



## **ENTREPRENEURIAL RISK MANAGEMENT**

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### **ABSTRACT**

*Enterprise risk management (ERM) has received a considerable deal of attention since its beginnings, with the objective of building a comprehensive plan for managing all types of events (risks and opportunities) that are critical to an organization's strategic goals. In spite of the fact that the number of ERM implementations among Saudi businesses has expanded considerably in recent years, there is still a lack of knowledge of the critical concerns that must be addressed while implementing ERM in the kingdom. This research seeks to empirically analyse the factors that impact ERM implementation by investigating how the 44 ERM aspects, as described by the Committee of Sponsoring Businesses ERM Integrated Framework, were actually applied in a sample of Saudi Arabian businesses. This paper investigates a sample of 103 responses to a survey questionnaire that was sent out through the internet using the exploratory factor analysis technique. The results of the exploratory analysis support the retention of three factors that require specific consideration when implementing ERM, namely, (1) the ERM structure and standards, (2) the enterprise's portfolio of risks and opportunities, and (3) risk oversight and corporate governance, as well as the retention of three factors that require specific consideration when implementing ERM, namely, (1) the ERM structure and standards, (2) the enterprise's portfolio of risks and opportunities, and (3) risk oversight and corporate governance, as well as the retention of three factors that require specific consideration. When compared to previous research, this study is unique in that it is the first to analyse ERM implementation among Saudi enterprises, and its findings provide a foundational understanding of the primary drivers affecting ERM adoption in Saudi organisations, according to the authors. Furthermore, this research suggests an ERM implementation framework that addresses the factors that have been identified and gives assistance to companies on how to enhance ERM implementation in their own organisations.*

**Keywords-** Risk, Management, Implementation, Business, ERM.

## **INTRODUCTION**

Risk management on the part of the entrepreneur is a crucial aspect that can distinguish between success and failure in an endeavour. The problem of risk management is brought closer to the surface here, and it is done so from a financial thinking standpoint. It is discussed in this article how entrepreneurs may control their risks. It is divided into three subgroups of entrepreneurs: super-enterprising individuals, business administrators, and blasted entrepreneurs (who failed).

## **RISK MANAGEMENT STANDARDS VS. INSURANCE COMPANIES – SELECTED ISSUES**

To reiterate what has been said earlier, efforts are necessary all over the world to standardise risk management practises in the corporate sector. Entrepreneurs who follow risk management principles are more equipped to make provisions in this respect, particularly when it comes to the risk management system itself. Although it is impossible to entirely implement risk management standards in financial transactions, it is always a good idea to have a backup plan. This is problematic, above all, because of the explicitness with which each and every element's actions and company profile are described. Likewise, the conditions under which manufacturers operate differ from those under which professional organisations, such as safety net providers, operate. As a result, risk is managed in an unanticipated manner, depending on the profile of the chemical in question. To put it another way, the fact that global risk management standards are a ready-to-use wellspring of guidance does not suggest that the arrangements offered there are afterwards transferred to organisations. The first step is for decision makers in an organisation to carefully analyse the implications of these arrangements. For example, an enquiry on how to implement these arrangements in one's own company operations should receive a detailed response. Additionally, it appears that a significant number of challenges are encountered when an effort attempts to develop their own supposed standardised risk management method, which is suitably tailored to the particularity of the organisation and the element's commercial activities. Such initiatives, for example, have been undertaken by insurance companies, who, by definition, provide protective administrations, such as risk protection, in exchange for a fixed fee, such as an insurance instalment.

Evidence of risk differing from other types of evidence is particularly valuable for determining the degree of vulnerability in an organisation, based on publicly available information about the organization's activity, its current situation (including the market on which it operates) - primarily legal, social, political, and social in nature - and so on regarding targets (primarily essential ones) characterised by the venture. The next step, during the risk evaluation stage, is risk depiction, which includes, for example, displaying the distinguished risks in an organised configuration, such as by utilising a table, as proposed by FERMA, because such a display of risks, for example, in the form of type tables, makes it easier to concentrate on alleged key risks that should be investigated in greater depth.

