Enterprise-Wide Risk Management in Combating Moral Hazards in Multinational Corporations (MNCs)

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ABSTRACT

It is impractical to resolve that risk is absent in multinational corporations (MNCs), regardless of the industry. There has been imbalance between Principals and agents. As a result, that has led to the incidents termed by economists as “Moral Hazards” in organizations. Furthermore, Moral Hazards have caused major failures of high-profiled MNCs leading, but not majorly, to the cause of the global financial crisis in 2008. This study constitutes Risk Management and Risk Management Process (RMP), Enterprise Risk Management (ERM) and its framework. Benefits of ERM framework in MNCs, some moral hazards incidents in Multinational Corporations (MNCs), and how the ERM framework can be used in combating these moral hazards. Poor corporate governance in these firms has said to have given room to illegal acts that are detrimental to the organization—profit-wise and reputation-wise. These deficiencies have in addition to agency problems, given rooms to immoral acts leading to Moral Hazards. The paper concludes that control, monitoring, corporate governance and risk management and linking risk management with strategies are instrumental in preventing moral hazards from occurring in MNCs. Secondary method of data collection was used to analyse and discuss findings. The study also further explains how the abovementioned factors will facilitate the cut back of unacceptable behaviours by top executives. More so, minimizing moral hazards using the ERM framework will be practicable thereby creating values for their owners. Top executives and even whistle blowers would not find it difficult to detect unwanted risks and illegal acts.

KEYWORDS: Enterprise-wide Risk Management, Moral Hazards, Multinational Corporations, Risk Management Process, Corporate Governance

1.0 INTRODUCTION

Uncertainty is profusely scattered round all corners of every company. Creating a business that does not entail various risks embedded in it might not reap the benefits required by its investors. Globalization has also found its way into businesses however with consequences. Some of the forces responsible for the foundation of uncertainty include but not limited to—Technology and internet, increased worldwide competition, freer trade barriers, investments globally—and so on (Barton, Shenkir and Walker, 2002).

Corporations in the twenty first century venture into risky dealings in order to achieve their common objective—profitability (Banks, 2008). The risks involved are numerous unlike in the old times when risks where limited to the financial aspect of a business. More so, with risks comes uncertainty together with its upside and downside (Barton, et al., 2002). In this view, risk should be managed and not eradicated because with it comes a prize -- return. Therefore, it makes sense to manage these risks embedded in a business handed over to its caretakers by its owners.

Normally an investor venturing in an organization appoints care takers (or agents) who manage and ensures that goal congruence of profitability is achieved leading us to the principal-agent relationship theory. An agent owes its duty to its principal or owner in ensuring that all has been put in place towards the achievement of aims and objectives including owner’s value. Additionally, according to (Tirole, 2006) these agents tend to pursue their personal interests which if not parallel to the principal’s thereby ensuing a conflict of interests.

On the other end, managers are given performance targets which are to be met leading to these moral hazards should in case they do not meet the targets set. These care takers at times adopt the use of a designed accounting technique termed as by (Belkaoui, 2014) as “creative accounting” which outsiders will perceive as being successful because of the outer picture portrayed. They do these because they have been made aware of the consequences should they fail to meet targets.

It has also come to attention that agents who are entrusted bodies of their principals tend to create organizational problems due to conflict of interests leading to what has been termed by economists as ‘moral hazards’. These agents are at times rewarded for poor performance at the detriment of the shareholders’. Now, there are raised eye brows on why measures have not been taken being that these ‘moral hazards’ (Tirole, 2006) puts organizations in risky positions which
are not usually being accounted for. Although these ‘moral hazards’ which have been in debate over the years has just a tip of the iceberg, there are indications that there are other hazardous dealings which might affect the organization either positively or negatively hence, should be prevented to minimize damage.

