DECLARATION

I, **Masego Mercy Morima**, declare that this dissertation is my original work and has never been submitted in any form for another degree at any university. Information derived from others has been acknowledged both in the text and the reference list. This dissertation shall not, under any circumstances, be presented to any other institution for an award of any degree.

Masego Mercy Morima

Date: October 2012

SUPERVISOR'S APPROVAL

This dissertation has been examined and approved as meeting the requirements for the partial fulfilment of the degree of Master of Business Administration in Financial Management.

Supervisor

October 2012

Date

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ABSTRACT

The aim of this study was to investigate the benefits and challenges of the implementation of Enterprise Risk Management (ERM) in the financial sector in Botswana given the financial and economic contagions and developments across the globe, and the risks experienced by the financial institutions.

The study followed the quantitative method of research. Data was collected through questionnaires administered to 18 randomly selected financial institutions in Gaborone. Statistical software, Statistical Package for Social Sciences (SPSS) was used to facilitate analysis and discussion of the findings.

The study revealed that more commercial banks exist than investment, development financial institutions and building societies combined. Furthermore, the majority of financial concerns surveyed have implemented an ERM process and/or function. All financial institutions surveyed have made significant progress in managing enterprise risk. The study also revealed that the benefits of ERM implementation were found to be greater than the cost of implementation. In terms of ERM challenges, the major findings were that ERM is an interesting exercise to implement as most of the very significant challenges are related more to the attitudes, behaviours and systems within the implementation process than to the organisation itself, save for human resource policies and practices which are the only organisational factors affecting ERM implementation.

The following recommendations were made pertaining to the study: Bank of Botswana and such regulatory authorities as the Non-Bank Financial Institutions Regulatory Authority (NBFIRA) need to formulate an authoritative local ERM regulatory framework to govern the conduct of financial institutions in this regard. During post implementation review, policy makers should at least align the strategic objectives of their financial institutions with the objectives of the ERM functions. Appropriate evaluations must be made to adequately prescribe a cost-effective and value-adding ERM programme installation for financial institutions; and all organisational systems must be positioned to impact favourably on successful ERM implementation.

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CHAPTER 1

INTRODUCTION

1.1 BACKGROUND INFORMATION

Enterprise Risk Management is a relatively new term that is quickly becoming viewed as the ultimate approach to risk management. Many scholars and managers define the concept ERM differently. Goshen and Rasid (2012) have stated that several textbooks and journals have discussed about "business risk management", "strategic risk management", "holistic risk management", "integrated risk management", "corporate risk management", and "enterprise-wide risk management" and it has become clear that they are all in reference to ERM, which is the new substitute of traditional silo-based risk management. Although each of these terms has a slightly different focus, in part fostered by the risk elements that were of primary concern to organizations when each term first emerged, the general concepts are quite similar and that ERM has become a substitute of traditional silo-based risk management.

According to Watts (2008) ERM is an approach that categorises all risk across each business unit and geography and aggregated at the enterprise level to be treated holistically. This means that every facet of the entity is encompassed in the risk management process from identification of risk to risk review. Rouse (2010) also says that ERM is the process of planning, organising, leading, and controlling the activities of an organisation in order to minimise the effects of risk on an organisation's capital and earnings. She continues to say, ERM expands the process to include not just risks associated with accidental losses, but also financial, strategic, operational, and other risks.

ERM expands the process to include not just risks associated with accidental losses, but also financial, strategic, operational, and other risks. Yazid, Hussin and Daud (2011) cites The Committee of Sponsoring Organisations of the Treadway Commission (COSO 2004) supporting this by stating that ERM is a process, effected by an entity's board of directors, management and other personnel; applied in strategy settings and across the enterprise; designed to identify potential events that may affect the entity; manage risk to be within its risk appetite and provide

reasonable assurance regarding the achievement of entity objectives. The COSO definition has been adopted for this study because of its clarity and linkage of the process to the roles of those who have to implement the programme.

1.2 STATEMENT OF THE PROBLEM

Financial institutions are faced with a large number of problems such as physical risk, interest rate risk, political risk and investment risk. The wrong approach in tackling those risks could create a severe financial impact on the companies (Flaherty, 2004, cited in and Yazid, Daud and Hussin, 2009). Risk management in the financial sector has come under severe scrutiny especially since the recent turbulence that has impacted the very existence of the financial sector as a viable industry. Recent years have seen heightened concern and focus on risk management, and the need for a robust framework to effectively identify, assess and manage risk has become increasingly clear (Flaherty, 2004 cited in Daud and Yazid, 2009). In attempting to manage risks, financial institutions across the world have been implementing ERM systems since the turn of the 19th century.

ERM management has appeared as a new inspiration for managing the collection of risks that face an organisation. Beasley (2010) reports that the recent events in the financial markets, including the 2008 sub-prime meltdown, continues to highlight the need for improved risk oversight processes for enterprises of all types. In that crisis as stated by Paape and Spekle (2012) weaknesses in risk management practices became painfully visible, and companies are currently under significant pressure to strengthen their risk management systems and to take appropriate actions to improve stakeholder value protection. They continue to say that in the wake of these increasing expectations, the idea of ERM has gained substantial momentum as a potentially effective response to risk management challenges. This has also prompted researches that have widely recognised the critical role of ERM as a new paradigm for managing the portfolio of risks that face organisations. Hoyt and Liebenberg (2011) found out that in insurance companies, Tobin Qs (a standard proxy of firm value) when modeled as a function of ERM there is positive relation between firm value and use of ERM. The ERM premium indicated that it is statistically and economically significant. Before 2008 there were also researches from authors like Pagach and Warr (2007) as they used a hazard model and concluded that firms adopting

ERM do so for reasons that are consistent with the hypothesised benefits of ERM. Altuntas, Berry – Stolple and Hoyt (2011) did a more recent research in Germany measuring the direct measurement of ERM adoption and implementation. One of their findings is that ERM adopted firms tend to have a higher Return on Assets (ROA) and have more liquid assets relative to total assets. They tend to be larger, more leveraged, and more likely to be affiliated with a group. These firms are more concentrated in their business, they have lower tax expenses and are lesser publicly owned.

According to Goshen and Rasid (2012) while ERM is on the rise, not all organisations are adopting it. Little is known about why some organisations acknowledge ERM while others do not. They continue to add that, although ERM is known as an effective and useful tool for managing risk surrounding today's firms, not all firms have adopted ERM yet; the reason being that there are barriers and challenges experienced in design and implementation of such a comprehensive approach. To date, most of the literature on ERM has focused on developed countries. Very little attention has been directed to this subject in developing countries, including Botswana. However, there is much evidence that although ERM is known as a tool to increase shareholders' value, still not many financial institutions have adopted this new financial tool to manage risks evolving inside and outside the organisation and if they have, what lessons can be learnt from the implementation of ERM systems in financial institutions in Botswana

There is strong evidence that full ERM implementation in financial institutions is often not completed in time and within budget and there are reports of complete ERM implementation failure as in the case of the American financial institutions that financed the 'sub-prime mortgage market that led to the global credit crunch of 2008 (Bob, 2011).Furthermore given market, credit and operational risk losses realised in 2008–2010, financial institutions across the world are no longer overcapitalised. Margins are significantly lower, asset write-downs (pro-visions or increase in reserves) are higher and the financial services sector has been hit by a wave of defaults across retail and corporate segments. Given the financial and economic contagions and developments across the globe, the pertinent question at the centre of this research is: What are the benefits and challenges faced by financial institutions through the implementation of ERM?

The study aims, therefore, to investigate the benefits and challenges of the implementation of ERM in the financial sector in Botswana.

1.3 THE RESEARCH OBJECTIVES

The primary objective of the study is to investigate the benefits and challenges associated with the implementation of ERM in financial institutions in Botswana. The specific objectives that guide the study are:

- To discover the number of financial institutions among the Botswana financial institutions those have ERM programmes.
- To find out the types of risks that the financial institutions manage using the ERM programme.
- To examine the benefits accruing to financial institutions through the implementation of ERM.
- To examine the challenges faced by financial institutions in the implementation of ERM.
- To put forward recommendations to financial institutions in order to improve their existing ERM processes.

1.4 THE RESEARCH QUESTIONS

1. How many financial institutions have ERM programmes?
2. What are the types of risks that financial institutions manage using the ERM programme?
3. What are the benefits of ERM in financial institutions?
4. What are the challenges faced by the financial institutions when implementing ERM?
5. How can the ERM processes be improved by financial institutions?

1.5 THE SIGNIFICANCE OF THE STUDY

This study could be beneficial to the various managers of financial institutions in Botswana by enabling them to appreciate the implementation of ERM systems in Botswana and how this fares locally and in comparison with global ERM standards. This study could also be significant in providing valuable information in order to streamline the implementation processes and serve as a future reference for researchers on the subject of implementing ERM systems in an income

country such as Botswana. The research may be useful to inform the future development and implementation of ERM systems in financial institutions to support academic pursuit.

1.6 ORGANISATION OF THE STUDY

After the introduction, chapter 2 provides an overview of ERM in financial institutions, while chapter 3 provides a review of all literature dealing with the research problem. Chapter 4 presents the research design and methodology, followed by empirical analysis in chapter 5. Conclusions, recommendations, and study limitations are presented in chapter 6.

CHAPTER 2

AN OVERVIEW OF ENTERPRISE RISK MANAGEMENT IN FINANCIAL INSTITUTIONS

2.1 INTRODUCTION

In this chapter an overview of ERM is presented and the following are included in the discussion: the concept of ERM; the background of ERM in financial institutions; the reasons for ERM implementation by financial institutions; and challenges associated with implementing ERM.

2.2 BACKGROUND OF ERM IN FINANCIAL INSTITUTIONS

The prevailing definition of ERM adopted by most financial institutions is the one proposed by (COSO) in their 2004 ERM framework. It establishes key concepts, principles and techniques of ERM. However, the concept of ERM was arrived at by prior events that led to the development of responding to risk in financial sectors using a holistic approach. These events form the background of ERM in financial institutions.

Risk management in the financial sector is in the limelight especially after the recent turbulence that has impacted the very existence of financial sectors as a viable industry. Simkins (2008) writes that the history of risk management in financial institutions originated in the early 1800s, during futures trading in the grain industry. The financial institutions especially banks recognised the significance of the role of risk management and adapted the same by creating a risk management function in their organisations. It is not only the banks but also the various government bodies that recognised the repercussions or impact of not managing risks effectively in financial institutions and accordingly enacted several regulations to control risks that might arise in financial businesses and operations.

The risk function in financial institutions has evolved over a period of time and reached a stage when the need to have common criteria to measure and quantify enterprise risks so that a comparative analysis of the financial institutions could be performed and made available to stakeholders became a necessity. According to Vaidyula and Kavula (2012) this development led to the introduction of Basel Norms by the BIS Committee. The committee has guided all the financial institutions of the participating countries and the financial institutions governed by them to adapt and align their risk management practices to the norms over a period of time. The Basel norms are focused on the risks in operational, credit and market areas which in turn help the financial institutions to quantify the risks and standardise their risk management practices in the said areas.

However, most of the financial institutions have regarded Basel norms as another mundane exercise of regulatory compliance instead of as a tool for effective risk management. Vaidyula and Kavula (2012) states that the situation that resulted was mainly on account of financial institutions being under the constant scrutiny of regulatory authorities and cornered with multiple numbers of regulations to be complied with.

In other words, financial institutions in their efforts to comply with these multi-regulations realised that complying with all the mandatory regulations was too cumbersome because often the data and approach required to meet the different requirements were quite similar resulting in duplicated efforts and increased costs. In this way, these multi-regulations jeopardised the very essence of the regulations and of risk management itself. Moreover, given the depth and breadth and geographical spread of the financial business and operations, financial institutions realised that Basel norms were not comprehensive enough to establish a comprehensive risk management system which could help them to identify, mitigate risks across enterprise in all the areas and at the same time rationalise and mature their risk management practices across their enterprises.

