we were specific at the highest level – our enterprise risk is standing at this level for the company, this is the allocation for the penalties and other finances that we can incur – then we say, for penalties we are going to pay so much and then each business unit or function, your risk level needs to be this level, depending on your contribution... If we can work it to that level it will make it easier for people, but in most cases... it may be there at a corporate level but not at a functional level." [P6]</i></p> <p><i>"We can do better if the limit or the thresholds are equated to local and international, if you can get the balance between the international threshold level and the local threshold level." [P6]</i></p> <p><i>"There are some that we feel we should be measuring based on the environment that we have in Africa. The environment in Africa and the UK obviously are different." [P11]</i></p> <p><i>"I truly believe that the one thing which is (sic) the most important is that you have to have definitions of you know what your risk tolerance and risk appetite levels are (sic)." [P15]</i></p>
<p>Theme 3: Enterprise Risk Management Governing Structures</p>		
<p>Chief Risk Officer Effectiveness</p>		
<p>Engagement with business</p>	<ul style="list-style-type: none"> • Education • Communication • Interaction 	<p><i>"I think what currently lacks in the role is that it (sic) could do more in educating people about risk. It needs to start with the executives and it needs to be an education. It almost is something that people don't (sic) think about because it is not part of their everyday thinking in what they need to do." [P1]</i></p> <p><i>"Every facet of our businesses is affected by risk, but I think it is the lack of education and I think that is what a chief risk officer needs to be driving. I know that the job is very onerous, but I think it is an education about these (sic) things... I think it is just too much at a high level and it is not driven across the organisation enough and that would make it more effective."</i></p>

		<p>[P1]</p> <p><i>“There is no-one you can employ that understands everything about the organisation and it’s very difficult because from an ERM perspective you are almost expected to know everything. If you don’t know everything, what are you doing, but who are you going to employ that knows everything? So it’s about starting the discussions on ERM.” [P3]</i></p> <p><i>“It’s about keep on going back to people, explaining to them why they need to worry about the other risks.” [P3]</i></p> <p><i>“I think it (the role) could just be closer to the areas that it dictates to or recommends let’s use that word. I think if they were just... a little bit closer to each individual unit they could get (sic) a better understanding and probably add more definable risk goals.” [P4]</i></p>
<p>Approach to risk management</p>	<ul style="list-style-type: none"> • Accountability • Culture • Risk oversight 	<p><i>“I think it is just that he is good at delegating responsibility to each of his risk heads to run and not really taking all of that accountability upon himself. I think he is very relaxed, I think his approach is very relaxed as well and I think that drives the culture. So clearly there is room for improvement.” [P1]</i></p> <p><i>“I’m not sure it (the role) is effective in managing group risk because I don’t think it’s got a view of group risk... It’s about that integration layer...” [P3]</i></p> <p><i>“He is not in the (sic) coalface. He is basically coordinating and putting things (sic) together... but that I thought we could have done without it in my opinion.” [P7]</i></p> <p><i>“In terms of effectiveness I feel a lot of the responsibilities are delegated to others – to committees, to subcommittees, to certain individuals. The effectiveness of the risk officer would then be dependent on the effectiveness of those.” [P8]</i></p> <p><i>“I think the issue there is that (sic) they delegate (sic) work but not accountability. The buck still stops with them so why would someone else that they delegate to have that buy-in to get it done?” [P8]</i></p>