Enterprise Risk management (ERM) according to (Barton et al., 2002) encompasses complete integration and coordination during a risk management exercise across the whole organization. Enterprise Risk management with its sophisticated design has proven to have reduced problems caused by poor corporate governance since the financial crisis because it is used to link risk management with strategies at all levels of organization. ERM minimizes financial, operational, strategic, and hazard/compliance risks (Passenheim, 2010). Large Corporations such as Bear Stern and Lehman Brothers (Coffin, 2009) presented financial statements indicating a healthy business when in actual sense they were experiencing losses. These mishaps by multinational corporations lead to controls being put in place ensuring there is minimised loss for corporations in the future. Hence, this persuades managers to reduce the practices of self-interest related activities resulting in the reduction of moral hazards.

This study will debate on the current problems leading to the need for corporations to include ERM as part of their risk management culture which will serve as a control measure towards combating moral hazards. Literature for this study will include; meaning of risk management and risk management process, ERM framework and its benefits on MNCs, moral hazards in corporations and how ERM can be used to combat moral hazards in MNCs.

1.1 AIMS

The aim of this study is to determine how enterprise-wide risk management can be used to combat moral hazards which are habitually occurring in Multinational corporations.

1.2 RESEARCH OBJECTIVES

1. To describe Risk Management and the Risk Management Process
2. To explain the meaning of Enterprise Risk Management
3. To explain the Enterprise Risk Management framework and its benefits on MNCs
4. To discuss about the moral hazards occurring in MNCs
5. To explain how Enterprise Risk Management can be used in combating moral hazards in MNCs

1.3 SIGNIFICANCE OF RESEARCH

The root cause of moral hazards, most especially by top executives, is in one way affecting the success of business corporations (Tirole, 2006). Furthermore, these immoral acts cannot be stopped but rather minimised. This study aims to guide large corporations, SMEs, MNCs and top executives, middle level management and lower level management who are solely concerned about the success of the business in combating moral hazards. This study will also serve as a realization to the general public (who might fall within the stakeholders group) vis-à-vis the common hazardous activities that occur within an organization due to insufficient sanctions imposed on organizational offenders.

2.0 LITERATURE REVIEW

2.1 Risk management and Risk Management process

Risk is uncertainty (Banks, 2008; Hull, 2012; Barton et al., 2002) which is inevitable. It also exists based on future events with unexpected outcomes—Hazards and perils. There are a handful of definitions of risk (Heinz-Peter, 2010). Hence, businesses have no alternative but to choose their own risk management strategy to fit their systems in order to survive (Hull, 2012). Also bear in mind that in the case of MNCs, the level of risk will determine the degree of return with the changes that are occurring periodically. Risk also leads to the profitability (Hull, 2012; Banks, 2008) if incorporated and crisis management (Lam, 2014) if ignored.

Conversely, when thinking about the meaning of risk, it does not just imply financial risk but a whole lot of other risks are involved. Risk comprises of the right people and procedures such that when these are absent, a company cannot
survive the debacle it is about to encounter (Lam, 2014). There have been series of confirmation to show that risks can be found in every activity carried out in an organization including hiring, hedging, training, to mention a few.

Hull (2012) and Lam (2014), stressed that there is a trade-off between risk and expected return (Hull, 2012) or risk–adjusted return (Lam, 2014) but not risk and actual return. It is impractical in real terms, to estimate the actual return that will be acquired. It is the duty of the Chief Risk Officer (CRO) in the best interest of the shareholder to ensure that the risk portfolio of an organization is managed such that the return from risk will be towards the expected—value creation. As the CRO, one should be submerged in trying to figure what response to confer to the shareholders when asked about the risks adjoining the company’s portfolio.

In order to be able to take on a risk management culture, managing risk portfolios entails planning and strategising to fit the risk profile of a company (Hull, 2012). Given that risk is uncertain (Banks, 2008) and the return is expected, it is advisable to implement the culture of incorporating risk management practices that fit the organization’s risk portfolio.