## **RISK IDENTIFICATION TECHNIQUES**

ERM system that was introduced in Enterprise Risk Management: Frameworks, Elements, and Integration (ERM: Frameworks, Elements, and Integration). The clarity of procedures and objectives is the focus of the underlying spotlight. The point of convergence for risk differentiating evidence can occur at any level, including the whole organisation, a critical specialist unit, a task, a venture, an interaction, or a movement, among other things. It is difficult to discern between situations that might lead to hazards that could prevent the achievement of a certain system or purpose, regardless of the scope of the request, in the absence of clearly defined targets. Assuming that those involved in identifying risks have a thorough understanding of the systems and objectives, the appropriate questions to ask, according to one organization's senior venture risk administrator, are: "What could prevent us from achieving our top objectives and goals?" and "What could significantly impair our ability to pay our bills?" These questions can be tailored to meet the specific needs of the organisation. Those involved in the risk identification process should be aware that it is a common misconception to think of a risk as "an sudden occurrence." <sup>3</sup> Knowing what problem is approaching the organisation, and discussing it beforehand, may result in the risk being mitigated or eliminated altogether. Several benefits are possible, including the following:

“One, if you mitigate the risk and your peers do not—in a catastrophic, continuity-destroying event that hits an industry—say a financial scandal—you get what is called the survivor’s bonus. Two, if you survive or survive better than others, then you have an upside after the fact, and this should be part of the board’s strategic thinking.”

## **CONCEPTS**

### **Risk management**

The term "risk management" refers to "identifying, evaluating, and prioritising risks, followed by a methodical and cautious use of assets to restrict, screen, and control the possibility and impact of unfortunate events, or to broaden the recognition of possibilities. " Controlling risk in a reliable manner necessitates the development of a system that is not unduly on one side of the spectrum of caution or recklessness (see Culp, 2011). Additionally, it entails considering risk as a critical component of company strategy and finance. Risk cannot be avoided; rather, it must be accepted and dealt with. (1) Risk is always terrible, (2) a few dangers are so terrible that they should be slain no matter what, and (3) leaving nothing to chance is the safest course of action is the most secure course of action. If risk is regarded in line with any of these paradoxes, or even in combination with them, the value of risk management is diminished. Risk is neither wonderful nor terrible. It merely exists, and depending on how it is applied, the result might be either a stumbling barrier or a helpful ally for the user. Taking out particular risks regardless of the consequences is likely to result in a bigger number of entanglements than if the risk had been properly monitored in the first place.

## **NEW ENTREPRENEURIAL VENTURES**

Indeed, even the most successful and well-prepared entrepreneurs might be hesitant to invest their resources in new ventures that they regard to be hazardous. When it comes to an undertaking, the perception of risks by all parties involved might vary widely (entrepreneurs and financial backers as well as clients and business partners, for example). These cultivars may prove to be a nuisance when it comes to financing. It is argued that traditional risk-reward ratios do not apply to new endeavours. Customary procedures are used to create the impression that the entrepreneur is a more serious risk taker than others, which might scare away potential financial backers from working with him. It was shown that entrepreneurs were more opposed to choosing adventures that had unmistakable degrees of fluctuation, but were more willing than usual to assume a more significant (greater) danger in the expectation of a more prominent benefit than the general public. <sup>1</sup> In the world of financial backers, there is a widely held belief that investing resources in early stage innovation-based enterprises carries greater risks than investing resources in non-innovation projects. Consequently, the preceding enterprises' subsidising potential may be reduced as a result of this (Ben-Ari and Vonortas, 2007; Macmillan et al, 2013, 1987). Assuming that all of a venture's stated worth is contained within the mind of one of its writers, prospective financial backers will have difficulty translating this information into tangible advantages for the public.