<p>Skills and experience</p>	<ul style="list-style-type: none"> • Understanding risk • Understanding business • Specialised skill 	<p><i>“A lot of CROs don’t actually have any risk experience or very little risk experience so many times they are actually employed, because they know business very well or they are very good in something else, but they don’t necessarily do a lot of risk management or they haven’t done a lot of it.” [P5]</i></p> <p><i>“A lot of the times they come in from a (sic) business perspective... but they don’t really know what it means to be a CRO.” [P5]</i></p> <p><i>“Firstly have a handful of specific CROs that have a specific capability and they drive the risk agenda – that will definitely help.” [P9]</i></p> <p><i>“Some of the chief risk officers I have seen have this baggage of being too specialised in one risk type, so they are very few banks where you find a risk officer who is well rounded, most of them come with some strong background in one risk type.” [P9]</i></p> <p><i>“So what you find, it’s normally a chief risk officer who is very strong in one risk types trying to grapple with all these other risk types, so they are effective but there is a big gap, knowledge gap also at the chief risk officer level.” [P9]</i></p>
<p>Risk Committee Effectiveness</p>		
<p>Committee operating model</p>	<ul style="list-style-type: none"> • Working in silos • Metrics and monitoring • View of risks • Accountability • Culture 	<p><i>“If something goes wrong we never think twice about writing of R20 million.” [P1]</i></p> <p><i>“I think maybe it has a lot to do with the culture of the bank. I think when things go wrong we don’t hold people accountable be it executives, be it people within the business. So I think a committee needs to have some teeth and when things go wrong hold people to account. I think we overlook a lot of things, it is a culture of saying it is okay, we’ll fix it the next time or the next time.” [P1]</i></p> <p><i>“They are still reporting on their own reports. No-one is looking at anyone else’s – they are just worried about their own reports and not even reading the pack for the rest unless something overlaps in their area and they’ll check if the numbers align.” [P3]</i></p> <p><i>“I don’t think the committees are effective at this point to understand the inter-relationships between the different risk types and how it could</i></p>

		<p><i>affect one-another. And to define metrics that will mean something to everyone around the table because everyone's just looking at their own metrics."</i> [P3]</p> <p><i>"They are not necessarily working together in all aspects of risk; that becomes a challenge for effectiveness."</i> [P6]</p> <p><i>"My concern with risk committees is it is also not seen as a priority necessarily. A lot of the committees that we are invited to on an ad hoc basis the meetings get moved. So I don't know how effective a committee could be if they don't have sight of certain things."</i> [P8]</p> <p><i>"Having SMEs from the different areas that (sic) are responsible for reporting to the risk committee or sitting within the risk committee so that you have that two-way... I think it sits in a silo. The committee is just there."</i> [P16]</p>
Committee composition	<ul style="list-style-type: none"> • Stakeholder alignment • Performance metrics • Culture 	<p><i>"Ideally there should be a match between people who are in business and people in the second or third line of defence."</i> [P9]</p> <p><i>"You know the problem with most of these board committees are they tend to have experts, so to say experts, in a particular field but they are not necessarily an expert in the way your organisation does business."</i> [P15]</p> <p><i>"I mean these things need to be driven more by the committees. That is probably because the committees don't have the right people."</i> [P16]</p>
Theme 4: Enterprise Risk Management Practices		
Business Effectiveness		
Business understanding of risk	<ul style="list-style-type: none"> • Awareness • Knowledge • Culture • Maturity levels 	<p><i>"We talk about risk appetite and risk culture and monitoring of thresholds and doing all of these things, but I think the education is just not there. It is very much at the higher levels, a person... doesn't understand what he is (sic) doing let alone what it translates to in terms of (sic) risk."</i> [P1]</p> <p><i>"I am not saying it doesn't exist through the whole organisation, but for my portfolio there are just so many things going wrong."</i> [P1]</p> <p><i>"They don't understand the risk framework of the bank, they don't understand the basics of risk; they don't understand that (sic) we should</i></p>

