THE INFLUENCE OF ENTERPRISE RISK MANAGEMENT ON STRATEGIC MANAGEMENT PROCESS OF KENYA POWER AND LIGHTING COMPANY LIMITED

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A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (MBA), SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

NOVEMBER, 2013
DECLARATION
This project is my original work and has not been presented to any university or institution of higher learning and that all the sources I have used or quoted have been indicated and acknowledged by means of complete references.

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This research project has been submitted with my approval as the university supervisor.

Signedé é é é é é é é é é . Dateé é é é é é é é é é é é é

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DEDICATION

I dedicate this work to my wife Sophie, my children Ryan, Caleb and Tamara. Their continuous support, prayers and encouragement were a source of great strength and inspiration during my study.
ACKNOWLEDGEMENT

First, I thank the Almighty God for giving me good health and strength to conduct this research project. Secondly, I wish to thank my supervisor Prof. Martin Ogutu for his guidance and assistance provided in helping me to achieve my educational goals. I cannot forget to thank both the academic and non-academic staff at the University of Nairobi, for their invaluable support in the course of my study. I am also greatly indebted to my student colleagues at the University of Nairobi. Special thanks to my employer the Kenya Power & Lighting Company Limited for financial support and for allowing me to conduct my research project in the company. I would also like to sincerely thank all those who availed their time to be interviewed, thus making it possible to complete my project.
ABSTRACT

In the present day business context, all business entities need to prepare themselves to cope with crises unlike in an ideal world where managers would identify all possible threats that could happen to them and thus develop a contingency plan for each of these sources of crisis. Therefore, the capability of an organization to flourish in the face of risks that either bring forth opportunities or threats is a major sign of its ability to maintain competitive advantage. This study sought to determine the influence of enterprise risk management on the strategic management process at Kenya Power and also establish the challenges faced by the organization in managing enterprise risk. The study adopted a case study research design whereby the data collection tool was an interview guide. Content analysis was used to analyze the qualitative primary data which had been collected by conducting interviews and secondary information from the organization. The findings from the study were that the risks facing the organization broadly include Legal/regulatory/contractual risks, Engineering/technical/ICT, Operational/management, Natural/environmental, Safety/security/health and political risks. The dependence of the company on hydro power and government interference on policy issues were operational risks facing the organization as well. The enterprise risk management process of an organization was found to be affected by a number of factors and these factors included mandate from the top, determination and assessment of risk process, operation of the control framework, the periodic reporting and analysis process of the firm. The top management of an organization was found to play an important role in the risk management process of the firm since they will be expected to incorporate the risk assessment process in the overall strategy of the firm as well as make it part and parcel of any decision being made in the organization. The study recommended that the board of directors and management should have a reasonable assurance that they understand to what extent the entity’s strategic objectives are being met or affected, ensure that operations objectives are met, that the entity’s reporting is reliable and that all applicable laws and regulations are being complied with.
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LIST OF ABBREVIATIONS

Kenya Power and Lighting Company

Kenya Electricity Generating Company

Kenya Electricity Transmission Company

Rural Electrification Authority

Enterprise Risk Management

Committee of Sponsoring Organizations

Information Communication and Technology
CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Consider the 9/11 World Trade Center bombing, the Gulf of Mexico oil leak, the Bernie Madoff fraud scandal, the loud crash of AIG, or the Japanese Tsunami. What do these events have in common? Only weeks before the historic events, few could have predicted the events, or their severity. Yet an organization’s growth and indeed survival depends on its ability to face risks both expected and those that lie at the low ends of the probability curve (Germond N, 2009).