Initially, risks encountered in an organization were classified into operational risks—risks of loss resulting from non financial daily activities of a firm and financial risks—resulting from loss from financial activities (Harrington and Niehaus, 2003; Banks, 2008).

Risk management process entails not just management by hedging of derivatives but also management of risk management portfolio of the entire organization. As such, the risk management process consists of a four-stage process in the aspects of: Identification, quantifying or analysis, measuring and controlling of risks (Banks, 2008). Hull (2007) added that risks can be managed by ‘Risk decomposition’ or ‘Risk aggregation’ for financial institutions.

Generally speaking, after goals have been established and strategies have been put in place to facilitate organizational success, risk management is next. Identification of the risk in relation to the firm’s activities is very crucial. Knowing what kind of risk is being dealt with usually perceived and anticipated, making it easier to determine how it should be handled. Identifying such risks will reveal an unidentified opportunity or strength an organization possesses (Barton et al., 2002) but not in all cases (Hull, 2012).

Subsequently, an analysis of the risks identified should be carried out. The analysis should determine the organization’s risk acceptance level. This is commonly done using the risk matrix which indicates the likelihood and consequences of the risk.

Measuring; therein evaluation (Heinz-Peter, 2010)—quantifying according to (Hull, 2012)—the consequences against the likelihood of the risk follows. Measuring or evaluation entails comparison of the risk outcome from the risk matrix with the initially determined risk tolerance level. Determining the financial implication of the risk is regarded as quantifying. Control measures should be put in place if the final outcome is more than the initial forecast. Additionally, the risk should be treated if it cannot be tolerated. Treatment of risk can be done by accepting, avoiding, transferring or reducing.

Lastly, monitoring (Hull, 2012) and communication of the risk also plays a major role in the risk management process. Monitoring simply means following up periodically, for continuous improvement, risks assuring that risk tolerance is within the risk acceptance level of the organization. Monitoring also requires identification of fresh risk together with treatment according to its impact on the organization’s success. Being that risk is a major issue, effectively communicating the objectives and giving feedback of the organizational risks decision process is very crucial for users of the information both internally and externally.

2.2 Enterprise-wide risk management in multinational corporations

Multinational corporations are geographically located in different regions. The nature of these corporations allows them to have numerous geographically established plants which must be effectively managed. Risks have been perceived to be complex and increasing even before the global financial crisis. The goal nonetheless, is to ensure that management of the activities within these organizations will facilitate growth to the extent of
the spread of their tentacles. Such is a struggle for these organizations. Enterprise-wide risk is one of the organizational risks which is of paramount importance and must be managed because it is vital in achieving shareholder’s profit maximization goal. Anything that must be managed comes with a structure and disciplined approach, so does Enterprise-wide Risk. The mix of people, processes, knowledge, and technology as elements will help multinational corporations achieve their proposed goals and objectives (Barton et al., 2002; Hull, 2012).

As a definition, enterprise risk management is an avenue used to safeguard, generate and improve shareholder’s worth so as to manage the unforeseen outcome, be it positive or negative, which facilitates firm’s goal congruence and objectives (Fraser and Simkins, 2010). The paradigm shift as explained using the recipe for boiling of a frog is used to illustrate the shift in risk management paradigm to Enterprise-wide Risk Management. The boiling frog recipe only indicates that risk is not just simply financial and operational but also embedded within all departments of same organization. That is risk not only bothers the operational department but also the human resource department because there are risks associated with-in all types of activities carried out in every one of them.

The 2008 global financial crisis served as a wakeup call (Coffin, 2009; EY, 2012) for organizations to rethink their risk management strategies. Most of the corporations who were previously interested in the silo method of risk management and later the integrated methods have proven to facilitate achievement of organizational objectives and at the same time satisfy stakeholders’ desire.

Moreover, the growing need for improvements in corporate governance including risk was the reason for the regulatory bodies’ interest in the incorporation of ERM. While a handful organization only take the step to adopt the culture of risk management using ERM strategies, majority or others only implement for compliance reasons (Narvaez, 2010).