	<p><i>be doing certain things, they don't understand how we should be doing certain things." [P2]</i></p> <p><i>"There is a very detrimental impact because these guys always see me as a face of doing it, they don't understand the reasoning behind it; they don't understand the benefits of doing it (sic) themselves." [P2]</i></p> <p><i>"The most important thing that frustrates me in this role is the level of understanding of senior management when it comes to risk. And how they buy into risk. That is the most frustrating; they just don't want to buy in." [P2]</i></p> <p><i>"You need to be aware of risk, you need to understand what a (sic) risk and a control is and some guys don't even understand the difference between the two. So we need people to understand and engrain that culture; they need to be aware of it, if there are queries they need to come and ask for advice and support." [P5]</i></p> <p><i>"There is a lot of confusion and push back, because again the whole risk culture is lacking where people don't understand it is not a separate activity that you do to get off your desk – it is supposed to be part of your activities and we are probably helping you in that it is not a risk being pushed down on to you." [P5]</i></p> <p><i>"I think all too often in organisations that level of understanding is assumed and the accountability just gets pushed down and it won't happen because the person doesn't understand and they don't have the buy-in. They don't understand." [P5]</i></p> <p><i>"If a line manager joins business and does not understand the simple controls that are required from him then it becomes something else, when a line manager authorizes to send business information to your personal email and not (sic) thinking about privacy and so on, those are not things you need to think of, I mean really!" [P6]</i></p> <p><i>"We probably should pull them into a bit of education also in understanding the risk perspective. They think you are hindering them with what they are supposed to do." [P7]</i></p> <p><i>"The person doesn't understand and they don't have the buy-in. They don't understand." [P8]</i></p> <p><i>"The sense that we get now is that people are</i></p>
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		<p><i>not aware of the risk they running in their business.” [P9]</i></p> <p><i>“Where we are sitting now business is not in the right position to understand the risks that they have and the controls they need to implement.” [P11]</i></p> <p><i>“When I say maturity journey I am saying there are items that I personally feel they are supposed to be doing (sic)... but because Business is not at that matured level for them to take over those activities we are still performing those activities over and above the governance role that we are performing.” [P11]</i></p> <p><i>“I guess it is awareness, risk management awareness, they need to have that training, you need to get maybe people from other areas of the business, get people from audit, get people from risk management to come and speak to your people.” [P13]</i></p> <p><i>“They don’t have that holistic view and that is a risk in itself. What that means is a person does not understand the importance of what they are doing. They don’t understand where it fits in.” [P16]</i></p>
<p>Business ownership of risk</p>	<ul style="list-style-type: none"> • Accountability • Buy-in • Culture • Leadership 	<p><i>“We don’t hold people accountable enough of the time or most of the time and I think that also drives the culture.” [P1]</i></p> <p><i>“I think they are over reliant on the second line to guide them in terms of what their risks are or where something could go wrong they are living on a prayer that there is going to some epiphany that is going to happen where someone else is going to point it out to them.” [P1]</i></p> <p><i>“The risk culture needs to be improved, also leadership needs to take accountability and start driving risk, and (sic) if leadership don’t do it then I don’t know.” [P2]</i></p> <p><i>“The risk teams within first line will obviously understand risk control and they do a lot of risk as most of them are on the risk management committee – sometimes I find... first line almost takes a stand and think risk is the risk team’s responsibility and not their responsibility.” [P5]</i></p> <p><i>“I think the issue is taking accountability for the</i></p>

		<p><i>risks in your realm. The thing I have seen, whether it is Business/IT whoever it is always someone else's problem." [P8]</i></p>
<p>Attitude of business</p>	<ul style="list-style-type: none"> • Transparency • Priorities • Consequences • Proactiveness • Process maturity 	<p><i>"The only time that they are open, fully open and transparent is when something doesn't result in an audit. So if we say this is on the basis of us just being aware and we will provide you with some level of assurance without rating you then they are very transparent and open and you are sitting around the table and you are having a very different discussion." [P1]</i></p> <p><i>"I think they know it is important, but it is not priority number one. They have a business to run and I think it takes precedence over anything and everything else and everything that becomes a risk becomes risk accepted and we can get over it. So that for me is their attitude towards risk." [P1]</i></p> <p><i>"Enterprise risk management is an afterthought." [P1]</i></p> <p><i>"It is so hard to get buy in from business, for them to acknowledge that this is a big issue and buy into that and actually make a change. So I think that for me becomes very, very frustrating to push people to buy into what you are doing." [P1]</i></p> <p><i>"You sit down and you deal with guys that do the day to day reconciliations and all that stuff and they can tell you they are struggling with this process and this is where the flaws are, but then when you go a level up to their heads and their managers and their executives that's where you get all of the pushback." [P1]</i></p> <p><i>"A lot of first line believe that the risk teams – first or second line – are their policemen and are going to hit them over the stick if they do something wrong instead of seeing them as a partnership so they can work on the risk management holistically and work together from a business perspective." [P5]</i></p> <p><i>"It seems there is also disparate notions as to this isn't my risk until you start getting down to the detail and those managers understand it. And that they, I guess, also adopt that mind-set... back to culture, of why it is important. So it is one thing to understand, okay fine it is my risk to manage, but if those managers don't have a</i></p>