If firms are to survive, and even thrive, in a post-recession world, they need to adopt a risk-based approach to executing their strategies (Kaplan and Norton, 2009). Thus in the present turbulent business environments all organizations need to prepare themselves to cope with crises from whatever source unlike in an ideal world where managers would identify everything bad that could happen to them and thus develop a contingency plan for each of these sources of crisis (Browning et al., 2009). It is a good idea to be prepared, however crises by definition are almost always the result of nature, malicious humans, or systems catching us unprepared (otherwise there may not have been a crisis). We cannot expect to cope with every contingency and therefore need to be able to respond to new challenges (Rondan-Cataluña et al., 2010).
The primary benefit of a risk-based approach to strategic execution is that it allows managers to focus on the opportunities outlined in their firms' strategic plans, while at the same time minimize the potential impact of any threats. A risk-based management control system allows managers to quickly and confidently react to opportunities (or threats) (Berinato, 2004).

1.1.1 Strategic Management Practices

Strategy is a framework through which an organization can assert its vital continuity whilst managing to adapt to the changing environment to gain competitive advantage. Strategy is a mediating force between the organization and its environment; there are consistent streams of organizational decisions to deal with the environment. (Mintzberg, 1994). According to Ansoff (2002), strategic management is a systematic approach to the major and increasingly important responsibility of general management to position and relate the firm to its environment in a way which will assure its continued success and make it secure from surprises. Consequently, strategic planning is that decision making process that aligns the organization’s internal capability with the opportunities and threats it faces in its environment. Understanding strategy has been hurt by the tendency to view strategy as a stand-alone phenomenon, rather than as a causally linked element in the management process of institutions. (Ansoff, 2002).

Gole (2005) proposes that strategic management is a process, directed by top management to determine the fundamental aims or goals of the organization, and ensure a range of decisions which will allow for the achievement of those aims or goals in the
long-term, while providing for adaptive responses in the short-term. The three core areas of corporate strategy include: strategy analysis, strategy development and strategy implementation. Strategic analysis deals with examining the environment within the organization operates. Strategy development deals with developing goals and achieving success.

Strategy formulation is concerned with determining where the organization is, where it wants to go and how to get there. It involves carrying out situation analysis that leads to setting of objectives. Vision and mission statements are crafted and overall corporate objectives, strategic business unit objectives and tactical objectives are also developed. Strategy implementation is the process of allocating resources to support an organization’s chosen strategies. This process includes the various management activities that are necessary to put strategy in motion and institute strategic controls that monitor progress and ultimately achieve organizational goals. Strategy evaluation includes review of external and internal factors that are bases for strategies formulated, measuring performance and taking corrective action, if necessary. This is important as all strategies are subject to future modification depending on environmental turbulence (Robbins and Coulter (1996).

Strategy formulation and implementation is an on-going, never-ending integrated process requiring continuous reassessment and reformation. Strategic management is dynamic and involves a complex pattern of actions and reactions. It is partially planned and partially unplanned. Strategy is planned, emergent, dynamic and interactive (Thompson
and Strickland, (1980), Johnson. and Scholes(2002). Pearce and Robinson (2007) states that to effectively direct and control the use of the firm’s resources, mechanisms such as organizational structure, information systems, leadership styles, assignment of key managers, budgeting, rewards and control systems are essential strategy implementation ingredients.

Researchers have revealed a number of problems in strategy implementation. The reasons for this are varied, but most hinge on the fact that strategy implementation is resource intensive and challenging (Gurowitz, 2007). This notwithstanding, strategic planning remains a top priority for successful organizations due to the fact that effective offers unique opportunities for market differentiation and long term competitive advantage.

