

BARRIERS TO IMPLEMENTATION OF ERM SYSTEMS IN LARGE ENTERPRISES

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Summary: Enterprises operating in the modern world should lay particular emphasis on increasing the security of functioning, which is possible thanks to the effective and integrated risk management. However, it should be noted the existence of a number of barriers making the implementation of ERM difficult, arising for large enterprises, primarily from the lack of sufficient competence, knowledge, or experience.

Key words: ERM, Enterprise Risk Management, business model

1. Introduction

Enterprises operating in the world today must meet many new challenges. Working in the dynamic conditions of globalization, increasing competition, they must deal with an increase in the prices of raw materials and materials, customer requirements, as well as the shortage of skilled and specialized workforce. In order to solve the above problems business entities expand markets, use a variety of methods of funding or upgrade production technology. However, it should be noted that with the increase in the size and scope of the company, increasing the level of uncertainty and risk also increases. Therefore, in order to maintain their market position, the business entities must learn how to use the instruments allowing increasing security at both operating and strategic level. One of such tools is the ERM (Enterprise Risk Management) allowing the identification the sources of risk, as well as the development of specific actions, depending on the possible scenarios of events. It should be noted, however, that although risk management in an integrated way allows a number of benefits to be achieved, only few companies in Poland decide to implement ERM. From a scientific point of view, it seems to be necessary to examine the status quo in this regard.

On the basis of the above considerations, the main objective of the article has been settled, which is the identification of barriers hindering, or preventing big companies from implementing ERM. The purpose has been achieved with the service of empirical studies conducted using an in-depth

survey and a direct interview on the sample of 33 large entities (employing 250 and more people), located in Poland.

2. The process of Enterprise Risk Management

Discussion on enterprise risk management should start from a precise determination of the term risk, due to its numerous interpretations and rich semantics. Most universal explanation of the examined concept can be found in Polish Language Dictionary, which defines that risk is the probability that something will not work, the enterprise or action whose effect is unknown, uncertain, or problematic¹. In economics, however, it stands for the uncertainty of results expected in the future as a result of a specific event, often treated only as a possibility of a loss in the future due to undertaking certain actions².

In the context of management studies, risk is most commonly analyzed from two perspectives – negative and neutral³. In accordance with the negative concept, it is only the threat that should be avoided, it is associated with danger, uncertainty, the possibility of incurring a defeat, or loss⁴. The neutral concept is of a different nature, as it sees risk as the uncertainty of results, which can be both positive and negative⁵.

Defining the ERM it has to be said that this is a process for threats and opportunities affecting the creation or maintenance of added value, which is carried out by the Board of Directors, management or other personnel of the enterprise. The paramount risk management objectives in an organization is to identify potential events that may affect the company, maintain the risk within acceptable limits, and to provide reasonable assurance of accomplishing the established tasks by the enterprise⁶.

In the literature of the subject, the system of the integrated enterprise risk management is most often presented as a complex, multi-phase process⁷. Chapman model⁸, according to which the risk analysis in the enterprise should be done on seven stages, deserves special attention. First, it is necessary to set up a corporate governance (1) allowing the creation of processes to measure and manage risk. Next, you must specify the internal control mechanisms (2) necessary for the protection of shareholders and investors, as well as to implement them (3) using internal resources or external support. Then, you create a general structure of the risk management system (4), providing strong foundations, as well as specify a policy (5) describing the importance of ERM in the context of achieving the company's strategic objectives. In the end, it is necessary to create procedures (6) taking into account the varied sources of threats (7), to which the organization is exposed.

3. Barriers to the implementation of the ERM

Despite the fact that the implementation of the risk management system in your organization brings many benefits, still few enterprises in Poland decides to deploy it. From a scientific point of view, it seems to be interesting to identify the barriers that impinge on the decisions of the operators in this issue. Empirical research on the barriers to the implementation of ERM in large enterprises (employing 250 and more people), were carried out during the period from October to January 2016 and analyzed by means of a questionnaire survey and direct interviews in 33 units located in Poland.