		<p><i>risk mind-set their teams, the people working with them, won't adopt that mind-set." [P5]</i></p> <p><i>"They don't take that advice, they are waiting for an audit to come and say – you are not compliant here; you need to do 1, 2, and 3." [P5]</i></p> <p><i>"I think the frustration in terms of business not seeing it as an enabler. It is there because either it is legislative or regulatory imposed or just something that they have to tick off and they don't see the real value until things go south." [P8]</i></p> <p><i>"As and when they identify business opportunities they are identifying the risks associated with them so for them really if they choose not to understand it's because they are (sic) just not interested." [P9]</i></p> <p><i>"Pro-activeness in terms of managing their own risk in the business or if they need guidance for them to quickly engage first or second line for guidance and not for them to wait for us to point to them that there is an issue here and they need to fix it." [P11]</i></p> <p><i>"You are just ticking a box and putting your signature there as opposed to actually doing what is required." [P13]</i></p> <p><i>"It just depends on the area you are looking at so some areas have got (sic) the processes, and others are still trying to define their processes a little bit better." [P14]</i></p> <p><i>"I think half of all the key controls in any organisation are not what it's supposed to be." [P15]</i></p> <p><i>"What I have typically found is that the employees' appetite to be risk compliant is directly proportional to how big the stick is at the top." [P16]</i></p>
<p>Risk Practitioner Effectiveness</p>		
<p>Understanding business and risk</p>	<ul style="list-style-type: none"> ● Relevance ● Knowledge ● Adding value ● Complexity 	<p><i>"We almost audit against policies and processes and these are the things that should be in place and it is even an indictment on me, without actually properly understanding the risk of the business and auditing against that." [P1]</i></p> <p><i>"How many times have we actually come out</i></p>

	<p><i>with an audit that says something totally different and highlighted a major business risk that someone else didn't think about? I don't think that it happens; it is (sic) - in my mind for what we do - still very generic." [P1]</i></p> <p><i>"I know people expect him to start hitting the floor and get running but I think there needs to be time given for them to understand the environment we are dealing with." [P2]</i></p> <p><i>"Certain environments are difficult to deal with, it takes a lot of time to understand and know what is happening." [P2]</i></p> <p><i>"There isn't a sort of a training course where it will give you the overall view as to this is the landscape of the environment you are dealing with, it's a beast, we all know that." [P2]</i></p> <p><i>"I don't think the risk departments are adding a lot of value except maybe from a tick-box regulatory point of view." [P3]</i></p> <p><i>"I don't think they understand business enough. I think that is the major pitfall. It's about the understanding of business." [P3]</i></p> <p><i>"It becomes a training session as opposed to an audit." [P4]</i></p> <p><i>"But they don't really understand why they are auditing a specific area; they don't really understand the risk when they come up with something." [P5]</i></p> <p><i>"They are not taking the time to understand the business and really go and help." [P5]</i></p> <p><i>"I find some of the guys will be very good and will really have a lot of risk experience and know what they are doing, but we also have a lot of situations where we unfortunately have people in risk in second line who doesn't really understand risk management... And then (sic) a lot of our third line audit guys really don't have a clue." [P5]</i></p> <p><i>"Actually start understanding the business and really start to understand how to add value – that is where the difference is." [P5]</i></p> <p><i>"It is about exposure within the business. You need to expose people to different levels, the different layers of management within the</i></p>
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		<p><i>business. You must realise the guys at the top the way they look at risk is different from the guys at the bottom and what is driving somebody in their own little corner running their own little portfolio.” [P7]</i></p> <p><i>“We do understanding of the environment, understanding of client risks, but I don’t feel that it is focussed on enough. So we do that at the start and think we have a grasp on it. When you get into the detail of your work you realise, but hang on there are other things. You go back, oh yes that was also a risk.” [P8]</i></p> <p><i>“At the moment a lot of young risk professionals who are occupying a lot of risk positions, if you ask them what they are doing to improve their knowledge they are doing a degree.” [P9]</i></p> <p><i>“I actually suggest or recommend that they speak to Business, speak to someone who is an expert just to walk through, understand your process in and out. Put yourself in the shoes of a person who is doing that process so that when you do your assurance you understand exactly what you are talking about; you understand exactly what needs to be done so you will be able to add value in that perspective.” [P11]</i></p> <p><i>“You need to eliminate the silos.” [P16]</i></p>
<p>Business perception</p>	<ul style="list-style-type: none"> • Hindrance • Knowledge • Confidence 	<p><i>“They think you are hindering them with what they are supposed to do.” [P7]</i></p> <p><i>“The majority of feedback that I get... (sic) is you don’t understand my business and you say things that aren’t practical for me to implement or apply and you don’t know where you are coming from; you don’t deal with this stuff day in and day out.” [P8]</i></p> <p><i>“Once people realise you are willing to have the conversations, understand the issues they are facing on a daily basis then (sic) buy-in happens, but it is in pockets.” [P8]</i></p> <p><i>“Very few people are comfortable with risk management functions.” [P9]</i></p> <p><i>“I don’t think we are good at operationalising risks for business. The advice given is sometimes too vague and not clear enough that business say...we say a lot but actually say</i></p>

