Challenges in Implementing Enterprise Risk Management in Rural and Community Banks In Ghana

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Abstract
The study examined the challenges related to enterprise risk management practices in rural and community banks in Ghana. Quantitative strategy was adopted via survey questionnaire to collect data from rural and community banks in Ghana. The study population was limited to rural and community banks in Ashanti Region of Ghana. Primary data was used for the study. Seventy–five (75) questionnaires were administered to respondents of 25 rural and community banks sampled for the study using purposive sampling. The data collected was analyzed using SPSS software. The study uncovered that ineffective staff training on ERM policies, inadequate risk professionals, high cost of ERM implementation, absence of risk officer visibility at board level, enterprise risk quantification and measurement among others were perceived by respondents as challenges related to enterprise risk management practices in rural and community banks in Ghana.

Kew words: Enterprise Risk Management, Challenges, Rural and Community Banks

1.0 INTRODUCTION

Contribution of banking sector in Ghana economy cannot be underrated since the sector’s total assets portion of GDP has seen improvement of 39.8% to 62.85% from 2002 to 2010 (Amediku, 2013). Undoubtedly, despite their contribution, rural and community banks industry since their inception in 1976 have confronted with numerous constraints of regulatory policies and competition from commercial banks and as such risk management has frequently, resulted as one of the major constraints of rural and community banks (Jha et al, 2003).

Increasingly, the main constraint of financial institutions encountering nowadays is how to integrate various forms of risk into one framework for meaningful decision making. In light of this, ERM is regarded as novel phenomenon for controlling complex range of enterprise risks (Beasley et al, 2009). In this regard, banks all over the world are adopting to this approach and Ghanaian-banking industry is not an exception. However, there are challenges in implementing ERM in Rural and Community banks. This study explores these challenges.

2.0 REVIEW OF RELATED LITERATURE

Enterprise risk refers to the overall total of operational and process risks an organization encounter in the day-to-day business activities (CAS, 2003). Enterprise risk include financial risk which is made up of potential losses due to market risk exposures like commodity price, interest rate, credit risks, foreign exchange rates and liquidity risks. Strategic risk includes technological innovation, reputational risk, regulatory challenges, competitors and customer preference. Hazard risks which include fire, business interruption, theft, windstorm, pension and health as well as operational risk which cover large range of corporate leadership, information security, compliance risk ,staff fraud, product failure, trademark protection, reputational risk and product development(Casualty Actuarial Society,2003; Norhayate and Haron, 2011; Zeghal and Aoum ,2016 ). These varieties of risks are considered as major potential threats to the banking sectors and have become a top priority in the area of daily business activities. The presence of these threats have influenced the practice of enterprise risk management in the financial institution (Dabari and Saidin, 2015)

Enterprise risk management (ERM) is define as the;

Process, effected by an entity’s board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives (COSO, 2004).
Similarly, enterprise risk management refers to the ‘process by which organization in all industries assess, control, exploit, finance and monitor risks from all sources for the purpose of increasing the organization’s short and long term value to its stakeholders’ (CAS, 2003). Enterprise-wide method of managing and centralizing risk exposure in holistic fashion manner is the underlined concept for enterprise risk management (Alviunessen and Jankensgard, 2009). ERM is unique from the concept of traditional methods of managing corporate risk and it refine method which syndicates whole risk management events to achieve a comprehensive integrated corporate framework such as identification of key risk categories and exposures, quantitative models to measure and evaluation of risk, tools to manage risk efficiently, organizational risk awareness culture, management strategies that integrates ERM and various parts into operational and strategic decision making (Altuntas et al, 2011). A traditional approach on the other hand is generally risk exposures and are managed in isolated cases thus risks mitigation is done at departmental level (Kleffner et al, 2003).

The Committee of Sponsoring Organization of the Treadway Commission (2004) published an integrated enterprise risk management framework which is used as an indicator for management of enterprise risks as opposed to silo-based method of risk management. According to Quinn (2006) the framework is employed to provide systems and improve internal environment controls which address business organizations enterprise risks in a broad way as opposed to dealing with various types of risk separately through silo-based method of risk management.