The above said factors led to a scenario in which financial institutions started looking beyond regulatory compliance and Basel norms for an enterprise-wide approach to cater for all risk requirements in a more cost-effective and efficient manner. Simkins (2008) relate that after the

collapse of the Bretton Woods System in 1971 which had essentially fixed the relative value of major exchange rates to the American Dollar, the exchange rate volitability increased. A move to a floating exchange rate in the early 1980s created a substantial interest risk. Financial institutions identified and started adapting the Enterprise Risk Management Framework released by COSO (2004) as a framework to drive their initiatives in risk management beyond Basel norms and regulatory compliances. Vaidyula and Kavula (2012) indicate that COSO ERM framework has all the components required to help financial institutions stand a chance to derive business value while meeting compliance requirements.

2.3 REASONS FOR ERM IMPLEMENTATION BY FINANCIAL INSTITUTIONS

In outlining the Protiviti (2012) highlight that ERM provides a company with the process it needs to become more anticipatory and effective at evaluating, embracing and managing the uncertainties it faces as it creates sustainable value for stakeholders. It helps an organisation manage its risks to protect and enhance enterprise value in three ways. First, it helps to establish sustainable competitive advantage. Second, it optimises the cost of managing risk. Third, it helps management improve business performance.

These contributions redefine the value proposition of risk management to a business (Beasley, et al., 2008; Calandro Jr & Lane, 2006, Gordon, Loeb & Tseng., 2009; Kucuk Yilmaz, 2009; Lai and Samad, 2010; Woon, Azizan & Samad, 2011). Altuntas, Berry- Stolzle and Hoyt (2011) state that the ultimate goal of ERM is to move beyond meeting compliance standards but moving towards achieving real economic value. In addition to their argument Protiviti (2012) believes that there are six fundamental reasons for implementing ERM, each of the reasons serving to help evaluate risk management to strategic level. This indicates that when implementing ERM to ensure the success of a business the best way is to take a value dynamics approach. The six reasons are:

1. The reduction of unacceptable performance variability
2. Alignment and integration f varying views of risk management
3. A build up of confidence of investment community and stakeholders
4. Enhancement of corporate governance

5. Successful response to a changing business environment
6. Alignment to strategic and corporate culture

Just as potential future events can affect the value of tangible physical and financial assets, so also can they affect the value of key intangible assets. This is the essence of what ERM contributes to the organisation: the elevation of risk management to a strategic level by broadening the application and focus of the risk management process to all sources of value, not just physical and financial ones. Beasley (2010) supports this in saying several key concepts are critical to successful ERM. First, ERM must be driven from the top of the organization, including involvement by the board. Second, ERM is meant to be value-adding, and thus risk analyses should be integrated with strategy planning. Third, the goal of ERM is not risk reduction. Rather, ERM is designed to increase the likelihood that risks are effectively managed by creating an enterprise-wide view of risks so that organizational objectives are more likely to be achieved for value preservation and enhancement.

Enterprise risk management from 'avoiding and hedging bets' to a differentiating skill for protecting and enhancing enterprise value as management seeks to make the best bets in the pursuit of new opportunities for growth and returns. ERM invigorates opportunity-seeking behaviour by helping managers develop the confidence they truly need to understand the risks and have the capabilities within the organisation to manage those risks. Implementation of ERM usually takes a long time and managers want quick results as outlined by Kaplan and Mikes (2012) citing Kleffner, Lee, and McGannon, 2003). Therefore, it is important to offer managers tools that allow them to identify the most important risks quickly.

In some cases, firms may be practising good risk management on an exposure-by-exposure basis, but they may not be paying close enough attention to aggregation of exposures across the entire organisation. Rapid growth can place considerable pressure on, among other areas, an organisation's management information systems; change-management controls; strategic planning; credit concentrations, and asset/liability management. An organisation must also understand how its various business components, some of which can be quite sophisticated and complex, dynamically interact as stated by Protiviti (2012).

2.4 CHALLENGES IN ADOPTING ENTERPRISE RISK MANAGEMENT

Enterprise risk management implementation needs to overcome multiple inherent challenges by means of strong support from top management; sufficient resource in terms of cost and trained professionals; expert knowledge in risk management and continued focus on the implementation without losing steam in the middle. Beasley (2010) For instance, integration of market risk management, credit risk management, liquidity risk management and operational risk with other 'financial' risks is a difficult step which requires significant effort, time and cost to improve the underlying data management.

2.5 THE IMPLEMENTATION OF ERM IN BOTSWANA

There is not one universally accepted formula of ERM that fits all institutions. Each institution has a unique mixture of people, customers, products, locations, economies, and capital. However, there is a common theme. The board and the institution management need to be able to identify, measure, monitor, and control risks encountered in their institution, both on a current basis and prospective basis. Risks come in many varieties, including: credit risk, compliance risk, liquidity risk, market risk, operational risk, model risk, capital risk, legal risk and reputational risk. One typical bank in Botswana that has already engaged in using ERM is the First National Bank of Botswana.

The First National Bank of Botswana Limited (FNBB) Report (2011) defines its ERM as the risks that it covers outlined in the risk register. The bank has aligned its risk management structure in line with the Group's Business Performance and Risk Management Framework with the objective of ensuring a single view of risk across the bank. Under their risk management and internal controls, the FNBBL report (2011) states that the bank continued to focus on risk management and corporate governance in the business during the year under review. Four internal specialist committees report to the Main Risk Committee (an ERM committee), that then reports to the Board Risk Committee, that ultimately reports to the Board. The report has a risk register that encompasses all the risk profiles and the impact rating with the mitigation actions.

However, FNBB does not state the benefits or the challenges that it faces in the implementation of this ERM and this poses a gap that this research has to close during the actual data collection. The financial services industry continues to evolve to meet the challenges posed by emerging technologies and business processes; new financial instruments; the growing scale and scope of financial institutions, and changing regulatory frameworks. The Bank of Botswana, as the primary supervisor of all financial institutions, has been working with other regulators and financial institutions to improve the effectiveness and relevance of regulation and supervision in this changing environment. The Bank of Botswana has long emphasised the need for appropriate and strong internal controls in financial institutions and has taken a continuous-improvement approach to risk-focused examinations. For many years ERM, in the multiple world organisational units within an entity, has received increased scrutiny. In Botswana, however, as a regulatory body the Bank of Botswana that controls the financial institutions has not come to a developed point where it has established a local regulatory framework for ERM. Other banks only state their procedures and risks appetite like Bank Gaborone without explicitly deliberating on ERM. The Barclays Bank of Botswana also does not explicitly state that it engages in ERM but it has a risk profile risk register, and risk procedures.

2.6 CONCLUSION

Enterprise risk management is a process that that is used by enterprises to manage and monitor integrated risks. In the financial sector, the Enterprise Wide risk approach became imperative especially after the shortfalls in the Basel norms became apparent. However, the financial industry still experiences challenges associated with the implementation of ERM. It is also evident so far that in Botswana, research on ERM has not developed much.

CHAPTER 3
THE LITERATURE REVIEW

3.1 INTRODUCTION

This chapter presents the literature review in order to provide a theoretical framework for the adoption and implementation of ERM. It outlines the theory and practice that frames the study, and presents a broad literature review.

3.2 THEORETICAL LITERATURE REVIEW

3.2.1 The Concept of ERM: A Retrospective Approach

Enterprise risk management emerged in the late 1980s as an extension of hazard risk management. Since its introduction, ERM has been used meaning different things. ERM is a broad and complex concept that reaches into every major area of an organisation. As such, it is not surprising that many definitions of ERM have been offered in the literature. Hoyt and Liebenberg (2011), who are often cited in the field of ERM, mention that ERM enables organisations to take advantage of a broad and integrated approach to risk management which is more aggressive and strategic unlike the silo-based risk management which is primarily a defensive method of managing risk. According Beasley Branson, and Hancook (2011) the 2004 COSO framework defines ERM as a process, affected by an entity's board of directors, management and other personnel, applied in strategy settings and across the enterprise. It is also designed to identify potential events that may affect the entity, manage risk to be within its risk appetite and to provide reasonable assurance regarding the achievement of entity objective.

The Hoyt, Moore and Liebenberg (2008), defines ERM as disciplines by which an organisation in any industry assesses, controls, exploits, finances, and monitors risks from all sources for the purpose of increasing the organisation's short- and long-term value to its stakeholders. In support of all risks Beasley (2010) says that the traditional approach fails to recognize the reality that individual categories or "silos" of risks often interact with other silo. Beasley (2010) describes ERM as an integrated framework for managing credit risk, market risk, operational risk, economic capital, and risk transfer in order to maximise firm value. The argument of what

ERM entails as compared to individual risk approach is further described by Liebenberg & Hoyt (2011), mentioning that although individual risk management activities may reduce earnings volatility by reducing the probability of catastrophic losses, there are potential interdependencies between risks across activities that might go unnoticed in the traditional risk management model. ERM provides a structure that combines all risk management activities into one integrated framework that facilitates the identification of such interdependencies. Thus, although individual risk management activities can reduce earnings volatility from a specific source (hazard risk, interest rate risk, etc.), an ERM strategy aims to reduce volatility by preventing aggregation of risk across different sources.

The idea of interdependence is supported by Alviunessen and Jankensgård (2009) pointing out that ERM is concerned about a holistic, company-wide approach in managing risks, and centralises the information according to the risk exposures. They use the term 'risk universe', which is the risk that might impact on the future cash flow, profitability and continued existence of a company. In other words, risk universe is risk that could affect the entity of the company. If risk universe can be identified, the next step is to take an appropriate action such as a risk mapping process, accessing the likelihood and impact and curbing the risk based on the organisations' objectives.

Therefore, ERM can be defined as a systematically integrated and disciplined approach to managing risks within organisations to ensure that firms achieve their objectives of maximising and creating value for their stakeholders. Two key concepts must be highlighted according to the various definitions given above. The first key concept is the main role of ERM itself – it integrates and coordinates all types of risks across the entire organisation. It means that risks cannot be managed in a silo approach. All risks occurring in the entity must be combined and managed in an enterprise approach.

The second key concept in ERM is that users must be able to identify any potential incidents that may affect the organisation and lead the organisation to knowing their risk-appetite. If the risk-appetite is specifically known, any decision made by the organisation to curb risks may be

parallel with the firm's objective (Beasley 2010) ERM is considered as a discipline and it is a process, ongoing and flowing through an entity. It is an orderly prescribed conduct or pattern of behaviour for an organisation. Full support and commitment of top management and every level of an organisation are required to ensure the effectiveness of ERM implementation. In support of management playing pivotal role on ERM implementation Beasley (2010) continues to say greater focus on the need to oversee emerging risk exposures is also attracting the attention of boards of directors as expectations for more effective oversight of risk management processes have become an important component of overall governance. Executives should be eager to make a commitment to ERM because they are ultimately responsible for protecting, creating and enhancing shareholders' value.

Based on the above definitions Alviunessen and Jankensgård (2009) citing the 2004 COSO framework summaries that ERM reflects certain fundamental concepts whereby it is:

- "A process, ongoing and flowing through an entity;
- Effected by people at every level of an organization;
- Applied in strategy setting;
- Applied across the enterprise, at every level and unit and includes taking an entity (level portfolio view of risk);
- Designed to identify potential events that, if they occur, will affect the entity and to manage risk within its risk appetite;
- Able to provide reasonable assurance to an entity" s management and board of directors;
- Geared to achievement of objective in one or more separate but overlapping categories"

3.2.2 The Overall Purpose of ERM

The overall purpose of ERM is to achieve balance between the three key objectives of a financial institution. They are, first, optimisation of the risk-adjusted returns for investors; second, maintenance of the capital strength required to support financial institutions' businesses and future growth opportunities; and third, maintenance of capital and risk governance requirements of regulatory and rating agencies. Although a limited number of studies has been completed to determine the characteristics of ERM including Hoyt and Liebenberg (2011), Beasley (2010), no study has yet been initiated to link the performance of ERM with financial institution's financial and stock market performance.

3.2.3 The Importance of ERM

ERM is important in many perspectives. There are three main reasons why financial institutions exercise ERM (KPMG International, 2006). These are the organisation's desire to reduce potential financial losses; the organisation's desire to improve business performance as a result of regulatory compliance requirements; and the organisation's desire to increase risk accountability. However, Pricewaterhouse Coopers (2008) posit that financial institutions are motivated to implement ERM for the following reasons: the users want to adopt good business practice; users are given a competitive advantage; corporate governance pressure; regulatory pressure and also investment community pressure.

