

"The Effect of Corporate Governance on the Use of Enterprise Risk Management", Risk Management and Insurance Review, 2003, Vol. 6, No. 1, pp. 55-73

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Abstract

This article examines the use of enterprise risk management (ERM) by companies in Canada, the characteristics that are associated with the use of ERM, what obstacles companies face in implementing ERM, and what role, if any, corporate governance guidelines have played in the decision to adopt ERM. We obtained our data from the response to a mail survey sent to Canadian Risk and Insurance Management Society members as well as telephone interviews with 10 of the respondents. The results indicate that 31 percent of the sample had adopted ERM and that reasons for adopting ERM include the influence of the risk manager (61 percent), encouragement from the board of directors (51 percent), and compliance with Toronto Stock Exchange (TSE) guidelines (37 percent). The major deterrents to ERM were an organizational structure that discourages ERM and an overall resistance to change. Although only about one-third of companies indicated that they had adopted an ERM approach, evidence was clear that a larger portion of the sample was moving in that direction, as indicated by what changes they had observed in their companies in the past three years. These include the development of company-wide guidelines for risk management (45 percent), an increased awareness of nonoperational risks by operational risk management personnel and an increased awareness of operational risks by nonoperational risk management personnel (49 percent), more coordination with different areas responsible for risk management (64 percent), and more involvement and interaction in the decision making of other departments. Contrary to what we expected, there was not a significant difference between firms that are listed on the TSE versus those that are not in terms of the propensity to use ERM. However, the fact that 37 percent of firms indicated that the TSE guidelines were influential in their decision to adopt ERM provides some evidence that the guidelines are influencing companies' risk management strategies.