Table (1) below depicts the key elements of each component of COSO ERM framework

<table>
<thead>
<tr>
<th>Internal environment</th>
<th>Objective Setting</th>
<th>Events Identification</th>
<th>Risk Assessment</th>
<th>Control Activities</th>
<th>Information and Communication</th>
<th>Monitoring</th>
</tr>
</thead>
</table>

Adopted from COSO (2004)

The internal environment refers to an organization’s, risk appetite, board oversight, ERM philosophy, human resource standard among other basic elements. Internal factors are considered as essential attributes that effect the decision for an organization to practice enterprise risk management and these factors have the responsibilities to control and manage company with the purpose of accomplishing the objective of the organization (Abdullah et al, 2012). According to Zand (2009) is an obligation of organization’s management to perform an analysis of detail overview of enterprise risk and corporate executive directors are responsible for oversight responsibilities to ensure adherence to policies.

Commitment to risk management competencies are considered as key in ERM implementation in the executive level and nowadays seen as vital entity source of continued growth and enduring competitive business advantage (Jala-Karim, 2013). Furthermore, according to Dabari and Saidin (2015) noted that competency of management and executive directors will assist them in taking advantage of opportunities and reduce threats related to risks for the benefit of a particular bank and as such enhancing competitive advantage. Constant education and training program in risk management for employees provide continuous improvement for the development of competency within the whole entity (Hussin et al, 2008) and engaging staff through a participative leadership style and provision of an enabling environment in which employees have a voice, organizations can more rapidly recognized and manage possible threat and opportunities,
thereby reducing volatility and risk (Sax and Torp, 2015). Basically, objective setting defines operations, reporting procedures, and regulatory compliance required observed. For an entity to determine options to achieve its strategic objectives, managements are expected to recognize risks which are related to variety of strategic decisions and consider the effects. Identification of event element constitute techniques employed to identify risks, factors that influence risks, categories of risk, differentiating between risks and opportunities and how linkages to manage risks can be created (COSO, 2004). Assessments of risk give management the opportunity to assess likelihood events which will affect the success of objectives. The assessment of events within the organization are considered from two perspectives likelihood and impact which are usually done by both quantitative and qualitative methodology (COSO, 2004). This enables management to measure the magnitude of the outcome of loss in case of the recognition of uncertain events (Zeghal and Aoum, 2016). Risk Response component is concern with entity managing risk through prevention, decrease, transfer and assent. Response to daily risk by management is based on the assessment of likelihood events of risks and their corresponding impact as well as cost and benefit analysis (COSO, 2004).

Control activities aspect is about how policies and procedures carried out across the entire organization which includes activities at all departmental and functional level (COSO, 2004). Controlling by its nature is recognized as the most essential tool to check efficiency of an institution and for easily overcoming of the economic crisis and recovery as well as achievement of objectives set within the institution (Dimov and Iliev, 2010). Information and Communication element deals with how management identify and capture the information which is needed to communicate to employees to enable them to perform their responsibilities. To accomplish successful ERM in an entire organization, management require information to identify, analyzed and response to risk managing and accomplishing the objective of the organization .Communication has been recognize as an essential tool for creating right internal environment and other ERM components. This communication is facilitated by information technology such as integration of systems, an internet site and dashboard which displace information within easy and constant access, e-mails, meetings, memo and workshop (COSO, 2004). The risk information should be structured in a way to update top management and abreast them with any serious risks facing the organization, so that accurate decision can be taken concerning the management of the threats or risks (Akotey and Abor, 2013). In other to practice enterprise risk management effectively, COSO ERM integrated framework can be used as a benchmark within the organization to manage risk holistically and recommending solutions which can be employed to improve enterprise risk management (COSO, 2004). COSO ERM framework was adopted as a basis to develop items in the questionnaires to assess the effect of enterprise risk management practices on organizational performance.

A study conducted by Njagi and Njuguna (2017) in Kenyan insurance companies, the study revealed that ambiguity in roles and responsibilities in risk management, linking risk information to strategic decision making, cost and budgetary constraints, risk management not recognized as a priority by management, inadequate application of risk management framework, lack of embodiment of ERM in organizational cultural, ensuring that all decisions remain within the organization’s risk tolerance, complexities in risk measurement, misalignment of risk and organization operating model, inadequate information to make risk-based decisions, proactively identifying current and emerging risk and difficulty in risk quantification are key factors hindering enterpise risk management practices.

Similarly, a survey carried out by Rao (2007) also noted that lack of process, lack of intellectual capital, inadequate skills, inappropriate risk management tools, lack of organizational culture, cost, lack of clear organizational structure, lack of information and communication technology are most of the obstacles faced by business organizations in implementation of enterprise risk management practices. Sabato (2009) is also of the view that, inappropriate risk governance structure, inadequate capital allocation strategy and disintegrated vision of risks are the most relevant barriers for risk management practice in most banks. Furthermore, based on research conducted by Cormican (2014) and survey conducted by PWC (2015) on enterprise risk management practices in public sector companies in U. S., they all noticed in their various studies that lack of formal policy, lack of documentation of risk management plan, lack of communication,
inability to effectively analyzed risk, lack of management buy-in and support, difficulty in building business case to justify funding and ineffective training are barriers to enterprise risk management.

