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Abstract

Enterprise risk management (ERM) has captured the attention of risk management professionals and academics worldwide. Unlike the traditional “silo-based” approach to corporate risk management, ERM enables firms to benefit from an integrated approach to managing risk that shifts the focus of the risk management function from primarily defensive to increasingly offensive and strategic. Despite the heightened interest in ERM, little empirical research has been conducted on the topic. This study provides an initial attempt at identifying the determinants of ERM adoption. We construct a sample of firms that have signaled their use of ERM by appointing a Chief Risk Officer (CRO) who is charged with the responsibility of implementing and managing the ERM program. We use a logistic regression framework to compare these firms to a size- and industry-matched control sample. While our results suggest a general absence of differences in the financial and ownership characteristics of sample and control firms, we find that firms with greater financial leverage are more likely to appoint a CRO. This finding is consistent with the hypothesis that firms appoint CROs to reduce information asymmetry regarding the firm’s current and expected risk profile.