Coffin (2009) and his team in the RIMS Executive Report explains the reason for collapse of many MNCS. It has been made clear that the numerous downfalls were besides the agency problem, as a result of the failure of MNCs to embrace the ERM framework and link with strategy. Additionally, there was no formal system which included the use of ERM framework in making decisions such as avoiding or accepting risks. Lastly, not rewarding compliance of ERM laws as set by regulatory bodies like the Sarbanes-Oxley leading to desired performance was believed to have contributed to most of these failures.

Furthermore, based on previous research findings Enterprise-wide Risk Management have been, with evidence, an object in achieving desired corporate objectives and value creation when linked with the strategies and processes. Changes in technological advances, globalisation, and rise in Information Technology are at a fast pace that even consumer can no longer keep up with. However, with such new developments, top executives are now incorporating the new enterprise-wide approach of risk management culture in their organizations. It is important for MNCs to include the ERM culture in their corporations. This is central to firm’s value creation purpose.

2.3 The ERM framework

The ERM framework is a comprehensive framework with a function to link risks to strategies. Coffin (2009), stated that ‘‘front-line risk participation, linkage between risks and objectives and governance oversight are ways to incorporate ERM culture in all levels of management. The ERM framework is a very comprehensive one therefore should be carefully integrated in all levels of the organization. Within the ERM framework constitutes various RMP which are chosen to fit the risk tolerance level and behavioural attributes of the organization at all levels.

It includes seven components with various constituents. Previous research studies have made known that ERM framework will minimize the risk that might result in failure of an entity (Barton et al., 2002; Coffin, 2009; Fraser and Simkins, 2010). This shows in either a direct or an indirect approach that adopting the risk management culture using the complete and broad framework will combat moral hazards.

In order to begin cultivating the habit of application of the ERM framework in MNCs,
organizations must be geared up towards “mandating and committed to” the said framework by its top executives first then down to the lower level employees (COSO, 2004). This stage of the ERM adoption process should be maintained and sustained rather than just implemented. In other words, it should be an on-going process. This phase inculcates first the decision to implement the ERM culture in all levels of the organization by re-evaluation of the RMF, allocation of resources and appointment of a person in-charge who will be responsible in seeing through this process. Further, a gap analysis is needed to compare against risk regulatory bodies, industries and so on in-case there is a shortage to be identified. A review of the content of an organization’s risk management or a design of a new framework should be done and then approval of the process follow suit (Fraser and Simkins, 2010).

After the first step has been completed, the next step is the RMP also known as risk management policies. This section comprises of the ERM policies and risk management policies. Gap analysis, organizational risk management procedures, monitoring and accountability of organizational risk procedures and so on, designed to be followed together with risk terminologies are included in documented form. In addition, this stage also takes account of policies for making risk management decisions. These decisions are in the light of risk appetite, risk criteria and risk reporting. The risk appetite consists of two dimensions; risk appetite on average dimension and risk appetite for worst case scenarios. Both are used to determine the risk criteria of an organization that is whether to accept the risk or not. The former can also be known as risk with expected outcomes where factors such as technology, innovations, competition are all on the average level. The latter is related to the ‘survival’ ability of the organization with unanticipated outcomes (COSO, 2004).

Following the risk appetite is the risk criteria. Criteria in the sense that what should be accepted and implemented according to the risk management policies designed (Fraser and Simkins, 2010). An illustration of the risk criteria for environmental sustainability will require MNCs to ensure that the release of emission gas is within the allowed level. Risk criteria usually takes into consideration, its stakeholders that is, people affected by their activities while determining the risk criteria. Also, there are control measures in place to ensure that these activities are monitored and reported. Annual reports include the risk criteria reports to be published periodically in the annual reports.