3.0 METHODOLOGY

The study population was rural and community banks that have been licensed by Bank of Ghana. However, the target population was limited to 27 rural and community banks in Ashanti Region of Ghana. This study was limited to Ashanti Region of because of the high concentration of licensed rural and community banks in the Region, total asset and profit performance unlike other Regions. The sample size was determined based on Miller and Brewer (2003) mathematical formula: 

$$n = \frac{N}{1 + N(\alpha/2)}$$

where N is the sample frame, n is the sample size and α is the margin of error fixed at 5%. The sample size = 27/[1 + 27(0.05)^2] = 25.29 = 25. Therefore 25 sample size was used for the study.

Purposive sampling was used to select respondents for the study. Purposive sampling is a method of collecting data from a particular area or group of respondents when there are only particular elements with the require information (Rea and Parker, 2005). Purposive sampling was adopted in selecting 75 respondents consisting of general managers, risk managers, internal auditors, ICT managers and board of directors from the study population. These respondents were used because they are the people who coordinate ERM activities as well as not all the staff in the study population have the same level of information regarding the organization’s ERM activities (Shaughnessy et al, 2011; Saunders et al, 2009; Bhattacherjee, 2012). The study used closed-ended structured questionnaires to collect primary data from the target respondents. In all Seventy Five (75) questionnaires were administered to respondents of the study with a varying positions in rural and community banks in Ashanti Region. The data collected were analyzed using Microsoft Excel and Statistical Package for Social Sciences (SPSS). Data collected from the field were analyzed and presented by descriptive statistics. The mean scores were widely used for the research analysis to measure the average ratings of responses on each statement for the study. This study adopted mean score because it serves as valuable alternative to the median especially when it is ordinal data.

4.0 RESULTS AND CONCLUSION

Understanding the challenges related to ERM practices within the entire organization allows risk managers to tailor their strategic planning processes and information to take work with management to established suitable enterprise risk management structures, resources and process. Based on this, the study examined the challenges related to ERM practices within the RCBs industry in Ghana. Respondents were asked to indicate their level of score on each statement of challenges ranging from 1 to 5 (1= Strongly Disagree, 2= Disagree, 3= Neutral, 4= Agree and 5= Strongly Agree).

Table 1: Challenges Related to ERM practices

<table>
<thead>
<tr>
<th>Variables</th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>Std. Dev</th>
<th>Ran King</th>
</tr>
</thead>
<tbody>
<tr>
<td>C1 Ineffective staff training on ERM policies</td>
<td>3.00</td>
<td>5.00</td>
<td>4.39</td>
<td>0.550</td>
<td>1</td>
</tr>
<tr>
<td>C2 Inadequate staff awareness on ERM policies</td>
<td>3.33</td>
<td>5.00</td>
<td>4.37</td>
<td>0.434</td>
<td>2</td>
</tr>
<tr>
<td>C3 Inadequate risk professionals</td>
<td>3.33</td>
<td>5.00</td>
<td>4.29</td>
<td>0.412</td>
<td>3</td>
</tr>
<tr>
<td>C4 Inappropriate risk management plan documentation</td>
<td>2.33</td>
<td>4.67</td>
<td>4.00</td>
<td>0.609</td>
<td>4</td>
</tr>
<tr>
<td>C5 Absence of risk officer visibility at board level</td>
<td>2.33</td>
<td>5.00</td>
<td>3.77</td>
<td>0.699</td>
<td>5</td>
</tr>
<tr>
<td>C6 High cost of ERM implementation capabilities</td>
<td>2.00</td>
<td>4.67</td>
<td>3.61</td>
<td>0.750</td>
<td>6</td>
</tr>
<tr>
<td>C7 Inappropriate risk governance structure</td>
<td>2.33</td>
<td>4.67</td>
<td>3.55</td>
<td>0.615</td>
<td>7</td>
</tr>
<tr>
<td>C8 Enterprise risk quantifications and measurement</td>
<td>2.00</td>
<td>4.67</td>
<td>3.49</td>
<td>0.695</td>
<td>8</td>
</tr>
<tr>
<td>C9 Disembodiment of ERM in organizational culture</td>
<td>2.00</td>
<td>4.67</td>
<td>3.47</td>
<td>0.624</td>
<td>9</td>
</tr>
<tr>
<td>C10 Lack of common definition and categorization of risk into common language</td>
<td>1.67</td>
<td>4.33</td>
<td>3.25</td>
<td>0.603</td>
<td>10</td>
</tr>
<tr>
<td>C11 Limited budgetary allocation for ERM practices</td>
<td>2.00</td>
<td>4.33</td>
<td>3.12</td>
<td>0.615</td>
<td>11</td>
</tr>
<tr>
<td>C12 Inadequate IT capability infrastructures</td>
<td>1.67</td>
<td>4.33</td>
<td>3.08</td>
<td>0.715</td>
<td>12</td>
</tr>
<tr>
<td>C13 Lack of management buy-in and support</td>
<td>1.67</td>
<td>4.33</td>
<td>3.05</td>
<td>0.762</td>
<td>13</td>
</tr>
<tr>
<td>C14 Inappropriate enterprise risk ownership</td>
<td>1.67</td>
<td>4.33</td>
<td>2.91</td>
<td>0.670</td>
<td>14</td>
</tr>
<tr>
<td>C15 Ineffective communication mechanism</td>
<td>1.67</td>
<td>4.33</td>
<td>2.76</td>
<td>0.767</td>
<td>15</td>
</tr>
<tr>
<td>C16 Weak risk appetite framework</td>
<td>1.67</td>
<td>4.00</td>
<td>2.61</td>
<td>0.629</td>
<td>16</td>
</tr>
<tr>
<td>C17 How to ensure all decisions remain within the organization’s risk tolerance,</td>
<td>1.33</td>
<td>4.00</td>
<td>2.52</td>
<td>0.694</td>
<td>17</td>
</tr>
</tbody>
</table>