Enterprise risk management provides a financial institution with the process it needs to become more anticipatory and effective at evaluating, embracing and managing the uncertainties it faces as it creates sustainable value for stakeholders. It helps an organisation manage its risks to protect and enhance enterprise value in three ways. First, it helps to establish sustainable competitive advantage. Second, it optimises the cost of managing risk. Third, it helps management improve business performance (Protiviti 2012).

These contributions redefine the value proposition of risk management in a business. Employing a value dynamics approach proves the contribution of ERM to financial institutions and firms in general. Justas potential future events can affect the value of tangible physical and financial assets, so also can they affect the value of key intangible assets. This is the essence of what ERM contributes to the organisation: the elevation of risk management to a strategic level by broadening the application and focus of the risk management process to all sources of value, not just physical and financial ones. ERM transitions risk management from 'avoiding and hedging bets' to a differentiating skill for protecting and enhancing enterprise value as management seeks to make the best bets in the pursuit of new opportunities for growth and returns. ERM invigorates opportunity-seeking behaviour by helping managers develop confidence so that they truly understand the risks and have the capabilities at hand within the organisation to manage those risks. Dafikpaku (2011) summarises these returns: ERM, contributes to increase in the following:

- Greater transparency (Corporate Governance)
- Financial disclosures with more strict reporting and control requirement

- Security and technology issues
- Business continuity and disaster preparedness
- Focus from rating agencies
- Regulatory compliance (laws and regulations)
- Globalization in a continuously competitive environment
-

During the past few decades, the market valuation paradigm has shifted from a composition of predominantly tangible balance sheet assets to intangible assets such as knowledge capital, talent, brand and reputation. Traditional risk management methods protect only a fractional portion of a company's market value. Whether protecting a company's competitive positioning; alleviating pressure on product margins; retaining key talent; or maintaining compliance in a dynamic regulatory environment, ERM helps protect the integrity, viability and value of the organisation. Today's boards of directors and senior management have a fiduciary responsibility to stakeholders, and, therefore, are personally responsible for fostering and sustaining an effective risk management programme.

Risks are inherent in all business transactions (Bob, 2011). Because it is important for business entities to manage their risks systematically and comprehensively, ERM advocates a coordinated effort to manage enterprise exposures. While ERM is on the rise, not all organisations know what benefits they derive from adopting it. They know about why they need to adopt ERM. Actual and perceived benefits may differ according to the nature of the business, the sector the business operates in, and the volatility of the business environment. To date, most of the literature on ERM has focused on developed countries. Very little attention has been directed to this subject in developing countries, including Botswana. Studies of the management of risk by companies from developing countries, meanwhile, have also been scarce. There is not enough information about the ERM initiatives of power companies. However, ERM has appeared as a new inspiration for managing the collection of risks that face an organisation.

3.2.4The ERM Model

Among the financial institutions banks across the world have identified and started adapting the Enterprise Risk Management framework released by COSO as a framework to drive their initiatives in risk management beyond basic norms and regulatory compliances. Vaidyula and Kavula (2012) write that the COSO ERM Framework has all the components required to help banks stand a chance to derive business value while meeting compliance requirements. This can also be adopted by other financial institutions. The ERM framework is structured around eight key components and four key objectives of business: namely, strategic operations, reporting, and compliance

The components of the ERM framework are given below:

Figure 3.1: The COSO ERM Framework

Enterprise Risk Management enables organisations to deal pragmatically with uncertainty and associated risk and opportunity thus enhancing the brand value and profitability. ERM helps in identifying and selecting among alternative risk responses, risk avoidance, reduction, transfer, and acceptance. It helps ensure effective reporting and compliance with laws and regulations, and avoid damage to the entity's reputation and associated consequences (Vaidyula and Kavula (2012).Despite all of the talk about ERM in the trade press, evidence indicates that it is still not widely practised and empirical evidence regarding the manner in which ERM implementation is mapped within the financial industry is lacking. For example, Yazid et al. (2008) find that ERM practices amongst companies were still

at an early stage. In the study, only about 30% of the companies involved had adopted ERM. Why is ERM not common in practice? Some reasons may include organisational structures that are not conducive to ERM; individuals who do not want to give up their specific responsibilities; a lack of understanding regarding how to implement ERM effectively and difficulties in measuring risks in an organisation Chase-Jenkins, Farr, and Lebens, 2010. Since ERM is a relatively recent activity and has yet to be fully implemented in most companies, there has been little academic research about its accomplishments and about the obstacles to further progress. In particular, very little has been published about corporate attempts to identify and manage corporate strategic risks while integrating them into a corporate-wide ERM framework (Gates, 2006).

3.3 EMPIRICAL EVIDENCE

3.3.1 Adoption and Implementation

As mentioned above, the heightened interest in ERM implementation among firms across the world has been clearly fuelled by some internal and external factors. To the researcher's knowledge only a few studies focus on the influencing factors of ERM adoption among firms. Table 3.1 provides an overview of these studies.

Table 3.1 Comparative studies on ERM adoption among firms

Authors	Type	Focus
Liebenberg & Hoyt (2003)	Quantitative study including 26 firms in the US	Determinants of ERM adoption including firm size, firm industry, earnings volatility, stock price volatility, average leverage, average market-book value ratios, financial opacity, average institutional ownership, subsidiaries' countries
Beasley, et al. (2005)	Quantitative study of 123 firms in the US	Influential factors on extent of ERM adoption including presence of CRO, independence of board of directors, management commitment, auditor firm type, firm size, firm's industry, firm's country
Pagach & Warr (2011)	Quantitative study of 138 firms in the US	Focuses on examining the characteristics of firms that hire chief risk officers (CRO). These characteristics include 4 perspectives of financial, asset, and market perspectives
Nil	No existing quantitative study in Botswana	n/a

(Adapted from Chase-Jenkins, Farr, and Lebens, 2010)

3.3.1.1 Firm size

It is a logical argument that when an organisation's size increases, the nature, timing and the extent of the events threatening it become different as well. Additionally, larger entities are able to dedicate greater resources to implementing ERM (Beasley 2010). Consistent with these rational theories, Hoyt and Liebenberg (2011), demonstrate that larger firms are more likely to implement integrated risk management concepts than smaller firms. Moreover, the study of Pagach & Warr (2007), who investigated the characteristics of firms that hire CROs, reveals that larger firms are more likely to adopt ERM practices as they have greater risk of financial distress and more volatile operating cash flows. In addition, Hoyt and Liebenberg (2011), note in their study of 26 firms with CFO positions in the US that firm size is an important factor when deciding to implement ERM. Gordon et al. (2009) in their study of 112 firms also reveal that ERM and firm performance are contingent upon the firm size. COSO (2004) also mentions the importance of firm size when a firm decides to implement ERM. Therefore, the above noted literature suggests that there is a positive, significant relationship between the size of the firm and ERM implementation.

3.3.1.2 Firm complexity

Firm complexity refers to the number of business segments within a firm (Doyle and McVay, 2007; Gordon, *et al.*, 2009). This means that a firm with a higher number of business segments is considered more complex. To be more precise, there are generally two types of complexity discussed in the literature. One form is industrial diversification, which indicates that a firm is operating in different related or unrelated industries. Another type of complexity is international diversification and refers to firms with geographic segments. Both industrial and international diversifications are positively related to engagement of ERM framework. The reason is that diversified firms normally face multifaceted risks (Hoyt and Liebenberg, 2011). Gordon (2009) and Pagach and Warr (2007) also posit that more complex firms are more likely to implement ERM concepts. Hence, the above-mentioned literature indicates that a positive relationship exists between a firm's complexity and ERM implementation.

3.3.1.3 Firm's industries

Chase-Jenkins, Farr, & Lebens, (2010) write that some industries are more regulated than others. Firms operating in intensive-regulated industries are more likely to adopt ERM and are at the forefront of ERM implementation. Two examples of these regulated industries are financial firms and energy firms (Pagach and Warr, 2007). Moreover, industry competition acts as a fundamental concern for all organisations. On the one hand, in some industries, there are many firms providing the same services/products and therefore services/products of a firm's competitor are a substitute for the firm's services/products. This kind of industry is referred to as a competition-intensive industry and firms operating this way face substantial risk of not earning sustainable levels of profits. On the other hand, in some industries firms have monopolistic situations. In such a situation, firms face a relatively low risk of not earning a sustainable level of profits; as long as the demand for such a product/service exists, the firm will have sales and earn profits. Beasley, et al. (2008) in their study of the level of ERM adoption of 123 firms show that firms in financial and insurance industries deploy further-developed ERM. Consistent with this result, Hoyt and Liebenberg (2011) and Pagach & Warr (2011) affirm that firms in the financial services industry have long implemented ERM. Also, studies performed to identify the riskiest industries determine utilities, telecommunications, and oil and gas to be industries with the highest risk (Frantz, 2011). Therefore as the literature suggests, firms in financial institutions, insurance, utilities, and telecommunication industries are more likely to have adopted the ERM framework.

3.3.1.4Country of domicile for the whole firm as well as the subsidiaries

Different rules and regulations in different countries act as an external pressure for firms to adopt ERM concepts. As Beasley (2010) mention, ERM frameworks were invented in the United Kingdom, Australia, New Zealand, and South Africa before the emergence of 2004 COSO ERM framework. Moreover, PWC (2007) claim in their survey that 46% of Asia-Pacific CEOs strongly agree that ERM is a top priority compared with only 28% of their US counterparts. Additionally, Hoyt and Liebenberg (2011) indicate that firms based in the United Kingdom and Canada are more likely to adopt an ERM programme than firms headquartered in the US. Hence,

it can be concluded that firms headquartered or having subsidiaries in the United Kingdom, Canada, Australia, and New Zealand are more likely to implement ERM frameworks.

3.3.1.5 Presence of the Big Four auditors

In their study, Beasley and et al. (2008) claim, that the stage of ERM implementation is positively affected by the firm's auditor type. They prove that if the firm's auditor is one of the Big Four (KPMG LLP, Ernst & Young LLP, PricewaterhouseCoopers LLP, and Deloitte Touche Tohmatsu Limited) the firm is more likely to have adopted a more-developed framework of ERM. Meanwhile, there is a positive relationship between disclosing a high level of risk management and audit fees which tend to be higher when the company uses one of the Big Four auditors (Knechel& Willekens, 2006). Therefore, the authors assume that engaging one of the Big Four auditors as the firm's auditor is positively related to ERM framework adoption.

3.3.1.6 Independence of board of directors

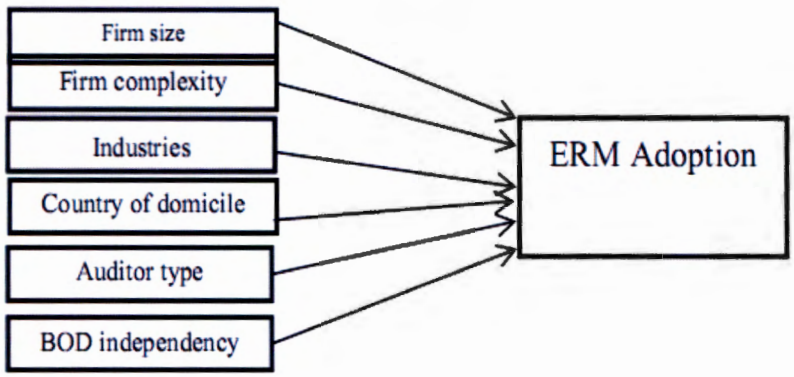
While today's market situation guides organisations to embed some risk-taking framework, in many cases the board and the management do not have shared perspectives of risk, reward preferences, and trade-offs. In many organisations, the boards of directors which are the ultimate stewards of the company's capital are often unaware of their responsibility in developing a risk management strategy within the organisation (Chase-Jenkins, Farr, & Lebens, 2010). The board needs to provide direction for the firm's risk management. Management should realise that their responsibility differs from that of the board; management is accountable for developing strategies and business plans that are consistent with the board's risk-taking approach. Fig. 3.2 presents the risk contract between the board of directors and management

Figure 3.2 The risk contract between the board of directors and management

(Chase-Jenkins, Farr, & Lebens, 2010)

As the above figure suggests, the independence of the board of directors from the management team of an organisation is a crucial factor of ERM implementation throughout the firm. Consistently, the study of Beasley, *et al.* (2008) reveals that the independence of the board of directors positively affects the stage of ERM implementation among firms. Therefore, according to the aforementioned literature, the more independent the board of directors is, the more it appears that a firm adopts ERM. The framework of the dominant factors in ERM adoption is shaped in figure 3 .3 based on the review and interpretation of ERM adoption literature.

