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STATE AND PERSPECTIVES OF ENTERPRISE RISK MANAGEMENT SYSTEM DEVELOPMENT- THE CASE OF CROATIAN COMPANIES

Abstract:

Enterprise Risk Management (ERM) encompasses activities and strategies which enable the company to identify, measure, reduce, or exploit, as well as to control and monitor the exposure to various types of corporate risks – strategic, financial, operational, and reporting, as well as compliance risks for the purpose of increasing the organization's short and long-term value to its stakeholders. The primary goal of ERM is to increase the likelihood that an organization will achieve its objectives, meaning that ERM should be created and implemented with the aim to protect and create shareholder value. For ERM to bring benefits, as it is well-explained in the existing ERM literature (e.g. see Beasley et al., 2005; Cumming and Hirtle, 2001; Lam, 2001, 2003; Liebenberg et al. and Hoyt, 2003; Meulbroek, 2002; Nocco and Stulz 2006), it should be integrated in the most important business processes, such as strategic management, strategic planning, as well as in the finance and investment decisions in order to ensure the consistent evaluation and management of risks that arise from business initiatives and plans. This paper is both conceptual and empirical. It is aiming to (1) develop ERM Index that measures quality of ERM process within the company, (2) to explore level of ERM development in listed Croatian companies by employing ERM Index (3) to explore determinants of risk management system development in listed Croatian companies (4) to explore whether risk management decisions have different rationales in Croatian companies than among their western counterparts. Different theories of risk management derived from capital market imperfections are used to argue for the relevance of corporate risk management function. Empirical research was conducted on the listed Croatian non-financial companies. Data were collected from two sources; annual reports and notes to the financial statements and survey. Research results have revealed low levels of ERM development in listed Croatian companies. Managers are focused on financial and operative risk management, while strategic and other risks have been neglected. Regression analysis has indicated somewhat unexpected but important conclusion - the explored risk management rationales have weak predictive power in explaining corporate risk management decisions in Croatian companies. The level of risk management system development is dependent only on the size of the company and value of the growth options.

Keywords:

Enterprise Risk Management, ERM index, Determinants of ERM, Croatian companies

JEL Classification: G30, G39