## **THE ERM STRUCTURES, PROCESS AND CONTINUAL IMPROVEMENT**

Incorporating enterprise resource planning (ERP) into an organization's culture should not be limited to yearly meetings, one-time activities, or a set of exercises to be conducted on an annual cycle. A continuous and iterative approach to ERM is intended to be used, with the element being incorporated into normal business cycles to allow the element to remain cognizant of and ahead of new threats and opportunities. No matter how you look at it, it is standard for associations to have a planned course of action for ERM exercises. Detailing commitments and other critical and administrative accomplishments, such as the planning cycle, essential arranging interaction, and annual regular events, is used to guide the process midway.

## **OBJECTIVES**

1. To define the specific aspects that must be considered in order to investigate ERM implementation in Saudi Arabian organizations.
2. To investigate the elements that influences the deployment of enterprise resource planning (ERP)

## **RESEARCH METHODOLOGY**

In this chapter, you will learn how to create a study plan and how to choose data collecting techniques for your research. There includes a thorough explanation of the study design, including the description of the research population, sampling strategy, design of the survey instrument, and data collecting technique, among other things. As well as this, it provides a description and discussion of the many approaches and tactics that are employed in factor analysis.

The rationale for the research design, as well as the selection of research methods, are discussed in detail

During the design stage of a study, researchers attempt to define their philosophical perspective, describe methodological assumptions, and select suitable research procedures in order to provide trustworthy solutions to research questions. The philosophical viewpoints of an investigator are generated from ontological and epistemological assumptions, which serve as the foundation for selecting appropriate methodologies for the study topic under discussion. When it comes to ontological assumptions, they are related with views about the nature of reality, and when it comes to epistemological assumptions, they are associated with beliefs about the most appropriate means of enquiring into the nature of reality.

### **Data Collection**

A full understanding of the advantages and disadvantages of each source is widely acknowledged when selecting the sources from which quantitative data will be obtained in order to make an educated decision when selecting the sources from which quantitative data will be collected. Researchers must first decide whether they will attempt to acquire primary data themselves or whether they will seek to supplement their primary data with secondary data from other sources that have been kept in databases in order to get quantitative data. Despite the fact that secondary data is readily available and less expensive to collect, it has been criticised for the poor quality of the information it contains and the potential ambiguity connected with attaining research objectives. While using primary data has a number of advantages over secondary data, primary data has a number of advantages over secondary data, including the ability to uncover new insights that have not previously been discovered, greater control over the sampling structure, greater confidence in the probability of the collected data, and a greater likelihood that the collected data corresponds to the study's objectives. The use of primary data, on the other hand, according to Easterby-Smith, Thorpe, and Jackson (2008), is more expensive and takes longer to get.

### **Defining the Research Population And Sample**

To collect relevant quantitative data for a study, the first step is to determine the research population, which is comprised of all of the participants in that study. The second stage is selecting a representative sample from the general population. Before any informed statements or inferences about the study population from which the sample was taken can be

made about the sample, it is necessary to identify a sampling unit (e.g., a business or an individual) and the number of these units. It is advantageous to get a sample that has characteristics that are equivalent to those of the population in order to remove any potential bias in the sampling process. A representative sample of this type may be obtained by ensuring that every member of the population has a similar and equal chance of being included in the research study at the outset.

### **Approach for Data Collection**

The goal of this study was to collect only first-hand information, which was accomplished through interviews. As a result of the feedback received on a pilot survey questionnaire, a distribution of the research questionnaire was launched. Using an online web-based application, it was feasible to perform the survey questionnaire and collect the results. When it comes to data collection, the adoption of an online web-based technique has both advantages and disadvantages, according to the researchers. According to the authors, a web-based survey technique is more appealing than traditional methods of data collection for a variety of reasons, including lower costs, greater convenience and speed, as well as the possibility of reaching a large number of participants, which would increase the response rate. Aside from that, the process of generating an online web-based questionnaire is straightforward, and by disseminating a link to the questionnaire through popular channels such as LinkedIn and emails, the questionnaire becomes more accessible to a greater number of participants.