Figure 3.3 ERM adoption influencing factors



(Chase-Jenkins, Farr, and Lebens, 2010)

3.3.2 The Benefits of ERM

Besides the studies on the adoption and implementation of ERM, some research has been conducted on the benefits of the programme. Culp *et al* .(2011) of the Accenture 2011 Global Risk Management Study, report that 80% of the respondents across the survey have an ERM programme or plan to have one in the next two years. The banking industry and other financial institutions services companies are far more likely than other industries to have in place an ERM programme. A more comprehensive integrated approach to risk can benefit companies in the management of credit portfolios and enhanced credit data risk management. The report indicates that the benefits of this integrated programme are that it can become a developed coordinated strategic approach to fight fraud and financial crime. Lam (2007) reports on Asian banks and outlines the empirical evidence of studies by the conference boards in which only 11% of those who have implemented the ERM programme report significant benefits. A large percentage

(86%) cites better informed business decisions while 83% cite greater consensus on key risks, and 79% increased management accountability. The following table exhibits the tangible and significant benefits reported by early adopters.

Table 3.2 Significant benefits reported by early ERM adopters

Benefits	Company	Actual results
Shareholder value improvement	Global Bank	Outperformed S&P banks by 58%
Early warning of risk	Investment Bank	Global risk cut by 1/3 prior to Asian Crisis
Loss reduction	Asset Management Company	Loss to revenue ratio declined by 30%
Regulatory capital relief	Commercial Bank	$1billion regulatory capital relief
Insurance cost reduction	Manufacturing Company	20-25% reduction in insurance premium

(Culp *et al.*, 2011)

No research has reportedly been conducted in the Botswana financial sector environment on the benefits of the implementation of ERM. However, in other parts of the world, research done on insurance companies by Hoyt & Liebenberg (2010) concludes that:

- Firms that engage in ERM have a more objective basis for resource allocation thus improving capital efficiency and return on equity.
- ERM enables complex firms to better infrastructures of their risk profiles and also serves as a signal of their commitment to risk management.
- Focus of their rating agencies on ERM as part of their financial reviews suggests a potential value application to the existence of ERM programme insurers.
- By integrating decision making across all risk classes firms are able to avoid duplication of risk management expenditure by exploiting natural hedges.
- Interdependencies between risks across activities might not be noted in solo risk management of risk interdependencies.

3.3.3 The Challenges Associated with ERM

Deloitte ERS report of 2012 highlights that while ERM has delivered significant value, there are challenges associated with implementing an effective ERM programme. Nearly three quarters (70%) of the respondents rated the top issue of integrating risk data as an extremely or significant challenge. Closely following this was 64%citing having appropriate skills. Having appropriate risk methodologies and metrics was also a key concern at 63%, coupled with developing, implementing or selecting the right risk technology systems at 61%.

More challenges are given by (Vaidyula and Kavula (2012). ERM as a process is a long and arduous journey. It's a never ending process and the risk convergence journey can be divided into three broad phases of coordination, alignment and integration. Not many ERM implementers are aware of this. In addition Rodriguez and Edwards (2009) ERM implementation requires information systems design. There are information systems for different risk processes; however, no advance has been found in creating a Knowledge Management System to manage risk, which means to organize people's knowledge in order to be more effective and efficient in the Risk Management endeavors. There are several requirements in a risk management information system, and a wide spectrum of functional attributes are required in order to provide capacity and support to risk knowledge sharing among different areas. Vaidyula and Kavula (2012) summarises these challenges in the table below.

Table 3.3 Top challenges faced by financial institutions in adapting ERM

Improving efficiency	Achieving greater efficiencies in the risk and control processes, improving coordination, unifying and streamlining approaches
Challenging regulatory environment	Ever-changing regulatory demands, high degree of regulatory scrutiny, variation of regulations across jurisdictions, preparing to operationalise / compliance with Basel II
Keeping pace with business growth and complexity	Rapid business growth, competitive intensity, M&A activity, global expansion, incr easing product complexity, increasing customer expectations.
Attracting and retaining talent	Shortage of good talent in competitive markets, especially in specialised areas or emerging geographies
Managing change	Dealing with people and organisational issues as new processes demand new methods of work
Fear of compliance failures and emerging risks	Fear of compliance failures despite best efforts, owing to human error or unanticipated events; identifying and preparing for future risks.

3.4 CONCLUSION

Although ERM was initially introduced as a shareholder value-increasing tool, not all firms have understood its benefits. In fact costs and benefits of ERM are firm-specific (Beasley, et al., 2008) and the same ERM framework of a specific firm cannot be prescribed to another. Benefits and challenges are identified in the various studies cited and in this study it is yet to be discovered from the Botswana financial institutions if they experience the same. This study is different from other studies in a sense that Botswana does not have much literature on the studies of ERM and there is no local regulatory framework for Botswana institutions.

CHAPTER 4

METHODOLOGY

4.1 INTRODUCTION

The purpose of this research was to investigate the benefits and challenges of ERM implementation in financial institutions in Botswana. This chapter outlines the methodological approach that guided this investigation.

4.2 THE RESEARCH DESIGN

The research design governs the overall configuration and organisation of the research activity. The research design determines the type of evidence that is collected and interpreted in order to provide acceptable answers to the research questions. De Vans (2001) says that the function of a research design is to ensure that evidence answers the initial question as ambiguously as possible .In this endeavour, some understanding of the philosophy of science is needed, so that one can recognise which methodological approach applies to the investigation in question. The suitability of the methodology ultimately stems from the research tradition of the discipline, and its scientific norms and principles, as much as from the research questions and problems to be addressed. Clearly, the whole area involves debates on underlying philosophies, schools, and concepts of epistemology, as well as on the categorisation of different research disciplines.

In this study a quantitative approach was used. Quantitative research involves counting and measuring of events and performing a statistical analysis of a body of numerical data. The main concerns of the quantitative paradigm are that measurement is reliable, valid, and a clear of the prediction of cause (Harwell 2012). The researcher's own values, biases, and subjective preferences have no place in a quantitative approach.

4.3 THE SUBJECTS OF THE RESEARCH

The study is confined to Botswana financial institutions that are more inclined to banking. Hence, the universe of the study is financial institutions of Botswana. The analysis of the benefits and challenges associated with the implementation of ERM in the financial sector in

Botswana is conducted on commercial banks, investment banks, development financial institutions and building societies.

The Botswana financial institutions in this research are divided into five major categories: namely, commercial banks, investment financial institutions, development financial institutions, building societies and bureau de changes (BOB, 2011). However, for the purpose of the required analysis all financial institutions except bureau de changes form the purview of this study. The bureau de changes were excluded from the study because they did not justify the data requirements as bureau de changes are simply forex conversion centres and apart from not meeting the definition of 'bank' have a basic risk management system in place which does not justify evaluation with financial institutions that do more than just foreign currency conversion. The financial institutions included in the study are categorised below:

Commercial banks

ABN AMRO Bank (Botswana) Limited
ABN AMRO Bank (Botswana) Obu limited
African Banking Corporation of Botswana Limited
Bank of Baroda (BOTSWANA) Limited
Bank Gaborone Limited
Barclays Bank of Botswana Limited
Capital Bank Limited
First National Bank of Botswana Limited
Stanbic Bank Botswana Limited
Standard Chartered Bank Botswana Limited

Investment banks

Kingdom Bank Africa Limited

Development financial institutions

Botswana Savings Bank (BSB)
Botswana Development Corporation (BDC)

Citizen Entrepreneurial Development Agency (CEDA)

National Development Bank (NDB)

Building society

Botswana Building Society

4.4SAMPLING TECHNIQUE

Kitambara (2012) outline the main reasons for sampling as economy; timeliness; the large sample of many populations; the inaccessibility of some of a particular population, and for purposes of accuracy. The researcher used stratified sampling to obtain a sample of the respondents to be included in this study. Stratified random sampling is a technique which attempts to restrict the possible samples to those which are 'less extreme' by ensuring that all parts of the population are represented in the sample in order to increase the efficiency (that is, to decrease the error in the estimation). In stratified sampling the population of n units is first divided into disjoint groups of n1, n2,...,nh,..nl, units, respectively. These subgroups, called strata, together comprise the whole population, so that n1+n2+...nl=n from each stratum a sample, of pre-specified size and is drawn independently in different strata. Then the collection of these samples constitutes a stratified sample. If a simple random sample selection scheme is used in each stratum, then the corresponding sample is called a stratified random sample. Kitambara (2012) confirms that when conducting the survey and the target population shows subpopulations, it is highly recommended to use Stratified Random Sampling to design sample. The respondents involved in the study are all financial institutions of Botswana, that is, two risk managers per institution of the following striatum: commercial, investment, development and building society.

The research was conducted with a sample size of 18 financial institutions only. Respondents who qualified were risk or financial managers at the above financial institutions by virtue of holding the position at the time of the study and situated in Gaborone only. The size of the sample was sufficient for the purposes of a general pattern of behaviour which was discernible and representative of the entire city.

4.5 DATA COLLECTION

4.5.1 The Questionnaire

In this study, the researcher used a questionnaire to collect data. The research instrument was developed at the research proposal phase. The justification for the choice of this type of instrument lay in the fact that questionnaires achieve high response rates if properly administered. A questionnaire was administered to 18 institutions with 36 respondents. The advantage of using a questionnaire is that it can also be used to cover a wide geographical area and confidentiality is maintained since the questions are responded to in privacy. Questionnaires are also cheaper to use compared with other methods of data collection like face-to-face or telephone interviews.

Table 4.1 Advantages and disadvantages of a questionnaire

Advantages of a questionnaire	**Disadvantages of a questionnaire**
- Not costly to administer especially if the study is conducted within the same geographical area	- Inability of the researcher to probe responses
- Collected data can easily be analysed	- No personal contact and feedback
- Respondents are free to express their views if anonymity is guaranteed	- Body language is not available to aid interpretation
- Bias is not expected since the same questions are given to respondents	- Some people receive many questionnaires so they dislike completing them

4. 5.2 Questionnaire Construction and Design

The design of a questionnaire has a significant effect on the reliability and validity of the responses obtained and a number of steps were taken with this aspect in mind. The questionnaire was designed in a close cooperation with experts involved both in practice and research. The

questionnaire was divided into four sections. Section A contained seven questions that focused on ERM function and processes. Section B focused on the benefits of ERM. This section contained17 likert scale questions.

The questionnaire further, in Section C elucidated responses concerning the challenges of ERM implementation. The final Section D contained the recommendations from respondents on improving ERM implementation in financial institutions in Botswana. The questionnaires contained various question forms which were aligned with the objectives and had their foundation in the literature review. This alignment facilitated justification to the primary findings.

4.5.3 The Pilot Study

In order to overcome shortcomings, the researcher ensured that a pilot study was conducted before the questionnaire was administered. Questionnaires were distributed to eligible personnel by hand. A letter from the researcher describing the study and instructions was included in the packet. Since the research design was quantitative, an exploratory research was conducted in the form of interviewing in order to provide clarification of the research problem, or to assist with the formulation of the questionnaire which was developed. The study began where the exploration left off. Pre-tested questionnaires with a covering letter from North-West University were distributed to two financial institutions in Gaborone only. This pilot study helped in ensuring validity and reliability of the instrument which in this case was the questionnaire. Golafshani (2008) states that validity refers to the extent to which a test measures exactly what needs to be measured while reliability is concerned with the accuracy and precision of a measurement procedure.

4.5.4 Administration of Questionnaires

A questionnaire was administered to 18 financial institutions constituting 36 respondents (risk managers of various financial institutions in Botswana under the categories of commercial, investment, development and building society). This quantitative data provided was analysed

statistically. The researcher personally administered the distribution and collection of the questionnaires. The survey was conducted at random through a well-structured and pre-tested questionnaire. A first appointment was made telephonically with the representative of the bank. On the appointment date, first an official letter that identified the researcher which also sought permission to conduct a study within the bank was handed over. Second, the objective of the study and details elucidating the manner in which the questionnaires were to be filled in were explained to the respondents. Last, the questionnaires were handed to the respondents with an appointment made for the return of filled-in questionnaires. This method guaranteed that the questionnaires were delivered to the intended recipients and therefore produced better quality and depth of data than with other methods of questionnaire administration.