		<p><i>nothing.” [P10]</i></p> <p><i>“I know of late risk people have been more of a hindrance to the achievement of objectives. We keep on coming and ticking boxes and saying you can’t do this because there is this risk; you can’t do this because there is this risk; or you can’t do this because this person didn’t sign off this document or whatever it is. We are more of a hindrance to Business.” [P11]</i></p> <p><i>“We absolutely need to be advising Business to say there is this new technology coming in about this and this but for you to achieve your objectives we should go this way. Not for us to come when Business has implemented something and then we come and say, by the way there is this technology risk or this information risk. We should be on top of the game.” [P11]</i></p>
<p>Risk Management Coordination</p>		
<p>Coordination of risk activities</p>	<ul style="list-style-type: none"> • Working in silos • Integration • Duplication • Alignment 	<p><i>“It needs to be driven from a central point; I don’t know whether audit is the right place to drive a combined assurance approach or whether its business... but someone needs to have a view of that.” [P1]</i></p> <p><i>“I think business has their own view of how to do risk, they do their own thing, its audit and risk that is left behind, obviously audit is a sort of independent view, but the second line needs to be involved and there is no involvement.” [P2]</i></p> <p><i>“I think there could be a better level of integration.” [P3]</i></p> <p><i>“They will go and audit the same thing ten times that has already been audited from a regulatory perspective... but they haven’t coordinated that effort or they don’t coordinate between the different audit teams never mind with second or first line.” [P5]</i></p> <p><i>“They don’t talk to each other in terms of how can we kind of align it and how can we work together to get as much as possible of all three agendas done, but currently there is definitely no alignment.” [P5]</i></p> <p><i>“We know about each other, we are not integrated.” [P6]</i></p> <p><i>“I don’t think I would call it integrated. It is</i></p>