Lastly under the policies for risk management decision making is risk reporting. Risk reporting covers both qualitative risk reporting at organizational level to qualitative risk reporting at low manager level using figures. Risk reporting indicated that risk appetite should be ‘aggregated’ across all levels of the organization and ‘disaggregated’ amongst individuals. This is complicated and also depends on the structure of the organization itself. Hence, there are still debates on how to compare figures and outcomes from both qualitative and quantitative risk reporting methods (Fraser and Simkins, 2010).

The third component according to (Fraser and Simkins, 2010), of the ERM framework is the integration of risk management framework in the organization. This phase consists of first, the top down integration and bottom up integration approach. This way, risk management is such that decision making process is thorough since everyone is involved. Furthermore, existing risk systems need to be integrated one by one to form a dual-system framework.

The fourth component is the risk management process as explain above in the ‘Risk and Risk Management Process’ section. The risk management section as explained by (Banks, 2008) and as a component of the ERM framework by (Frase and Simkins, 2010) consists of identification of risks, analysis of the risk identified, measuring or quantification, treatment of risk, monitoring and communication of the risks to all levels of the organization.

The fifth, sixth and seventh components of the ERM framework are; communication, accountability, monitoring and review for continuous improvement (COSO, 2004; Fraser and Simkins, 2010). The monitoring section requires follow up of risk management strategies in place. This also includes the people involved in the implementation process. Accountability and communication requires the risk tolerance level of the organization to be published periodically in
the annual statements of the organization. Audited statements with risk management progress of the organization should also be included in the annual report.

2.4 Benefits of the ERM framework on MNCs

2.4.1 Value creation and cost reduction

Risk management is control, so is ERM. Also have it in mind that risk cannot be eliminated but minimized (Banks, 2008). Risk management is all about putting things into place to ensure that any unexpected negative outcome is minimized. ERM therefore guarantees reduced interference in investments, provision of funds, stability in earnings, reduced under investments and the likes thereby facilitating cost reduction and value creation for businesses (EY Website, 2012).

Value creation can also be achieved through ERM implementation by realizing maximum returns from risks taken, funding strategically important activities of the organization, improving control and many more. Cost reduction can be realized by efficiency in processes, reduced unimportant spending and ensuring no duplicated risks process adopted.

2.4.2 Improved decision making process

There have been numerous studies indicating that ERM framework increases decision making process in organizations (EY Website, 2012; Narvaez, 2010). This is because its design and flow includes a step by step approach to implementation of the framework to all levels of organizations—multinational corporations in this case—from deciding on a mandate to implement the ERM framework down to monitoring, communication and accountability stages.

2.4.3 Proficient use of resources

Risk management using the ERM tool ensures that organizational resources are efficiently used. The ERM framework is a framework with several steps which covers all aspects and corners of the organization. Additionally, in order to apply the ERM tool for risk management process in an organization, resources in terms of people, technology, processes are used efficiently and effectively (Barton et al., 2002).

2.4.4 Steadfast reporting

ERM also guarantees consistent reporting. Reporting also facilitates continuous improvements of risk management. ERM ensures that the board receives reports on the risk profile or level of exposure by risks (Fraser and Simkins, 2010).

2.4.5 Strengthens communication amongst shareholders

Since an effective ERM framework requires putting a lot of hard work to pull through, a successful implementation also requires transparency at every step of implementation. That from the risk appetite to risk reporting down to operational, strategic risks should be transparently reported. An illustration however by (EY Website, 2012) explaining in its report on ‘turning risks into results’ explained how global 50 company used risk governance to strengthen the communication between its stakeholders. In it statements were made on Global 50 establishing its risk committee at board, executive and business level in addition to the already existing risk committee. Nonetheless, this guaranteed linkage of risks to its strategy and successful incorporation of risk into its business cycle.

2.5 The existence of ‘Moral Hazards’ in multinational corporations

Renowned MNCs have shown signals of poor cooperate governance even before the unfortunate occurrence—global financial crisis. Weak board members, failure to incorporate stringent rules of risk management and internal control into organizational activities, investor activism, and inability to protect stakeholder’s interest, and so forth… have become daily phrases in the public eye (Tirole, 2006). One of the resulting effects of poor corporate governance is termed as “Moral Hazards”.