4.5.5 Collection of Questionnaires

Questionnaires were handed to the respondents personally at their offices, after a telephonic follow-up with relevant respondents. The respondents who participated in the study cooperated and were willing to complete questionnaires within the agreed time frame.

4.5.6 Response Rate

Thirty-six questionnaires were sent to risk managers of various financial institutions in Botswana under specific bank categories such as commercial, investment, development and building society in Gaborone, that were identified in the Bank of Botswana directory of financial institutions operating in Botswana as at December 31, 2011. However, one questionnaire was returned blank and considered unusable. The unusable survey was accompanied with a note attached which explained why the respondent had not been able to complete the survey. Therefore, 35 surveys were considered to be legitimate for this research. With 35 returned from a total of 36, the response rate was 97.22%.

4. 6 DATA ANALYSIS

Once the necessary data was collected, analysed and summarised in a readable and easily interpretable form. The Statistical Package for the Social Sciences (SPSS) was used to summarise the quantitative data where necessary. The questionnaire data was analysed

quantitatively by first coding it. Some parts of the questionnaire that the researcher used were pre-coded and only those ones that were not will be coded. The researcher first began analysing the scale data with descriptive statistics. The data was analysed using SPSS software. The measure of central tendency was employed; the mean and thereafter the standard deviations were calculated. Finally, the responses were combined to form two nominal categories of agreement or disagreement and this offered other analysis possibilities.

4.7 ETHICAL CONSIDERATIONS

Ethical research requires protecting the welfare and rights of research participants. Within this study, the researcher obtained voluntary and informed consent by providing the participants with information regarding the research project and the expectations that were placed on them if they participated. They were also assured that confidentiality would be maintained by disallowing any revealing or personal information in the feedback report provided at the conclusion of the study. Participants were awarded the option of withdrawing from the study if at any point they experienced or perceived harm from the research.

4.8 CONCLUSION

In this chapter, the research methodology and the choice of the research design were discussed including the research instrument that was administered to the pilot population and to the main target population. The researcher distributed and collected the questionnaires. Methods for ensuring validity and reliability were discussed as well as the data analysis pertaining to the study. Matters relating to conducting the research ethically were considered. The following chapter provides views of the analysis and discussion of the results obtained during the collection of the data. The approach taken in this chapter is to deal with the analysis of the quantitative analysis first, followed by discussion.

CHAPTER 5

RESEARCH FINDINGS AND INTERPRETATION

5.1 INTRODUCTION

This chapter focused on the research findings and interpretation of data collected. The research objectives involved establishing the number of financial institutions in Botswana that have ERM programmes; identifying the benefits and challenges faced by financial institutions stemming directly from implementing ERM programmes; and finally providing recommendations for improving the existing ERM processes in these financial institutions. These objectives were accomplished. The findings presented in this chapter demonstrate the potential for merging theory and practice.

5.2 BACKGROUND TO FINDINGS

5.2.1 Response Distribution

The distribution of respondents by financial institution type shows that of the sample of 36risk managers working in financial institutions, a majority of the respondents (35), that is, 97.2% was an effective sample. The results of the distribution of the sample are shown in table 5 .1 below.

Table 5.1 Response distribution

Financial institution type	**N**	**Percentage (%)**
Commercial banks	20	57.14
Development financial institutions	6	17.14
Building society	2	5.71
Investment banks	2	5.71
Others	5	14.3
TOTAL	**35**	**100**

The results indicate that there are more commercial banks in Botswana than other financial institutions. One can conclude that there are more commercial banks than other banks in Gaborone.

5.2.2 ERM Programme in Place

To assess how many financial institutions have an ERM programme in place, the questionnaire was used and the results demonstrated that all the financial institutions that were part of the study had an ERM programme in place.

5.3 MAIN FINDINGS

5.3.1 How Long has the ERM Process and/or Function been in Place?

Respondents were asked to state the length of time the ERM process and/or function had been in place in their financial institutions. The results of the survey are shown in table 6 below.

Table 5.2 Existence of ERM process (years)

Dimension	Frequency	Percentage (%)
Less than 1 year	0	0
Between 2 and 4 years	3	8.57
More than 5 years	32	91.43
TOTAL	**35**	**100**

The results indicated that the majority (91.43%) of financial institutions surveyed had had an ERM process and/or function in place for more than five years, whereas only 8.5% of the sampled financial institutions had implemented an ERM process and/or function in between two and four years. One can, therefore, conclude that ERM is a critical issue in financial institutions and most financial institutions have made efforts to manage enterprise risk. The trend towards the adoption and implementation of ERM is also great in financial institutions in Gaborone.

5.3.2 Level of Maturity of Financial Institutions' ERM Process and/or Function

Table 5.3 below shows the distribution of the maturity level of the ERM process and/or function of the financial institutions.

Table 5.3 Distribution of ERM maturity level

Variable	Frequency	Percentage (%)
Very immature	0	0
Somewhat immature	0	0
Between immature and mature	1	2.86
Somewhat mature	1	2.86
Very mature	33	94.28
TOTAL	**35**	**100**

The results of the sample reveal that regarding the distribution of ERM maturity levels of financial institutions, most financial concerns (94.28%) have a very mature ERM system in place and only two concerns surveyed had a somewhat mature and a between immature and mature ERM system.

An assessment of the ERM maturity level revealed that all the commercial banks were regarded as having very mature ERM systems. In comparison, this did not tally with the maturity level of two development financial institutions whose ERM maturity levels were between immature and mature and somewhat mature. The results for this could be attributed to the essentially developmental nature of these financial institutions. Their ERM systems although robust were not as complete and comprehensive as those of their commercial counterparts which by virtue of being commercial financial concerns required exceptionally mature ERM systems owing to the scope of their risk exposure.

An assessment of the results of the survey for building societies, investment banks and other financial institutions also revealed that the level of maturity of their ERM processes was mature. One can conclude that the nature of the financial institution affects the level of maturity of its ERM process. Financial institutions which are skewed to commercial, investment, savings or micro lending have very mature ERM systems based on the need to preserve capital and minimise risks while developmental financial institutions may not necessarily be the same.

5.3.3 Extent of Use of Frameworks for ERM Guidance

The survey instrument required respondents to indicate the extent to which their financial institutions employed common ERM frameworks used across the world for guidance in the development and maintenance of their processes and/or functions. Figure 5.1 reveals the results.

Figure 5.1 Frameworks for ERM guidance

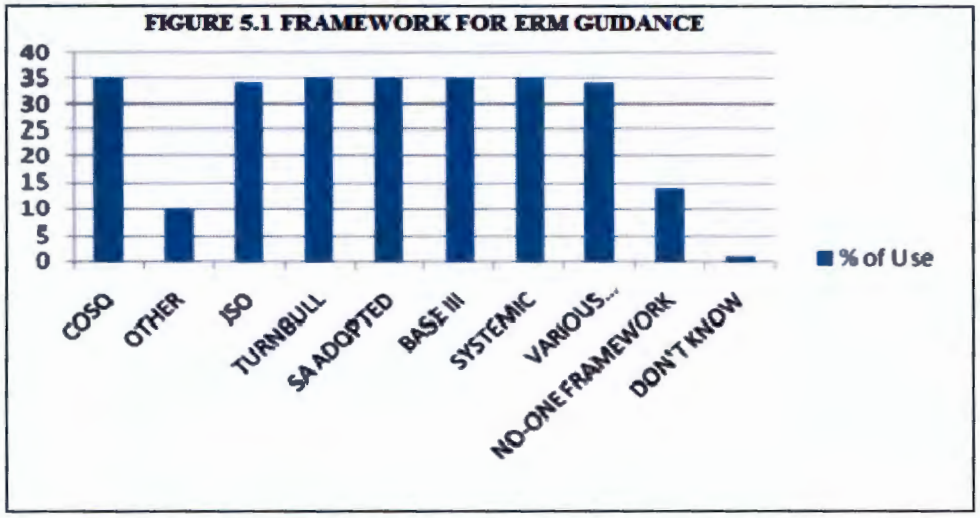


Figure 5.1 shows that six frameworks are mainly employed by financial institutions for ERM guidance, that is, COSO ERM framework, Turn Bull Guidance, South African Adopted, Base III, and Systemic Risk Initiatives. The following frameworks are used subsequently for ERM guidance, that is, ISO and a combination of ERM implementation efforts. Other frameworks which are less common are not as widely used as the first two groups of ERM frameworks by financial institutions in Gaborone.

It is interesting to note that all financial institutions employ a combination of ERM frameworks to develop their specific entity-based ERM process and/or function. All frameworks used in this regard are international frameworks employed by other financial institutions across the globe. An interesting finding, however, is the existence of a local/Botswana ERM framework that provides guidance to Botswana financial institutions based on the fundamental risk structures emanating from the local economy.

5.3.4 Risks Managed within Financial Institutions' ERM Frameworks

Table 5.4 shows a summary of the risks that are managed by financial institutions within their ERM frameworks.

Table 5.4 Risks managed within ERM framework

Variable	Frequency
Operational risk	35
Credit risk	35
Market risk	35
Liquidity risk	35
Vendor risk	35
Privacy risk	35
Reputation risk	35
Business continuity/IT risk	35
Security risk	35
Regulatory/Compliance risk	35
Budgeting/Financial risk	35
Strategic risk	35
Model risk	35
Litigation risk	35
Hazard/Insurance risk	35
Geopolitical risk	35
Other(Global Risk, e.g. 2009)	35

Respondents were given a list of 17 categories of risk that affect financial institutions and were then expected to identify the risks that their ERM framework managed. The results were

surprising as all ERM frameworks with varying degrees of risk management, origin, scope and extent of application were similar throughout.

Investment banks revealed from the research that global risks such as the 2009 economic recession were a vital uncertainty that their ERM frameworks attempted to manage over and above the listed categories of risk. In summation, it would appear that while no local ERM framework exists for Botswana, financial institutions have comprehensive ERM frameworks that manage a broad array of risks.

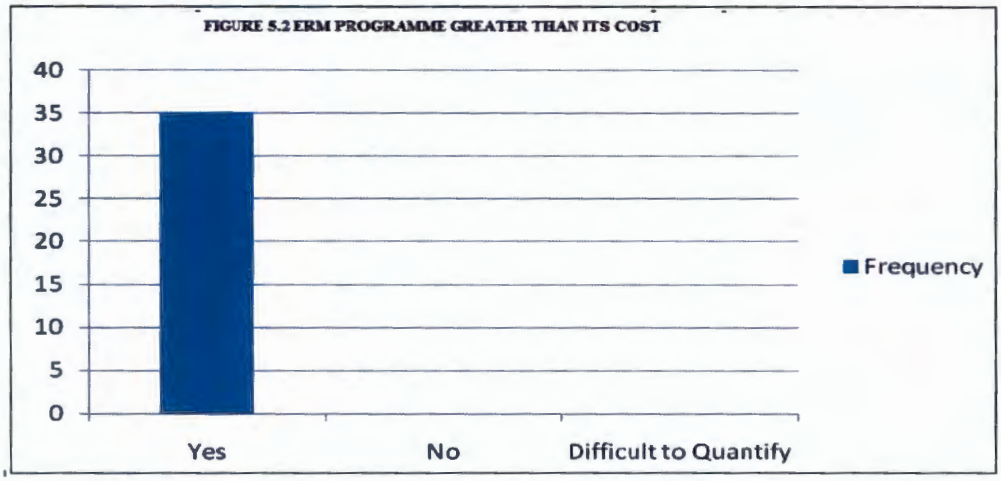
5.3.5 Benefits of ERM Implementation

5.3.5.1 Value of ERM programme

The respondents who participated in the survey were required to state whether the value of the installed ERM programme was greater than its cost. The results indicated that the respondents believed that the value derived from their respective ERM programmes was greater than the cost of implementing the same programmes. Figure 6 reveals the results.

The results of the value of installed ERM programmes is testament to the formidability of enterprise risk management as a comprehensive, cost-effective and value-adding risk management tool for all types of financial institutions such as commercial concerns, investment banks, development-based concerns and building societies.