Overall Score 2.84  4.06 3.43 0.339
From the table above, out of the Seventeen (17) factors considered to be challenges related to ERM practices identified from the literature review, thirteen (13) factors were considered by respondents as challenges related to ERM practices in Rural and Community Banks (RCBs) in Ashanti Region. These include ineffective staff training on ERM programmes, lack of management buy – in and support, inappropriate risk governance structure, limited budgetary allocation for ERM practices, lack common definition and categorization of risk into common language, disembodiment of ERM in organizational culture, inappropriate enterprise risk quantifications and measurement, high cost of enterprise risk management implementation capabilities, absence of risk officer visibility at board level, inadequate risk professionals, inadequate staff awareness on ERM policies, inadequate IT capability infrastructures and inappropriate risk management plan documentation. It is clear from the above table that each of these thirteen factors has mean scores above 3.00 with standard errors below 1. According to Field (2005) a mean score above 3.00 is considered to be significant. This implies these factors are perceived to be potential threat to successful implementation of ERM structures in RCBs industry in Ghana. However, from the table above, the respondents of the study are of the view that inappropriate enterprise risk ownership, how to ensure all decisions remain within the organization’s risk tolerance, weak risk appetite framework and ineffective communication mechanism do not affect implementation of ERM programmes in RCBs in Ghana. It is clear from the above table that each of the four factors have mean scores below 3.00 which is considered to be insignificant.

CONCLUSION

The study focused on challenges related to ERM practices in Rural and Community Banks in Ghana. The findings revealed that thirteen (13) out of seventeen (17) factors identified from the literature review as challenges related to ERM practices were perceived by respondents as threat to ERM practices in RCBs in Ghana. These include inadequate staff awareness on ERM policies, ineffective staff training on ERM policies, inadequate risk professionals, inappropriate risk management plan documentation, absence of risk officer visibility at board level, high cost of ERM implementation capabilities, inappropriate risk governance structure, enterprise risk quantification and measurement, ineffective ERM culture, lack of common definition and categorization risk into common language, limited budgetary allocation for ERM practices, lack of management – buy- and support and inadequate IT capability infrastructures were challenges related to ERM implantations among Rural and Community Banks.

The study recommend that board of directors and management of RCBs should adopt strategies which include training of staffs on enterprise risk management policies, appoint qualified enterprise risk management professionals to implement ERM programmes, ensure strong organizational culture across entire business units and departments in regards to management of enterprise risk and controls, development of strong risk appetite, improvement in nature of enterprise risk information being reported to directors, engagement of consultants for development and designing enterprise risk management programmes and appointment of risk officer at the board level should be considered by shareholders. These strategies would enable to solve challenges related to enterprise risk management practices in rural and community banks.

REFERENCES


