

The Determinants of Enterprise Risk Management: Literature Review, and Future Research

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Abstract : The growing complexities and dynamics in the business environment have led to a new approach to risk management, known as enterprise risk management (ERM). ERM is a system and an approach to managing the risks of an organization in an integrated manner to achieve the corporate goals and strategic objectives. Regardless of the diversities in the business environment, ERM has become an essential factor in managing individual and business risks because ERM is believed to enhance shareholder value and firm growth. Despite the growing number of literature on ERM, the question about what factors drives ERM remains limited. This study provides a comprehensive literature review of the main factors that contribute to ERM implementation. Google Scholar was the leading search engine used to identify empirical literature, and the review spanned between 2000 and 2020. Articles published in Scimago journal ranking and Scopus were examined. Thirteen firm characteristics and sixteen articles were considered for the empirical review. Most empirical studies agreed that firm size, institutional ownership, industry type, auditor type, industrial diversification, earnings volatility, stock price volatility, and internal auditor had a positive relationship with ERM adoption, whereas firm size, institutional ownership, auditor type, and type of industry were mostly seen be statistically significant. Other factors such as financial leverage, profitability, asset opacity, international diversification, and firm complexity revealed an inconclusive result. The growing literature on ERM is not without limitations; hence, this study suggests that further research should examine ERM determinants within a new geographical context while considering a new and robust way of measuring ERM rather than relying on a simple proxy (dummy) for ERM measurement. Other firm characteristics such as organizational culture and context, corporate scandals and losses, and governance could be considered determinants of ERM adoption.

Keywords : enterprise risk management, determinants, ERM adoption, literature review

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