Figure 5.2 ERM programme value greater than its cost



5.3.5.2 Evaluation of the benefits of ERM to financial institutions

The results of the sample regarding the evaluation of the benefits of ERM to financial institutions reveal that indeed ERM is beneficial to these financial concerns. Table 5.5 reveals a strong concurrence in respondents' opinions concerning the benefits derived from the implementation of ERM.

Table 5.5 Benefits of ERM

Variable/Benefit	SD	D	N	A	SA	TOTAL
ERM results in the effective identification, assessment and management of organisation-wide risk	-	-	2	17	16	35
ERM improves firm performance	-	-	1	14	20	35
ERM improves operations through the effective and efficient use of its resources	-	-	1	15	19	35
ERM improves the reliability of reporting	-	-	1	27	7	35
ERM improves bank strategy and high-level goals by aligning with and supporting the mission	-	-	-	15	20	35
ERM ensures compliance with applicable laws and regulation	-	-	-	26	9	35
ERM addresses critical bank issues such as growth, return, consistency and value creation	-	-	-	12	23	35
ERM results in decreased earnings volatility	-	-	-	13	22	35
ERM results in a decreased market to book ratio	-	-	-	14	21	35
ERM results in increased asset opacity	-	-	-	11	24	35
ERM increases the board's and senior management's ability to oversee portfolio risks	-	-	-	10	25	35
ERM helps reduce unacceptable performance variability	-	-	-	9	26	35
ERM helps align and integrate varying views of risk management	-	-	-	10	25	35
ERM helps build confidence of investment community and stakeholders	-	-	-	12	23	35
ERM helps enhance corporate governance	-	-	-	10	25	35
ERM helps to successfully respond to a changing business environment	-	-	-	20	15	35
ERM helps align strategy with corporate culture	-	-	-	8	27	35

It was interesting to note that 94% (33) of the respondents concurred that ERM results in the effective identification, assessment and management of organisation-wide risk, whereas only 6%(2) of the respondents dissented by remaining neutral. The category of dissenters emerged from those who felt the maturity level of the ERM process was not mature/very mature.

Based on the results, 97% (34) of the respondents affirmed that ERM improves performance. Similar results were observed regarding ERM improving operations through the effective and efficient use of financial institutions' resources and regarding ERM improving the reliability of reporting. The main reason attributed to the dissenters' opinion was again owing to the level of maturity of the ERM implementation process and/or function. Based on the nature and scope the financial institution that is development financial institutions. Other financial institutions enjoyed full benefits from ERM programmes in particular owing to their commercial and objective nature.

All respondents (100%) agreed that ERM improves bank strategy and high level goals by aligning with and supporting the mission. Similar results were observed regarding ERM ensuring compliance with applicable laws and regulations and ERM addressing critical financial institutions' issues such as growth, consistency and value creation.

Results from table 5.5 further reveal a high level of agreement (100%) concerning ERM resulting in a decreased market to book ratio; ERM resulting in increased asset opacity; ERM increasing boards' and senior management's ability to oversee portfolio risks and in helping to reduce unacceptable performance variability. Similar results were observed as benefits accruing to financial institutions in the form of ERM helping to align views of risk management in financial institutions; ERM helping to build confidence of the investment community and shareholders; ERM helping to enhance corporate governance in financial institutions; ERM helping to successfully respond to a changing business environment and ERM helping to align strategy to corporate culture.

5.3.6 Challenges Associated with ERM Implementation

Respondents were required to indicate the significance of ten challenges faced by their organisations in implementing an ERM programme. The results of this distribution are shown in table 5.6

Table 5.6 Challenges associated with ERM implementation

Variability	Very significant		Somewhat significant		Insignificant	
	N	%	N	%	N	%
Data	34	97.1	1	2.9	-	-
Culture	25	71.4	10	28.6	-	-
Tools	14	40	21	60	-	-
HR policies &practices	26	74.3	9	25.7	-	-
Risk methodology	25	71.4	10	28.6	-	-
Organisational structure	14	40	21	60	-	-
Cost of implementation	27	77.1	8	22.9	-	-
Short-term perspectives of risk	29	82.9	6	17.1	-	-
Long-term perspectives of risk	30	85.7	5	14.3	-	-
Quantifiable financial benefits exceed the costs	29	82.9	6	17.1	-	-

Based on the information in table 5.6 above, the challenges associated with ERM implementation by financial institutions can be divided into two sub-groups, that is, very significant challenges and somewhat significant challenges.

5.3.6.1 Very significant challenges associated with ERM implementation

The highest challenge by percentage rating in the implementation of ERM by financial institutions is data. Nearly all (34 out of 35 respondents; 97.1%) concurred. Second, long-term perspectives of risk held by the organisation and its risk managers as dictated by the financial institutions' ERM framework is regarded as a very significant challenge. This can be attributed to uncertainty in identifying and anticipating long-term risk behaviour and dynamics which although known to the financial institutions are extremely difficult to quantify and anticipate magnitudinally in a long-term horizon.

The third challenge identified by respondents as very significant was (a) short-term perspectives of risk and (b) the quantifiable financial benefits exceeding the costs. In both cases, 29 of the 35 respondents (82.9%) concurred. In the first instance, short-term perspectives of risk are a very significant challenge to financial institutions because these are based on defined risk categories within the institutions' risk framework and newer risk categories develop all the time. Therefore, identifying and anticipating the effect of this risk is a very significant challenge. In the second case, implementing ERM is not a guarantee that in all cases the quantifiable financial benefits will exceed the costs of the ERM exercise. The tangible results of the cost benefit assessment of ERM implementation is based on a number of controllable and uncontrollable variables which must be filtered through a well-developed and implemented ERM programme that meets the enterprise risk needs of the financial concern.

That the cost of implementation of an ERM programme is the fifth significant challenge faced by financial institutions was accepted by 27 of the 35 (77.1%) respondents. Table 5.9 shows that 74.3% of the respondents identified human resource policies and practices as the sixth challenge faced by financial institutions in implementing ERM. Finally, the risk methodology and the organisational culture regarding risk were identified as the seventh significant challenge to the implementation of ERM by financial institutions.

It can, therefore, be concluded that the most critical challenge faced by financial institutions stems from the structural design of the ERM framework pertaining to risk expectations in the

long and short-term, risk methodologies, HR policies and practices, that is, organisational systems for risk management, data and risk behaviour (culture, cost implementation and expectations concerning the cost versus benefits of ERM).

5.3.6.2 Somewhat significant challenges associated with ERM implementation

In this category only two challenges associated with ERM implementation were identified. First, organisational structure and second, tools and supporting technology systems put in place before, during and after the implementation of ERM. More than half (60%) of the respondents concurred. The essential criteria governing these results are critical because implementation depends on organisational systems and structures which allow for the transmission of ERM policies and the operation of ERM protocols and contingencies. A rigid organisational structure has the potential to limit the effect of the implementation. Obsolete tools and supporting technologies can also hamper the realisation of full benefits of ERM in a financial institution.

5.3.6.3 Effectiveness of risk management

Respondents were required to indicate how effective they felt their organisations were in the management of 16 specified risks (operational risk, credit risk, market risk, liquidity risk, vendor risk, privacy risk, reputation risk, business continuity/IT risk, security risk, regulatory/compliance risk, budget risk, strategic risk, model risk, litigation risk, hazard risk and geopolitical risk) and one unspecified risk (other). Table 5.7 below shows the distribution of the effectiveness of financial institutions in the management of specified risks and unspecified risks.

Table 5.7 Management of specified risks

Variability	Extremely effective		Very effective		Don't know		Very ineffective		Extremely ineffective	
	N	%	N	%	N	%	N	%	N	%
Operational risk	14	40	21	60	-	-	-	-	-	-
Credit risk	5	14	30	86	-	-	-	-	-	-
Market risk	5	14	30	86	-	-	-	-	-	-
Liquidity risk	15	43	19	57	1	3	-	-	-	-
Vendor risk	7	20	21	80	-	-	-	-	-	-
Privacy risk	9	26	26	74	-	-	-	-	-	-
Reputation risk	4	11	29	89	-	-	-	-	-	-
Business continuity/IT risk	14	40	21	60	-	-	-	-	-	-
Security risk	6	17	25	83	-	-	-	-	-	-
Regulatory/compliance risk	18	51	17	49	-	-	-	-	-	-
Budgeting/ financial risk	20	57	15	54	-	-	-	-	-	-
Other	16	46	15	54	-	-	-	-	-	-
Strategic risk	5	14	29	86	-	-	-	-	-	-
Model risk	6	17	29	83	-	-	-	-	-	-
Litigation risk	7	20	28	80	-	-	-	-	-	-
Hazard/ Insurance risk	9	26	24	74	-	-	-	-	-	-
Geopolitical risk	4	11	29	89	-	-	-	-	-	-

Table 11 reveals that financial institutions still need to make strides in improving the proficiency with which specified risks are managed. Only two specified risks were regarded by respondents as being effectively managed, that is, budgeting/financial risk and regulatory/compliance risk.

Just over half (51%, 18) of the respondents surveyed felt that regulatory risk was being effectively managed while a marginal 57% (20) of the respondents identified budgeting/financial risk management as being extremely effectively managed by financial institutions. The low proportion of respondents is conclusive of the elusive nature of risk management and indicative of the need for improvement in the governing risk frameworks and management fundamentals which may cause uncertainty in business decisions and exogenous factors affecting financial institutions.

A majority of respondents indicated that the effectiveness of the management of specified and unspecified risks by financial institutions was not yet exceptional. However, these institutions are very effective in their risk management mandate. Based on Table 10 above, the following risks were found to be very 'effectively managed'.

1. Geopolitical risk
2. Reputation risk
3. Strategic risk
4. Credit risk
5. Market risk
6. Model risk
7. Security risk
8. Vendor risk
9. Litigation risk
10. Hazard risk
11. Privacy risk
12. Operational risk
13. Business continuity/IT risk
14. Liquidity risk
15. Other(unspecified risk)

5.5 RECOMMENDATIONS BY RISK MANAGERS

Risk managers made recommendations on how to improve the ERM process in financial institutions. The main recommendation put forward was the need for the development of a local enterprise risk management regulatory framework.

CHAPTER 6

CONCLUSIONS, POLICY IMPLICATIONS AND RECOMMENDATIONS

6.1CONCLUSIONS

This study examined the benefits and challenges associated with the implementation of ERM in financial institutions in Botswana. A thorough analysis of the benefits stemming from ERM implementation and the challenges faced by financial institutions was conducted to determine and achieve the research objectives.

The study concludes that more commercial banks exist than investment, development financial institutions and building societies combined. Furthermore, the majority of financial concerns surveyed have implemented an ERM process and/or function. All financial institutions surveyed have made significant progress in managing enterprise risk. This scenario is proof that risk management is a critical business function requiring a formalised approach for the business success of financial institutions.

The paper revealed that 94.28% of the respondents accepted that most of the financial institutions had a very mature ERM system in place with a few exceptions for development-based financial institutions. Commercial, investment, building society and other financial institutions were considered to have a very mature ERM system in place. From these findings, one can conclude that the maturity level of the implemented ERM system depends primarily on the nature and scope of operations of the financial institutions.

In general, it was found that a combination of ERM frameworks (international and regional) was employed by Botswana financial institutions for organisational ERM guidance. Frameworks such as COSO, Turn Bull, SA Based, Base III and Firm Systemic risk initiatives were among the main frameworks that governed ERM guidance in Botswana. This might mean that although the ERM guidance was world class, international and objective regarding international standardisation, limitations might emerge owing to the failure of a local ERM framework based on Botswana's economic financial and economic fundamentals specific to Botswana.

All the ERM frameworks with varying degrees of origin, scope, inflexion and risk management systems managed all 17 risk categories. The study revealed that operational risk, credit risk, market risk, liquidity risk, vendor risk, privacy risk, reputation risk, business continuity/IT risk, security risk, regulatory/compliance risk, budget risk, strategic risk, model risk, litigation risk, hazard risk and geopolitical risk were all managed within the financial institutions' ERM(hybrid) frameworks.

The benefits of ERM implementation were found to be greater than the cost of implementation. It can thus be concluded that ERM is a value-based tool for improving the management of enterprise risks. In all cases (100%) it was found that in all categories of financial institutions, ERM contributed more value than cost which confirms as in the literature this is a value adding approach.