Moral Hazards occur in our daily life but for this study, we will be looking at the ones that take place in the business environment. Moral Hazards according to (War e, et al., 2010), is a resulting outcome from activities by one party who is not held completely accountable for illicit or careless behaviour because there is no fear instilled in the party at fault in the first place. In this context, the ‘principal-agent’ relationship is a
good illustration of Moral Hazards existence in organizations. The agent aforementioned is responsible for guarding its principal’s interests with the hope of enhancing its principal’s value. This can only be achieved if both interests are in alignment—or else—there is a divergence or clash of interests. Moral hazards, if not managed by increasing sanctions given to offenders, will put the Principal at risk of losing financially and also its reputation. They come in many guises (Tirole, 2006).

Top executives in MNCs believe that decisions regarding suppliers to select or wage cut is a burden on their shoulders. They rather engage themselves in activities outside of the organization’s scope for personal gains. As such they give little or no time to the tasks at hand. An illustration from the likes of Procter & Gamble (Tirole, 2006)—losses were realised from derivatives as a result of poor internal control by it tops executives in charge.

Top executives also practice what is called self dealing (Tirole, 2005; Tirole, 2006). This means that they engage in illegal activities to increase their personal worth at the detriment of the owners’ pocket. For example, managers choose their successors from familiar parties say family members or friends or selection of suppliers based on friendship so that their image does not get tarnished seeing what they have left to remain for the successor to continue with.

Executives also manipulate or hurt their owners at the detriment of the owners themselves. They (agents) make investments that they are best at managing so that they are selected as ones with good performance or are above the performance level of the organization and are rewarded. Some go as far as practicing creative accounting rather than lose their jobs or bonuses because their extra incentives are linked with their performance.

The way out (Ware et al., 2012) for MNCs is to disrupt these moral hazards. Sanctioning the guilty to the maximum level of the crime committed should be clearly communicated to the people in all levels of the organization. Additionally, when an agent is aware that he is being monitored, it will be difficult or impossible to commit prohibited actions for fear of being shamed or disgraced publicly.

2.6 Enterprise-wide Risk Management in combating moral hazards in multinational corporations

2.6.1 Controls are in place

In order to ensure victory over Moral hazards in corporations, ERM through its complex designs has assured that controls are being put in place to minimize the risk of losing due to risk. Policies and procedure used to control activities within and if not outside the organization have been put in place (COSO, 2004). On this note, top executive who are usually the major cause of moral hazards are conscious of being watched. They end up having little or no time to commit such criminal act because of barriers set (Lam, 2014) especially when there are extreme sanctions attached to these acts. These executives will not stand losing out completely as a result combating or minimizing moral hazards.

2.6.2 Corporate governance and risk management

Corporate governance solely talks about the role of the board’s composition, the executives and also includes which committees responsible for designing their remuneration package. The ERM has created value and reduced unnecessary spending. Majority of these spending creates room for moral hazards to occur. Moreover, with a good remuneration package for top executives (Banks, 2008), with internal control measures together with performance based incentives and bonuses, there will be little room for a disaster to take place. Yet, one can never satisfy humans.

It is however impossible to completely eliminate moral hazards or stop them from occurring at all. Apart from an attractive and fair design of remuneration package for top executives, ERM framework also requires, within its implementation process, an effective board to warrant that the risk execution process is without major obstacles (COS0, 2004).

Contrarily, some executive might be stubborn enough to give up their immoral act. Corporate governance ensures that these sets of top executives are dealt with by either letting them go or publicly embarrassing them.

2.6.3 Monitoring
The implementation of ERM framework results in active monitoring. Not only processes are monitored here but also the people involved. Active monitoring can assist in combating moral hazards which (Tirole, 2006) are considered to be amongst the agency problems experienced between the principal and agents.