### **Characteristics Of The Collected Sample**

Participants in the study had a variety of job titles and were employed by Saudi businesses in a variety of sectors. A questionnaire was sent to 366 people. As previously stated, the link to the survey questionnaire was sent to study participants through two primary channels (i.e., LinkedIn and email) as previously stated. The survey questionnaire was sent through LinkedIn to the vast majority of participants (89 percent), with just 11 percent of participants receiving the survey form via email (see Table 1.1).

<b>Number of Surveys Sent via LinkedIn and Email</b>	<b>N</b>	<b>(%)</b>
Number of surveys sent via LinkedIn	324	89
Number of surveys sent via email	42	11
<b>Total number of surveys sent</b>	<b>366</b>	

There were a total of 366 survey questionnaires distributed to research participants, and only 129 persons answered to the surveys during the course of the data collecting period. Due to the fact that 21 participants only completed a few questions and did not complete the questionnaire, 199 individuals who submitted their responses using the Survey Monkey tool

were excluded from the sample. Individuals were also excluded from the sample because they submitted questionnaires from organisations that were not established in Saudi Arabia, which accounted for four out of the remaining 108 participants (four out of 108). Another response from a participant, who answered, "I don't know," when questioned about his or her degree of expertise of the organization's risk management, further lowered the sample size.

## **Results And Discussion**

The preparation of the data, validation, and iterations of the factor extraction and rotation are all covered in detail in this chapter. The data analysis itself is also covered in length in this chapter. Detailed information on the interpretation and discussion of a three-factor structure is also included in the chapter, such as the names of each element and their relative importance in relation to the other components, as well as a comparison of the results to existing literature.

### **Data Analysis to Explore The Factors Affecting Erm Implementation**

In this study, an aggregate total of 44 variables were evaluated in order to determine the determinants impacting ERM adoption across Saudi Arabian firms (see Table 1.2). As previously indicated, there were two key reasons for using the factor analysis technique to study the data in the first place. First and foremost, the process was more effective. It was chosen to include a wide number of parameters in this study, and it was discovered that there was a significant link between these variables (see Appendix B). Factor analysis, according to Tabachnick and Fidell (2001), is an appropriate statistical methodology to use when the correlation between research variables is greater than 0.30. This is because factor analysis allows highly correlated variables that address similar issues to be grouped together under one factor. According to them, factor analysis is effective in discovering the elements that are not visible but are responsible for the differences in measured values. A broad term that is frequently used in the literature but that includes a wide range of approaches and statistical techniques, according to Matsunaga (2010), factor analysis is a broad term that encompasses a wide range of approaches and statistical techniques. Researchers can use two methods to investigate and validate the underlying component structure of a dataset: exploratory factor analysis (EFA) and confirmatory factor analysis (CFA). Exploratory factor analysis (EFA) is a technique that investigates and validates the component structure of a dataset (CFA). To explore the factors that impacts the application of ERM, only EFA was chosen for this investigation. We addressed in Chapter Three of this book the reasons for not employing a CFA method such as scanning electron microscopy (SEM).

**Table: 1.2 Lists of Research Variables**

No.	Variables / Dimensions
D1	Code of conduct/ethics
D2	Training in ethical values for employees of all levels
D3	Performance targets for employees of all levels
D4	Executive management has clearly defined roles, including authority and responsibility.
D5	Training, coaching, and instructional programmers are offered to employees at all levels on an ongoing basis.
D6	Formally defined audit committee responsibilities
D7	Formally defined corporate governance requirements
D8	Formal strategy to pursue the mission (vision/purpose) of the organization
D9	Performance goals/targets are established in order to determine whether or not an organization is meeting its business objectives/plans.
D10	An organization's objectives/plans are managed in accordance with policies and procedures that are in place to guarantee that these objectives/plans are achieved effectively.
D11	Authorization procedures in place to ensure appropriate individuals review the use of policies and procedures
D12	Independent verification process/procedures to ensure the use of policies and procedures
D13	channels of communication for reporting suspected violations of a code of conduct or ethics, as well as violations of laws, rules, and other irregularities
D14	Monitoring of the organization's internal environment, processes, and control activities
D15	Determined correlations and portfolio effects of combined risks
D16	Determined quantitative impacts risks may have on key performance indicators