The study concludes that the very significant challenges associated with ERM implementation are data(97.1%);long term perspectives of risk(85.7%);quantifiable financial benefits exceeding the costs(82.9%);short-term perspectives of risks(82.9%);costs of implementation(77.1%);human resource policies and practices(74.3%); risk methodology(71.4%), and culture(71.4%). Tools and supporting technology systems (60%) and organisational structures (60%) were found to be somewhat significant challenges. This indicates that ERM is a challenging exercise to implement as most of the very significant challenges were related more to the attitudes, behaviours and systems within the implementation process than in the organisations themselves, save for human resource policies and practices which were the only organisational factors affecting ERM implementation. The frameworks of technology and organisation are relatively significant challenges meaning that their effect more or less limits the effectiveness of the implementation in their absence and thereby maximises the implementation aims when present.

Financial institutions in Botswana were found, in general, to be very effective in the management of specified and unspecified risks. This means that considering the hybrid nature of their respective ERM frameworks, financial institutions were able very effectively to manage various risks such as operational risk, credit risk, market risk, liquidity risk, vendor risk, privacy risk, reputation risk, business continuity/IT risk, security risk, regulatory/compliance risk, budget risk, strategic risk, model risk, litigation risk, hazard/insurance risk, geopolitical risk and other

(unspecified) risks. Financial institutions were only able to be extremely effective in the management of budgeting/financial risk (57%) and regulatory/compliance risk (51%). These results are clear as they explain the limitations of hybrid ERM frameworks adopted by local financial institutions in Botswana in the absence of a local home-grown ERM framework. Furthermore, the ERM systems employed need improvement in many key methodological areas in order to attain extreme effectiveness in the management of risk in financial institutions. Factors such as level of maturity of the ERM programme, the extent of the implementation and the revision of risk management protocols may also influence the extent of the effectiveness within which enterprise risk is managed.

6.2 RECOMMENDATIONS TO FINANCIAL INSTITUTIONS AND POLICY MAKERS

The study revealed that some financial institutions, that is, development financial institutions, had somewhat mature and a between immature and mature ERM systems. Post implementation review policy makers should at least align their financial institutions' strategic objectives with those of the objectives of the enterprise risk management functions. Furthermore, by updating/revising their ERM frameworks, risk methodologies, tools and technologies and risk protocols and observance mediums, maturity levels would increase without compromising the nature and scope of the financial institution.

The study also revealed that all financial institutions adopt a hybrid ERM framework to govern ERM fundamentals. Bank of Botswana and such regulatory authorities as the Non-Bank Financial Institutions Regulatory Authority (NBFIRA) need to formulate an authoritative local ERM regulatory framework to govern the conduct of financial institutions in this regard. This is an area the government needs to address.

The study revealed major challenges faced by financial institutions in the implementation of ERM.

6.2.1 Data

Financial institutions should ensure appropriate systems are in place to guarantee data security, integrity, completeness and privacy.

6.2.2 Expectations

Risk managers should attempt to re-align their short- and long-term perspectives of risk with market fundamentals to take into account specified and unspecified risks in order to mitigate the impact of uncertainty.

6.2.3 Cost and Benefits of ERM Implementation

Appropriate evaluations must be made to adequately prescribe a cost-effective and value- adding ERM programme installation for financial institutions. It is vital that the costs of implementation do not obscure effective implementation of ERM. Further, ERM should not be implemented with the notion that the benefits will always outweigh the costs. Rigorous efforts in managing the entire process are vital for successful implementation of any ERM programme. Post implementation review is also vital for re-alignment and control purposes.

6.2.4 Systems

All organisational systems must be positioned to impact favourably on successful ERM implementation. This includes organisational structure, human resource policies and practices, risk methodologies, tools and organisational culture.

6.3 LIMITATIONS OF THE STUDY

As far as other studies are concerned, this research has shortcomings that could not be avoided. This study had only 35 respondents. The sample size could not be expanded as time and funds were too limited to follow up on questionnaires. The majority of respondents were in Gaborone

city whereas a host of companies in other parts of Botswana in the financial sector could have been surveyed to obtain a much more conclusive affirmation regarding ERM implementation.

6.4 RECOMMENDATIONS FOR FURTHER RESEARCH

Researchers have room to expand the observation and sample elements in order to have a wider coverage of observations and population inclusiveness. A quantifiable cost benefit analysis of ERM implementation was not conducted. Perhaps future researchers could continue to conduct a survey exploring the financial and non-financial costs and benefits associated with ERM implementation. Finally, it should be emphasised here that longitudinal studies over a long period of time such as ten years or more are much encouraged. A continuous study from time to time, perhaps once every two years, would help considerably in identifying the benefits and challenges associated with ERM implementation.

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APPENDIX A: PERMISSION LETTER TO DO RESEARCH

NORTH-WEST UNIVERSITY
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18 September 2012

TO WHOM IT MAY CONCERN

Permission to conduct research- MS M M Morima-MBA student

This letter serves to introduce MS M M Morima who is presently a registered student for Master in Business Administration (MBA) programme at the Graduate School of Business and Government Leadership of the North West University. She is conducting a research project on, **"The Benefits and Challenges of Enterprise Risk Management (ERM) Implementation in Financial Institutions in Botswana"** towards a partial fulfillment of her MBA programme.

In this regard, your office is requested to afford her full co-operation to conduct this research. In particular, MS M M Morima requires permission to access information, data or even to distribute questionnaires.

Your cooperation will be highly appreciated.

Felicia Moruntshe
Research Officer

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APPENDIX B: THE QUESTIONNAIRE

QUESTIONNAIRE FOR ACADEMIC RESEARCH

(In partial fulfilment of the requirements of Master in Business Administration)

By
Masego Mercy Morima
Cell phone: (+267)71565617
Email: mercymorima@gmail.com

The purpose of this questionnaire is to gather information to be used in addressing the topic:

The Benefits and Challenges of Enterprise Risk Management (ERM) Implementation in Financial Institutions in Botswana

Dear respondent

Thank you for your anticipated cooperation in this research work. You are kindly reminded that the information that you provide will be solely used for academic research purposes for the partial fulfilment of the requirements of Master in Business Administration (MBA) at the North-West University. Your responses will be treated with the **utmost confidentiality.** To enable an accurate assessment, it is important that all information requested in the questionnaire be provided by you as completely and accurately as possible.

Thank you

QUESTIONNAIRE

THE BENEFITS AND CHALLENGES OF ERM IMPLEMENTATION IN FINANCIAL INSTITUTIONS IN BOTSWANA

Section A: ERM function and processes

1. Please state your primary business

   Commercial Bank ☐
   Investment Bank ☐
   Development Financial Institution ☐
   Building Society ☐
   Other ☐

2. Do you have an ERM process and/or function in place?

Dimension	**Tick**
Yes, both process and function	
Yes, process	
Yes, function	
No, but considering adoption in short term (one to three years)	
No, but considering adoption in short term (more than three years)	
No, and *not considering*	

3. If **NO**, What do you have in place to deal with enterprise risk in your organisation?

   ---

4. If **YES,** how long has the ERM process and/or function been in place?

   Less than 1 year ☐
   Between 2 and 4 years ☐
   More than 5 years ☐

5. What is the level of maturity of your organisation's ERM process?

   Very immature ☐
   Somewhat immature ☐
   Between immature and mature ☐
   Somewhat mature ☐
   Very mature ☐

6. Please indicate the extent to which framework(s) are used for ERM guidance.

COSO's ERM framework	☐
Other framework (please specify)	☐
ISO	☐
Turnbull Guidance	☐
South African adopted	☐
Basel III	☐
Systemic risk initiatives	☐
Various implementation efforts (e.g. BOB ERM Regulations)	☐
No one framework	☐
Don't know	☐
Not applicable	☐

7. What types of risk do you attempt to manage within your ERM framework?

Dimension	**Tick**	***Dimension***	**Tick**	**Dimension**	**Tick**
Operational risk		Reputation		Strategic	
Credit risk		Business continuity/IT		Model risk	
Market risk		Security		Litigation	
Liquidity risk		Regulatory/compliance		Hazard or insurable risks	
Vendor		Budgeting/Financial		Geopolitical	
Privacy		Other*			

Section B: Benefits of ERM Implementation

8. Is the value of your ERM programme greater than its cost?

   Yes ☐ No ☐ Difficult to quantify ☐

9. Please evaluate the benefits of enterprise risk management to your bank

	ERM Benefits	**Strongly disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly agree**
a	ERM results in the effective identification, assessment and management of organisation-wide risk	1	2	3	4	5
b	ERM improves firm's performance	1	2	3	4	5
c	ERM improves operations through the effective and efficient use of its resources.	1	2	3	4	5
d	ERM improves the reliability of reporting	1	2	3	4	5
e	ERM improves bank strategy and high-level goals by aligning with and supporting the mission	1	2	3	4	5
f	ERM ensures compliance with applicable laws and regulation	1	2	3	4	5
g	ERM addresses critical bank issues such as growth, return, consistency and value creation	1	2	3	4	5
h	ERM results in decreased earnings volatility	1	2	3	4	5
i	ERM results in a decreased market to book ratio	1	2	3	4	5
j	ERM results in increased asset opacity	1	2	3	4	5
k	ERM increases the board's and senior management's ability to oversee portfolio risks	1	2	3	4	5
l	ERM helps reduce unacceptable performance variability	1	2	3	4	5
m	ERM helps align and integrate varying views of risk management	1	2	3	4	5
n	ERM helps build confidence of investment community and stakeholders	1	2	3	4	5
o	ERM helps enhance corporate governance	1	2	3	4	5
p	ERM helps to successfully respond to a changing business environment	1	2	3	4	5
Q	ERM helps align strategy to corporate culture	1	2	3	4	5

Section C: Challenges associated with ERM implementation

10. How significant are the following challenges to your organisation in implementing an ERM programme or equivalent?

Dimension	Very significant	Somewhat significant	Insignificant
Data			
Culture			
Tools and supporting technology systems			
Human resources policies and practices			
Risk methodology			
Organisational structure			
Cost of implementation			
Short-term perspective of risks			
Long-term perspective of risks			
The quantifiable financial benefits exceed the costs			

11. How effective do you think your organisation is at managing the following risks?

Dimension	Extremely effective	Very effective	Don't know	Very ineffective	Extremely ineffective
Operational risk					
Credit risk					
Market risk					
Liquidity risk					
Vendor					
Privacy					
Reputation					
Business continuity/IT					
Security					
Regulatory/Compliance					
Budgeting/Financial					
Other(please specify)					
Strategic					
Model risk					
Litigation					
Hazard or insurable risks					
Geopolitical					

Section D: Improving the ERM process

12. What can be done to improve the ERM process in financial institutions in Botswana?

THANK YOU

APPENDIX C: THE PILOT STUDY REPORT

PILOT STUDY REPORT

The questionnaires were administered to two banks.

- Bank Gaborone
- Barclays Bank

Analysis of respondents

- The respondents who filled in the questionnaires were risk managers.
- The respondents understood the questions and had no problems answering the questionnaires.
- The questions were found to be relevant to the research questions.
- The respondents were willing to answer the questions. They responded to them within 20 minutes.
- The researcher did not rephrase any questions in the instrument.

A pilot study was administered to two respondents who are risk managers at both banks.The researcher made sure that there were similarities to the target population to whom the final questionnaire would be administered. During the pilot study each question was discussed and analysed in order to check the readability and comprehensibility of the questionnaire. One questionnaire was used for all categories of respondents.

A summary of the results and corresponding frequencies is given below.

Please state your primary business

		Frequency	Percent	Valid percent	Cumulative per cent
Valid	Commercial Bank	2	100.0	100.0	100.0

Do you have an ERM process and/or function in place?

		Frequency	Percent	Valid per cent	Cumulative per cent
Valid	Yes, both process and function	2	100.0	100.0	100.0

If yes, how long has the ERM process and /or function been in place?

		Frequency	Per cent	Valid per cent	Cumulative per cent
Valid	Between 2 and 4 years	1	50.0	50.0	50.0
	More than 5 years	1	50.0	50.0	100.0
	Total	2	100.0	100.0	

What is the level of maturity of your organisation's ERM process?