1.1.2 Enterprise Risk Management

An enterprise is a unit of economic organization or activity especially a business organization. Enterprise risks are inherently part of corporate strategy. Thus consideration of risks in strategy selection can be one way to control them. Enterprise risk management (ERM) can be viewed as a top-down process that focuses to identify, evaluate and manage all major corporate risks in an integrated framework (Cucchiella and Gastaldi, 2006). Enterprise risk management can include a variety of factors with potential impact on an organization activities, processes and resources. External factors that can impact on organization operations will include economic change and dangers arising in political, legal, technological and demographic environments. Internal risks include human error, fraud, systems failure, disrupted production and other risks (Blackhurst et al., 2008).
Risk strategy defines means of coping with risks, defining approaches to be adopted. A firm’s risk strategies should establish guidelines to include; organizations responsibilities, organizations risk attitudes, ownership of specific risks, criteria of risk assessment and definition of critical risks. In addition, a firm can include creative risk financing solutions, lending financial, insurance and capital market strategies. Opportunities should be capitalized upon in most circumstances. Not taking advantage of opportunities leads to growth of competitors and thus increased risks. If opportunities are pursued, enterprise strategy can be modified to manage the particular risks involved (Goh et al. 2007). The tenets of risk management must be ingrained within a corporate culture in order for such practices to be effective (Gillett et al., 2010). Providing strategic direction for a business means understanding what drives the creation of value and what destroys it. This in turn means the pursuit of opportunities must entail risk judgment and risk acceptance. Internal risk management is more directly the responsibility of the organization management and its participants. Any business organization is responsible to manage financial, production, and structural capacities. They are responsible for programs to provide adequate workplace safety, which has proven to be cost-beneficial to organizations as well as fulfilling social responsibilities. Different conventional strategic and risk management tools can be combined and applied to perform analysis of corporate risk landscape beyond hazards and market-based risks and thus enabling the organization to sense, observe and react to environmental changes in a timely manner (Khan et al. 2008).
According to Kaplan and Norton’s (2004), there exist four steps in risk-based strategy execution. The first step is to use Kaplan and Norton (2004) strategy mapping tool to visually represent the firm's strategy. Given the firm's strategy drives its risk exposure, the second step uses the firm's strategy map to identify and assess key organizational risks. Management control systems increase the alignment between the activities outlined in the firm's strategic plan with those undertaken by its employees (Simons, 2000). The third step outlines how managers can design management control systems to manage the risks identified. The fourth and final step involves monitoring risk on an ongoing basis.

1.1.3 Kenya Power and Lighting Company

The Kenya Power and Lighting Company Ltd is a Kenya-based company engaged in the transmission, distribution and retail of electricity. It is a government parastatal with the Kenya government owning 51% shareholding. The company was formed in 1922 and has undergone several transformations over the period to the current position in which the company is solely engaged in the transmission, distribution and retail of electricity. In 1998 the generation function was separated from the distribution function. KPLC retained its name while the new company was called, Kenya electricity generating company (KenGen) which is 70% owned by the government and 30% by the public. It generates electricity and sells it to KPLC. In 2005, the rural electrification function was also hived from KPLC to form the Rural Electrification Authority (REA) which is charged with the responsibility of construction of rural electricity infrastructure using government funds and donor funds. In 2008, the Kenya Transmission Company (KETRACO) was hived out of KPLC. This company is charged with the responsible of constructing new transmission
lines for high tension cables from 132 KV and above. The national grid is operated as an integral network linked by a 220 kV and 132 kV transmission network. There is a limited length of 66 kV transmission lines.

The Company's services are targeted at individual and corporate customers. The Kenya Power and Lighting Company Ltd manage an electricity network of more than 40,000 kilometers. The Company operates in four regions, including Nairobi, Mount Kenya, Coast and West Kenya. KPLC has a current business turnover of more than 50 billion shillings and profits in the range of 3 to 5 billion shillings annually.

Due to these devolvement and changing customer needs, it has been necessary for KPLC to continuously adapt new ways of handling its customers. It has started this by a Rebranding and Culture change exercise that has resulted in adoption of a new name: Kenya Power. The national grid impacts on the future growth of the energy sector because any new generation capacity must take into consideration the existing network and its capacity to handle new loads. Efficiency of the transmission and distribution network continues to be enhanced in both technical and non-technical aspects. (See KPLC annual report for more information on transmission system plans.) Technical improvements include re-conductoring of lines, installation of capacitors, and construction of additional feeders and substations. Non-technical improvements include introduction of electronic meters, improvement of meter reading accuracy, fraud control and resolution of billing anomalies.
A number of strategies and restructuring steps have been undertaken by the organization in meeting the changing business environment. These include: Strategic Debt restructuring entailing conversion of accumulated debt to preference shares of Kshs 15.9 billion, rights issue which netted Kshs 9 billion to be used in system reinforcement and expansion aimed at achieving substantial technical loss reduction benefits (Ongata Rongai, Kiambu, Baba Dogo), increasing competition in generation by opening new projects to IPPs, thus overcoming capacity shortfalls by private sector investments, outsourcing of construction for new customer connections.

