

## **ERM: The Implementation Process and Strategic Effectiveness**

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## **ERM: The Implementation Process and Strategic Effectiveness**

### **Abstract**

This study examines the enterprise risk management (ERM) implementation process and the strategic effectiveness of ERM, two important issues that have received limited research attention to date. Based on semi-structured interviews of 15 ERM champions at 14 organizations, we find that many organizations initially decide to undertake an ERM implementation for strategic reasons, often at the encouragement management receives from the board and audit committee. The interviewees identify positive impacts (greater risk awareness) of ERM implementation more often than negative effects (that ERM is not value adding). However, we find that most of the organizations still struggle with achieving the strategic benefits of ERM, and there are a number of barriers to ERM's impact on the strategic direction of the organization. Perhaps most important is that strategic planning is a top management and board level activity, but the two most prominent players in ERM are internal audit and the general counsel, parties perceived to have a strong compliance focus. Overall, the results reveal a primary tension between a resource dependence theory perspective (ERM is focused on strategic risks and helping the organization to meet its strategic objectives) and (a) an agency theory perspective (ERM is focused on reducing information asymmetry and constraining managerial opportunism) and (b) an institutional theory perspective (ERM efforts reflect best practices and normative or coercive elements). While ERM often begins with a strategic, resource dependence focus, it appears that in many of these organizations, the actual implementation of ERM yields outcomes closer to the agency and institutional perspectives.

**Key Words:** *Risk, ERM, strategy, agency theory, resource dependence theory, institutional theory*