The empirical examination that was carried out consisted of two stages. In the first one, an attempt was made to specify the types of barriers hindering or even preventing the implementation of ERM in the enterprise, based on a critical analysis of literature, their own observations and direct interviews with entrepreneurs. In the second part of the study, the analyzed business entities were asked to identify the importance of barriers to the introduction of the ERM on the five points Likert scale (where 1 meant lack, and 5 meant great).

To test the implementation of risk management integrated system hampering factors one included such determinants as problems with the interpretation of ISO standards, limited material resources, limited human resources, the problems with the determination of responsibility, lack of skills to carry out the risk assessment, a lack of understanding in the enterprise for the deployment of such a system, inappropriate period for its implementation, problems with creation/organization of the documentation, ineffective communication between the departments in the enterprise, the lack of experience in the implementation of such systems and the lack of involvement of top management.

Proceeding to a detailed analysis of the data, it should be noted that for the tested collective the most important barrier was the lack of experience in the implementation of such systems (IF = 3.364), which is related to the fact that the ERM is not a commonly used in Poland. It is clear that the market is missing a fairly conducted training and readily available publications to broaden the knowledge of management.

Another factor impeding the implementation of the ERM is insufficient human resources (IF = 3.333). At this point the entrepreneurs stressed, above all, the lack of access to specialized staff, with appropriate skills and knowledge and able to manage enterprise risk in a holistic way.

Significant, as well as typical for large business entities is ineffective communication between departments in the enterprise (IF = 3.242). Correctly implemented ERM system requires an efficient flow of

information between each cell of the business entity. Otherwise, the created procedure will be based on fragmentary information, will involve only certain stretches of the activities of the entity, and, moreover, will give only a false sense of security.

Tabela 1. Selected barriers to the implementation of ERM systems in large enterprises

| Barriers to the implementation of the ERM | IF | SD |
|--|-----------|-----------|
| Lack of experience in the implementation of such systems | 3.364 | 1.220 |
| Limited human resources | 3.333 | 1.021 |
| Ineffective communication between the departments in the enterprise | 3.242 | 1.173 |
| Lack of involvement of top management | 3.091 | 1.466 |
| The problems with creation/organization of the documentation | 3.000 | 1.173 |
| Limited material resources | 2.970 | 1.311 |
| A lack of understanding in the enterprise for the deployment of such a management system | 2.970 | 1.311 |
| The problem with determining liability | 2.909 | 1.042 |
| Lack of skills to carry out risk assessment | 2.909 | 1.284 |
| Inappropriate period intended to implement such a management system | 2.788 | 1.166 |
| Problems with the interpretation of the ISO standards | 2.303 | 1.262 |

Footnote: IF-importance factor, SD-standard deviation.

Source: own study based on empirical data.

Another important barrier for the tested sample is the lack of involvement of top management (IF = 3.091) who often approach intuitively to running the business in risky and uncertain conditions, without sufficient awareness and discernment of the problem.

An important barrier are also problems with creation/organization of the documentation (IF = 3.000), which, in fact, also derives from a small experience of workers in the implementation of such systems.

The other examined factors were of secondary importance for the analyzed business entities (IF < 3.000). Detailed data on the importance and deviations of individual factors are presented in table 1.

4. Conclusion

In conclusion, it should be noted that companies operating in the modern world should put special emphasis on improving the safety of operating, reducing potential threats, taking opportunities emerging on the market, as well as increasing the likelihood of achieving the strategic goals. A tool to fill the above tasks is the ERM system. However, looking for the answer to the question why still few enterprises decide to its implementation, special attention should be paid to the barriers of the know-how nature. For large enterprises, the greatest difficulties relate mainly to the lack of experience, knowledge, competence, or specialized staff. Therefore, it seems to be necessary to carry out further research of enterprise risk management and publication of the results of the analysis in an understandable form for readers, in view of the considerable potential of scientific and business cooperation.

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