		Frequency	Per cent	Valid per cent	Cumulative per cent
Valid	Very immature	2	100.0	100.0	100.0

Framework used for ERM guidance
Both respondents stated that they employed all listed frameworks for guidance, that is, COSO ERM Framework, ISO, Turnbull, SA adopted, Basel III, systemic risk initiatives and various implementation efforts.

Risks managed:
Both respondents indicated that they manage all the risks listed in the questionnaire.

Benefits of ERM implementation

Is the value of your ERM programme greater than its cost?

		Frequency	Per cent	Valid per cent	Cumulative per cent
Valid	Yes	2	100.0	100.0	100.0

ERM results in the effective identification, assessment and management of organisation-wide risk

		Frequency	Per cent	Valid per cent	Cumulative per cent
Valid	Agree	1	50.0	50.0	50.0
	Strongly agree	1	50.0	50.0	100.0
	Total	2	100.0	100.0	

ERM improves firm's performance

		Frequency	Per cent	Valid per cent	Cumulative per cent
Valid	Agree	1	50.0	50.0	50.0
	Strongly agree	1	50.0	50.0	100.0
	Total	2	100.0	100.0	

ERM improves operations through the effective and efficient use of its resources

		Frequency	Per cent	Valid per cent	Cumulative per cent
Valid	Agree	1	50.0	50.0	50.0
	Strongly agree	1	50.0	50.0	100.0
	Total	2	100.0	100.0	

ERM improves the reliability of reporting

		Frequency	Per cent	Valid per cent	Cumulative per cent
Valid	Agree	2	100.0	100.0	100.0

ERM improves bank strategy and high-level goals by aligning with and supporting the mission

		Frequency	Per cent	Valid per cent	Cumulative per cent
Valid	Strongly agree	2	100.0	100.0	100.0

ERM ensures compliance with applicable laws and regulations

		Frequency	Per cent	Valid per cent	Cumulative per cent
Valid	Agree	1	50.0	50.0	50.0
	Strongly agree	1	50.0	50.0	100.0
	Total	2	100.0	100.0	

ERM addresses critical bank issues such as growth, return, consistency and value creation

		Frequency	Per cent	Valid per cent	Cumulative per cent
Valid	Strongly agree	2	100.0	100.0	100.0

ERM results in decreased earnings volatility

		Frequency	Per cent	Valid per cent	Cumulative per cent
Valid	Agree	1	50.0	50.0	50.0
	Strongly agree	1	50.0	50.0	100.0
	Total	2	100.0	100.0	

ERM results in decreased market to book ration

		Frequency	Per cent	Valid per cent	Cumulative per cent
Valid	Strongly agree	2	100.0	100.0	100.0

ERM results in decreased market to book ratio

		Frequency	Per cent	Valid per cent	Cumulative per cent
Valid	Strongly agree	2	100.0	100.0	100.0

ERM increases the board's and senior management's ability to oversee portfolio risks

		Frequency	Per cent	Valid per cent	Cumulative per cent
Valid	Strongly agree	2	100.0	100.0	100.0

ERM helps reduce unacceptable performance variability

		Frequency	Per cent	Valid per cent	Cumulative per cent
Valid	Agree	1	50.0	50.0	50.0
	Strongly agree	1	50.0	50.0	100.0
	Total	2	100.0	100.0	

ERM helps align and integrate varying views of risk management

		Frequency	Per cent	Valid per cent	Cumulative per cent
Valid	Agree	2	100.0	100.0	100.0

ERM helps build confidence of investment community and stakeholders

		Frequency	Per cent	Valid per cent	Cumulative per cent
Valid	Agree	1	50.0	50.0	50.0
	Strongly agree	1	50.0	50.0	100.0
	Total	2	100.0	100.0	

ERM helps enhance corporate governance

		Frequency	Per cent	Valid per cent	Cumulative per cent
Valid	Agree	1	50.0	50.0	50.0
	Strongly Agree	1	50.0	50.0	100.0
	Total	2	100.0	100.0	

ERM helps to successfully respond to a changing business environment

		Frequency	Per cent	Valid per cent	Cumulative per cent
Valid	Agree	1	50.0	50.0	50.0
	Strongly agree	1	50.0	50.0	100.0
	Total	2	100.0	100.0	

ERM helps align strategy with corporate culture

		Frequency	Per cent	Valid per cent	Cumulative per cent
Valid	Agree	1	50.0	50.0	50.0
	Strongly agree	1	50.0	50.0	100.0
	Total	2	100.0	100.0	

How significant are the challenges to your organisation when implementing an ERM programme (data)

		Frequency	Per cent	Valid per cent	Cumulative per cent
Valid	Very significant	1	50.0	50.0	50.0
	Somewhat significant	1	50.0	50.0	100.0
	Total	2	100.0	100.0	

How significant are the challenges to your organisation when implementing an ERM programme (culture)

		Frequency	Per cent	Valid per cent	Cumulative per cent
Valid	Very significant	1	50.0	50.0	50.0
	Somewhat significant	1	50.0	50.0	100.0
	Total	2	100.0	100.0	

How significant are the challenges to your organisation when implementing an ERM programme (tools and supporting technology systems)

		Frequency	Per cent	Valid per cent	Cumulative per cent
Valid	Very significant	1	50.0	50.0	50.0
	Somewhat significant	1	50.0	50.0	100.0
	Total	2	100.0	100.0	

How significant are the challenges to your organisation when implementing an ERM programme (human resources policies and practices)

		Frequency	Per cent	Valid per cent	Cumulative per cent
Valid	Very significant	1	50.0	50.0	50.0
	Somewhat significant	1	50.0	50.0	100.0
	Total	2	100.0	100.0	

How significant are the challenges to your organisation when implementing an ERM programme (risk methodology)

		Frequency	Per cent	Valid per cent	Cumulative per cent
Valid	Somewhat significant	2	100.0	100.0	100.0

How significant are the challenges to your organisation when implementing an ERM programme (organisational structure)

		Frequency	Per cent	Valid per cent	Cumulative per cent
Valid	Very significant	1	50.0	50.0	50.0
	Somewhat significant	1	50.0	50.0	100.0
	Total	2	100.0	100.0	

How significant are the challenges to your organisation when implementing an ERM programme (cost of implementation)

		Frequency	Per cent	Valid per cent	Cumulative per cent
Valid	Very significant	2	100.0	100.0	100.0

How significant are the challenges to your organisation when implementing an ERM programme (short-term perspective of risks)

		Frequency	Per cent	Valid per cent	Cumulative per cent
Valid	Very significant	2	100.0	100.0	100.0

How significant are the challenges to your organisation when implementing an ERM programme (long-term perspective of risks)

		Frequency	Per cent	Valid per cent	Cumulative per cent
Valid	Very significant	2	100.0	100.0	100.0

How significant are the challenges to your organisation when implementing an ERM programme (the quantifiable financial benefits exceed the costs)

		Frequency	Per cent	Valid per cent	Cumulative per cent
Valid	Very significant	1	50.0	50.0	50.0
	Somewhat significant	1	50.0	50.0	100.0
	Total	2	100.0	100.0	

How effective do you think your organisation is at managing (operational risk)

		Frequency	Per cent	Valid per cent	Cumulative per cent
Valid	Very effective	2	100.0	100.0	100.0

How effective do you think your organisation is at managing (credit risk)

		Frequency	Per cent	Valid per cent	Cumulative per cent
Valid	Very effective	2	100.0	100.0	100.0

How effective do you think your organisation is at managing (market risk)

		Frequency	Per cent	Valid per cent	Cumulative per cent
Valid	Extremely effective	1	50.0	50.0	50.0
	Very effective	1	50.0	50.0	100.0
	Total	2	100.0	100.0	

How effective do you think your organisation is at managing (liquidity risk)

		Frequency	Per cent	Valid per cent	Cumulative per cent
Valid	Extremely effective	1	50.0	50.0	50.0
	Very effective	1	50.0	50.0	100.0
	Total	2	100.0	100.0	

How effective do you think your organisation is at managing (vendor)

		Frequency	Per cent	Valid per cent	Cumulative per cent
Valid	Extremely effective	1	50.0	50.0	50.0
	Very effective	1	50.0	50.0	100.0
	Total	2	100.0	100.0	

How effective do you think your organisation is at managing (privacy)

		Frequency	Per cent	Valid per cent	Cumulative per cent
Valid	Extremely effective	2	100.0	100.0	100.0

How effective do you think your organisation is at managing (reputation)

		Frequency	Per cent	Valid Per cent	Cumulative Per cent
Valid	Extremely effective	2	100.0	100.0	100.0

How effective do you think your organisation is at managing (business continuity/ IT)

		Frequency	Per cent	Valid per cent	Cumulative per cent
Valid	Extremely effective	2	100.0	100.0	100.0

How effective do you think your organisation is at managing (security)

		Frequency	Per cent	Valid per cent	Cumulative per cent
Valid	Extremely effective	1	50.0	50.0	50.0
	Very effective	1	50.0	50.0	100.0
	Total	2	100.0	100.0	

How effective do you think your organisation is at managing (regulatory) compliance)

		Frequency	Per cent	Valid per cent	Cumulative per cent
Valid	Extremely effective	1	50.0	50.0	50.0
	Very effective	1	50.0	50.0	100.0
	Total	2	100.0	100.0	

How effective do you think your organisation is at managing (budgeting/financial)

		Frequency	Per cent	Valid per cent	Cumulative per cent
Valid	Very effective	2	100.0	100.0	100.0

How effective do you think your organisation is at managing (strategic)

		Frequency	Per cent	Valid per cent	Cumulative per cent
Valid	Very effective	2	100.0	100.0	100.0

How effective do you think your organisation is at managing (model risk)

		Frequency	Per cent	Valid per cent	Cumulative per cent
Valid	Very effective	2	100.0	100.0	100.0

How effective do you think your organisation is at managing (litigation)

		Frequency	Per cent	Valid per cent	Cumulative per cent
Valid	Extremely effective	1	50.0	50.0	50.0
	Very effective	1	50.0	50.0	100.0
	Total	2	100.0	100.0	

How effective do you think your organisation is at managing (hazard or insurable risks)

		Frequency	Per cent	Valid per cent	Cumulative per cent
Valid	Extremely effective	1	50.0	50.0	50.0
	Very effective	1	50.0	50.0	100.0
	Total	2	100.0	100.0	

How effective do you think your organisation is at managing (geopolitical)

		Frequency	Per cent	Valid per cent	Cumulative per cent
Valid	Extremely effective	1	50.0	50.0	50.0
	Very effective	1	50.0	50.0	100.0
	Total	2	100.0	100.0	

APPENDIX D: LIST OF RESPONDENTS (FINANCIAL INSTITUTIONS)

LIST OF RESPONDENTS (FINANCIAL INSTITUTIONS)

Financial Institution	Sent	Returned
Commercial Banks		
1. Bank Gaborone	X2	X2
2. First National Bank	X2	X2
3. Bank ABC	X2	X2
4. Capital Bank	X2	X2
5. Barclays Bank	X2	X2
6. Standard Chartered Bank	X2	X2
7. Stanbic Bank	X2	X2
8. Botswana Savings Bank	X2	X2
9. Bank of Baroda	X2	X2
10. National Development Bank(Commercial)	X2	X2
Sub-total	**20**	**20**
Development Financial Institutions		
11. National Development Bank	X2	X2
12. Botswana Development Corporation	X2	X2
13. Citizen Entrepreneurship Development Agency	X2	X2
Sub-total	**6**	**6**
Building Societies		
14. Botswana Building Society	X2	X2
Sub-total	**2**	**2**
Investment Banks		
15. Kingdom Bank	X2	X2
Sub-total	**2**	**2**
Others		
Biz Capital	X2	2
Botswana IFSC	X2	2
Letshego Financial Services	X2	2(1 returned blank)
Sub-total	**6**	**6**

APPENDIX E: THE EDITOR'S DECLARATION

EDITOR'S DECLARATION

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EDITOR'S DECLARATION

I, Lyn Voigt, confirm that I edited the dissertation: A mini dissertation submitted in partial fulfilment of the requirements for the degree of Master of Business Administration in Financial Management in the Graduate School of Business and Government Leadership. Mafikeng Campus, North-West University

Written by MASEGO MORIMA

L.Voigt

LE Voigt

Language practitioner

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