		<p><i>disparate at best.” [P8]</i></p> <p><i>“Why are different people checking the same thing? Not understanding that broader concept which I guess also speaks to communicating that to people who get affected.” [P8]</i></p> <p><i>“More interactions on the right levels. That is for me the biggest barrier. To read stuff through papers it is too late and to give input then is irrelevant. I am going back to the buy-in and tone at the top. If that is really something that is important to an organisation they will push that the right people sit in the right meetings and give the right input.” [P8]</i></p> <p><i>“There is a strong need for it (coordination) but we need to integrate more and align our processes to avoid duplication.” [P10]</i></p> <p><i>“No it is not effective, how do we become more effective? Eliminate the silos and get more buy-in from business.” [P16]</i></p>
<p>Execution of the “Three Lines of Defence” model</p>	<ul style="list-style-type: none"> • Conflict • Confusion • Collaboration 	<p><i>“I think with what first and second line is supposed to be doing I think that is not properly articulated or clarified, it seems to be very much (sic) of an overlap.” [P1]</i></p> <p><i>“I think the whole separation between first, second and third line have caused a lot conflict so where a lot of the work should be a partnership really working towards the benefit of the organisation then it becomes a policemen thing.” [P5]</i></p> <p><i>“There is also sometimes an (sic) expectation from first line that there should be some stuff done by second line that isn’t (sic) second line activities and again it is just a maturity perspective, because of how it was done previously it is still relatively new in terms of redefining the split between first and second line.” [P5]</i></p> <p><i>“It is known but not fully understood and properly executed. Staff members (sic) are too busy to focus on the 3 lines requirements because they need to get the job done.” [P5]</i></p> <p><i>“I don’t think people understand the difference and the need for all of it.” [P8]</i></p> <p><i>“There needs to be more collaboration amongst</i></p>

	<p><i>these areas and integration which does not exist at the moment or if it does, we are not exposed to it or its not being driven effectively.” [P10]</i></p> <p><i>“It has been quite a journey in terms of understanding what each person is (sic) doing... there would be some fights among the teams in terms of... second and third line of defence with expectations of what each person (sic) is supposed to be doing.” [P12]</i></p> <p><i>“There are a lot of issues coming up so I think there is still a lot of work that needs to be done; people’s attitudes maybe needs to change.” [P13]</i></p> <p><i>“At (sic) on-boarding... part of your roles and responsibilities they should actually give you a definition of first, second and third” [P15]</i></p>
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APPENDIX 4: THEMES, KEY HEADINGS AND SUMMARY OF FINDINGS

Research Themes	Key Headings (Challenges)	Summary of Findings
Enterprise Risk Management		
Understanding Enterprise Risk Management	<ul style="list-style-type: none"> Holistic and integrated view of risk Tone at the top of organisations 	<ul style="list-style-type: none"> All interviewees were able to provide a definition. The majority of interviewees understood enterprise risk management to be a holistic view of risk internal to the organisation, external to the organisation, and in partnership with all relevant stakeholders. These were also linked to organisational objectives. A few interviewees extended the definition to include having an appropriate risk culture driven by the leadership of the organisation.
Understanding <u>Effective</u> Enterprise Risk Management	<ul style="list-style-type: none"> Risk management processes Risk management metrics 	<ul style="list-style-type: none"> Interviewees highlighted the need for risk management to be integrated with business processes, for business to have an end-to-end view of their risk landscape and to understand them. Interviewees noted the requirement for risk management frameworks and associated metrics to be appropriate and monitored.
Importance of Enterprise Risk Management	<ul style="list-style-type: none"> Organisational sustainability Corporate governance 	<ul style="list-style-type: none"> Key aspects provided by interviewees supporting organisational sustainability related to preventing corporate incidents, balancing opportunity and risk, safeguarding organisations and protecting shareholder value. Ensuring compliance, appropriate oversight, and risk management consistency was noted by interviewees in support of good corporate governance. One interviewee made reference to enabling an appropriate risk culture.
Enterprise Risk Management Framework		
The Adoption	<ul style="list-style-type: none"> Frameworks not yet implemented 	<ul style="list-style-type: none"> Creating an appropriate framework in view of vague industry frameworks and existing organisational complexities was