1.2 Statement of the Problem

Recent financial crises have proven that risk management practices are essential for organization, large and small and therefore, risk awareness should be made a key component of strategy development in any organizations. However, according to Khan et al. (2008), most of these risks are beyond the control of a given organization although he observed that an organization can prepare and protect themselves in time-honored ways. A business ability to prosper in the face of risks at the same time responding to unplanned events, good or bad, is a prime indicator of its ability to compete. To many firms, this simply means being alert to any direct and obvious threats to their well-being. Quite worryingly, it is often the indirect and seemingly unconnected events that pose the biggest danger to the organization and this clearly shows that risk exposure is becoming greater, more complex, diverse and dynamic. By an organization incorporating risk management practices it will be able to identify beforehand the risks it is about to face and more so put in place mechanisms avoid or mitigate the impact it is to cause
The Kenya Power and Lighting Company play a critical role in the country through the transmission, distribution and retail of electricity to consumers. Indeed the Vision 2030 blueprint identifies that for the vision to be achieved, provision of an efficient power to the small and large scale manufacturers in the country should be assured by the company. Frequent power outage, power rationing and lack of adequate electricity spread in the country has been found to greatly hamper entrepreneurship growth and leads to huge losses for the established ones. Thus Kenya power being the sole and major distributer of electricity in the country will play a pivotal role towards the realization of the national dream of becoming a middle income country by the year 2030. However, like any other firm operating in the current turbulent and quite unpredictable business environment coupled by unpredictable weather patterns in the country, there is need for the organization to incorporate effectively the strategic risks it faces if it has realize its objectives. As a result, the Kenya Power and Lighting Company need to incorporate enterprise risk as part of its corporate strategy. This move will result in the firm including a variety of factors with potential impact on an organization processes, activities and resources.

Several studies have been undertaken locally on the area of organisational risk management. Safari (2003) undertook a survey of risk factors in the strategic planning process of selected parastatals in Kenya. He noted that with a risk-based approach to strategic execution process, it will allow managers to focus on the opportunities outlined in their firms' strategic plans, while at the same minimize the potential impact of any
threats. On the other hand, he observed that a risk-based management control system allows managers to quickly and confidently react to opportunities arising in the business set up. Salesio (2006) on his part studied on the Risk mitigation strategies adopted by Insurers in Kenya. He noted that perception of risk influences the way in which different options are evaluated and implemented in an organisational setting and thus adaptability is viable, only when the pace of organizational change matches the pace of environmental change. When the environment changes either more rapidly or more slowly, then the intrinsic capacity of organizations for adaptation is very limited. On his part Abuya (2008) studied on the strategic risk management practices among state corporations in Kenya. He observed that when faced with risk, strategists often feel challenged or uncomfortable with the demand to make a decision and as result, emotions come into play and these can affect decision making in a number of subtle ways. At the same time he did observe that the then parastatals had sparingly adopted strategic risk management practices in their organization. As can be evidenced in the above studies, there has been no study done on the influence of enterprise risk management on the strategic process of a firm. This therefore leads to the following research question: what influence does an enterprise risk management have on the strategic management process?

1.3 Research Objective

The study was guided by the following objectives;

i. To determine the influence that enterprise risk management has on the strategic management process of Kenya Power and Lighting Company
ii. To establish the challenges faced by the organization in managing enterprise risks

1.4 Value of the Study

The study will be beneficial to various stakeholders: This study will be an instant source of information to KP management on the role that enterprise risks will have on their strategic management processes. This will be helpful since it helps them in controlling much more effectively the execution and realization of their strategies as it will be able to incorporate the possible risks to be faced in their operation. Similarly other organisations will benefit from the study since they will be able to adapt the findings of this study in their organizational set-up.