## **Validating the Adequacy Of Data For Applying Efa Techniques**

Prior to commencing the data analysis process, all of the data was assessed in order to prepare for EFA and to validate that the data obtained were ready and acceptable for doing EFA. This was done in order to ensure that the data acquired were ready and suitable for completing EFA. Major processes were carried out in order to prepare and assess the adequacy of the data for EFA. These operations included the following:

Responses are divided into categories: When responding to the initial survey, participants were asked to rate the degree to which each ERM dimension had been implemented on a Likert scale for each dimension. The survey was divided into four categories. When preparing the material for analysis with IBM SPSS 23, the Likert scale used in the survey was translated into numerical values ranging from one to four in the survey's original form, which was then entered into the analysis programme. In the research, however, any items that had a response of "Don't Know" were classed as missing data, and no numerical value was assigned to them.

## **Testing Different Factor Structure Models**

In order to examine and establish the ideal factor structure model that may provide a suitable representation of the data, many statistical analytic methodologies, which were presented and discussed in the preceding chapter, are available for factor extraction and rotation. When it came to factor extraction, the ML method was chosen, and when it came to factor rotation, the oblique technique (i.e., promax) was picked from among the several analytical approaches available. The PCA approach, on the other hand, was initially employed in order to compare its findings with those produced through the application of the ML technique before the latter was utilised to carry out the research. The popularity of PCA in the literature for doing EFA was the key reason for incorporating it into the process from the start of the project. The popularity of the PCA, on the other hand, has been called into question by some. For example, the claim made by Fabrigar et al. (2012) that the PCA is a strategy for detecting components rather than common factors is one such example. It is their belief that PCA is incorrectly used in research projects as a factor analysis technique when it is not, as they have demonstrated, this is the case. In contrast to component analysis, the principal component analysis technique does not aid researchers in comprehending the relationships between variables in order to distinguish between shared and unique variances. Additionally, while performing EFA for this research, the minimum variable loading for this study was set to 0.5 for this specific inquiry.

## CONCLUSIONS

Many steps had to be performed before the factor analysis could begin, including categorising responses, verifying variables for missing data, and analysing the data for skewness and kurtosis, to name a few. These procedures aided in establishing that the amount of information acquired was sufficient for doing factor analysis and other analyses. It was necessary to conduct two rounds of EFA in order to develop a factor structure model that was more interpretable and theoretically sound. According to the outcomes of the data analysis, a model with a three-factor structure was discovered to be the most accurate and superior to all other models. The final model is made up of 37 ERM dimensions that are distributed among three separate components of the model. It was necessary to sift through the literature in order to come up with suitable labels for each part, which resulted in the following: (1) ERM structure and standards, (2) enterprise's portfolio of risks and opportunities, (3) risk supervision and corporate governance. This research makes use of quantitative methodologies, namely factor analysis, and gathers data through the use of web-based survey tools to gather information. To evaluate ERM implementation in Saudi Arabian organisations, the survey instrument created by Lundqvist was employed in this study, with some minor alterations. In all, 366 participants with a range of job titles and from a number of industries responded to the survey questionnaire, which was sent via LinkedIn and email communication. After further investigation, it was determined that just 103 real responses had been received, resulting in a response rate of 28.1 percent. It was determined that the EFA methodology would be utilised for data analysis, and that the ML method would be used to extract factors. The oblique approach (promax) was utilised for factor rotation, and it was shown to be helpful in preserving three factors that had previously been recognised as having an impact on ERM implementation.

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