	<ul style="list-style-type: none"> • Framework implementation in progress 	<p>identified to be a challenge for interviewees.</p> <ul style="list-style-type: none"> • Organisational changes with respect to frameworks and governing bodies, as well as organisational complexities proved to be a challenge for interviewees to embed existing frameworks. Some frameworks were not effective in providing a holistic view or risk. • According to interviewees, the extent of implementation of these frameworks meant that much of the decision-making processes within organisations were subjective in nature.
The Measurements	<ul style="list-style-type: none"> • Risk practitioner awareness and understanding • Business awareness and understanding • Inappropriate risk metrics 	<ul style="list-style-type: none"> • Some interviewees were unfamiliar with existing metrics. Where metrics were known (to some extent) by interviewees there tended to be a lack of understanding or appropriate application in business engagement. This adversely impacted risk PR actioner effectiveness in dealing business engagements. • Interviewee views tended towards lack of business awareness and understanding of metrics, though some felt business stakeholders had awareness at higher levels of organisations. • Interviewees took the view that metrics were either not in place or were not fit for purpose. This meant subjectivity when it came to decision-making within organisations and interviewees felt this also exposed business to additional risk.
Enterprise Risk Management Governing Structures		
Chief Risk Officer Effectiveness	<ul style="list-style-type: none"> • Engagement with business • Approach to risk management 	<ul style="list-style-type: none"> • Educating business on risk was identified by interviewees as a key aspect for business engagements. • Delegation of responsibilities was regarded as chief risk officers not taking accountability. This approach also spoke to the risk culture of organisations.

	<ul style="list-style-type: none"> • Skills and experience 	<ul style="list-style-type: none"> • Chief risk officer skills and experience, in terms of holistic risk knowledge and management thereof, was seen to be a challenge for interviewees. This challenged the effectiveness of chief risk officers at risk committee meetings.
Risk Committee Effectiveness	<ul style="list-style-type: none"> • Risk committee operating model • Risk committee composition 	<ul style="list-style-type: none"> • Committees were seen by interviewees not to hold people accountable and were sometimes identified as lacking importance or authority. The lack of an integrated view and focus on risk by members was also seen as an inhibitor, as was the lack of communication to lower levels of the organisation of committee outcomes. • A few interviewees did not think there was an appropriate match of attendance between business and risk practitioners. An interviewee felt that risk practitioners lacked a consolidated knowledge of risk to be effectively challenge business at risk committees.
Enterprise Risk Management Practices		
Business Effectiveness	<ul style="list-style-type: none"> • Business understanding of risk • Business ownership of risk • Attitude of business 	<ul style="list-style-type: none"> • There was a general view that business lacked awareness and understanding of risk which was seen to expose organisations to increased risk. Responsibility was also seen to be passed onto risk practitioners as a result. Interviewees felt the maturity of risk management was low from a business perspective. • Interviewees generally noted that business lacked accountability to deal risks. • Interviewee views were negative in this regard, highlighting business to lack transparency, openness and consideration of risk. Interviewees felt business to expose the business to increased risk as a result.
Risk Practitioner Effectiveness	<ul style="list-style-type: none"> • Risk practitioner 	<ul style="list-style-type: none"> • Interviewees felt that risk practitioners

	<p>understanding of business and risk</p> <ul style="list-style-type: none"> • Perception of Business 	<p>did not understand business or risk well enough to add value to organisations. The ability for risk practitioners to really unpack business risk was questioned by interviewees as a result. One interviewee noted the complexity of the environment as a reason which made it difficult.</p> <ul style="list-style-type: none"> • There was a sense that business did not see the value in risk practitioners and rather found them to be a hindrance.
Risk Management Coordination	<ul style="list-style-type: none"> • Coordination of risk activities • Execution of "Three Lines of Defence" model 	<ul style="list-style-type: none"> • Interviewees identified that business and risk practitioners tended to work in silos which created gaps in terms of lack of communication, integration and duplication of efforts. The risk culture in terms of appropriate tone at the top to push the integration agenda was highlighted. • The existence of the "Three Lines of defence" model appeared to create confusion and conflict between stakeholders, according to interviewees, due to lack of education and buy-in on the model.

APPENDIX 5: ETHICAL CLEARANCE APPROVAL LETTER

Gordon Institute of Business Science University of Pretoria

Dear Miss Levina Pillay

Protocol Number: **Temp2015-01498**

Title: **Stakeholder Experiences with Enterprise Risk Management in Banking**

Please be advised that your application for Ethical Clearance has been APPROVED.

You are therefore allowed to continue collecting your data.

We wish you everything of the best for the rest of the project.

Kind Regards,

GIBS Ethics Administrator