2.6.4 Linking risk management with strategies

Previous studies on ERM framework has mentioned severally that one benefit of the framework is it links risk management with strategies. The ERM framework sets the vision of organizations who have taken the steps towards achieving success. Linking strategies with the ERM framework is such that the risk appetite and strategies, grab hold of opportunities, designing risk response strategies and effective use of capital are accomplished (COSO, 2004). With this nature of progress, it will be fruitless for top executives who are mixed up in unlawful acts for their selfish interests.

3.0 METHODOLOGY

This research is theoretical in nature which was material in depicting the importance of implementing a risk management culture in Multinational organizations. Books and Journal articles primarily from experts in Enterprise-wide risk management, corporate governance and risk management were used to blend in ideas used to come up with a sound literature concerning the issue at hand.

4.0 ANALYSIS AND DISCUSSIONS

Risk comes with uncertainty and later results. Results might differ depending on the risk criteria of an organization. MNCs also possess risks which are embedded in all levels of the organization. Risk should be manage but not eliminated which leads us to the risk management process. Risk management basically requires identification of risks incumbent in the organization, analysis and quantification using the risk matrix, measurement of the risk matrix to determine the risk criteria and risk tolerance level, monitoring and communication for continuous improvement.

With the exception of none, MNCs experience the Agency problem. This is merely because the agent and principal both have different objectives they intend to achieve. At times, the agent’s interest is in synchronization with that of its owner which is rare. But sometimes, the reverse is the case which results in conflict of interests. Conflicts of interests results in moral hazards.

Moral hazards are in varieties. Most studies claim that moral hazards are caused by top executives since they have the authority to do as they please. Top executive practise what is called self dealings where they appoint successors from friends and families to prevent being critiqued on their intentional poor performances after their exit from their current positions. More so, some executive spend little time on their primary roles whilst having other affairs outside the organization to enrich themselves at the detriment of their owners. Illegal actions by top executives in MNCs also includes; venturing into investments that are not challenging. In such situations, they are able to manage these ventures to increase their performance level and not risk losing their bonuses or jobs in extreme cases.

Enterprise Risk Management therein ERM is a broad area in risk management and should be carefully implemented. One of the functions and benefit of ERM is that it automatically links risks of an organization with strategy because it concerns all levels of organization.

The ERM framework consists of seven and for some studies eight stages. As all-inclusive framework, ERM framework stems from the mandate and commitment stage down to the accountability, monitoring and communication stage. The ERM framework comes with benefits like value creation and cost reduction, improving decision making process, effective allocation of resources, improved reporting, and increased communication amongst stakeholders.

The ERM framework without reasonable doubt has been able to successfully fight moral hazards occurring in MNCs. Some studies have claimed that with effective control in place, moral hazards will be minimized. In a wider perspective, good corporate governance and risk management according to previous studies have facilitated the fight towards minimizing moral standards in MNCs. executives who are being watched and monitored with little or no room to engage in acts that result to moral hazards is possible if committed to adopting an enterprise-wide risk.
management culture for management of risks.Lastly, linking risks with strategies also contributes to a moral hazard free business environment making it possible for value creation, effective use of resources and the likes in MNCs.

5.0 CONCLUSION AND RECOMMENDATION

It is important that organizations, including MNCs, take steps towards management of their risk portfolios because every business has risks in it. On the other end, due to agency problems resulting to conflict of interests, moral hazards usually crops up. Therefore, there is a connection between risk and moral hazards in MNCs.

ERM according to previous reports have been instrumental in combating moral hazards and at the same time creating value and so much more. For that reason, the risk management culture ought to be embedded in the entire organization using such tool since it links risk to strategies of the organization.

Moral hazard is a topic that has disturbed the business world not just internationally, but locally. Hence, future studies may include combating moral hazards using other tools or instruments in small and medium enterprises and MNCs because ERM framework may not be the only or best fit framework for this cause.

6.0 REFERENCE


http://ijmsbr.com