The policy makers can obtain knowledge of the service industry dynamics and the appropriate strategies and therefore they can obtain guidance from this study in designing appropriate policies that will regulate the industry and methods that can be used to mitigate risks during the strategy implementation.

To the academicians the study will contribute to the existing literature in the field of strategic management in general and enterprise risk management. It should also act as a stimulus for further research to refine and extend the present study especially in Kenya.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter provides information from publications on topics that are related to the research problem. It examines what various authors and scholars have said about the influence of enterprise risk management on the strategic management process of firms. The chapter is divided into four main areas: strategic management process, enterprise risk management, challenges of enterprise risk management and enterprise risk management and strategic management process.

2.2 Strategic Management Process

The concept of strategy embraces the overall purpose of an organization. It is the determination of the basic long-term goals and objectives of an enterprise, adoption of courses of action and the allocation of resources necessary for carrying out those goals. Gole (2005) proposes that strategic management is a process, directed by top management to determine the fundamental aims or goals of the organization, and ensure a range of decisions which will allow for the achievement of those aims or goals in the long-term, while providing for adaptive responses in the short-term. The three core areas of corporate strategy as outlined by Gole (2005) encompasses: strategy analysis, strategy development and strategy implementation. Strategic analysis deals with examining the environment within which the organization operates.
As put by Pearce and Robinson (2007), Strategy formulation is concerned with determining where the organization is, where it wants to go and how to get there. It involves carrying out situation analysis that leads to setting of objectives. Vision and mission statements are crafted and overall corporate objectives, strategic business unit objectives and tactical objectives are also developed. Strategy implementation is the process of allocating resources to support an organization’s chosen strategies. This process includes the various management activities that are necessary to put strategy in motion and institute strategic controls that monitor progress and ultimately achieve organizational goals. Strategy evaluation includes review of external and internal factors that are bases for strategies formulated, measuring performance and taking corrective action, if necessary. This is important as all strategies are subject to future modification depending on environmental turbulence (Robbins and Coulter (1996).

Porters (2007), five forces theory of strategic planning provides a framework that models an industry as being influenced by five forces. Porter assumed that companies, when implementing strategies, must do so within the framework of five forces; the force of suppliers, the force of buyers the force of substitute products, the force of new entrants and the force of competitive rivalry. The five-force model looks at the strength of the five distinct competitive forces, which, when taken together, determine long-term profitability and competition. The strategic business manager seeking to develop an edge over rival firms use this model to understand the industry context in which the firm operates (Porter, 2007). Porter states that, in order to position the organization best, or to cope
with the environment best, the strategist needs to understand the competitive structure of the marketplace in which his/her organization operates. The "five forces" model can be used to help strategists better understand the competitive dynamics of their marketplaces and align their organization successfully against each of the forces. The model can also be used to assess the general attractiveness of a marketplace and to help strategists decide whether, where and how to compete in a marketplace.

Burkhart’s theory of strategic planning points out that strategic planning determines the company’s current position, where they want to go, how to get there and how they will know if they got there or not. Current position of the company can be assessed with the help of SWOT analysis. Strategic planning should respond to changing circumstances of the environment in the best possible way. It can be described as externally oriented planning i.e. their own products and competitor products will be viewed from an outsider’s point of view. Therefore setting goals is necessary and an approach must be developed to achieve these goals. There is no one perfect strategic planning model. Each organization has to develop its own model of strategic planning often by selecting a model and modify it (Burkardt, 2005).

Zyen theory of strategic planning defines strategy as a means by which organizations deal with risks and rewards in order to achieve their objectives. The values of strategy, planning and strategic planning are paramount to any organization. Organizational relationships with clients often begin with strategic planning. Many successful companies are those that plan. Therefore, organizations use strategy as a means of dealing with uncertainty (Zyen, 2009). On the other hand, McNamara, (2009) indicates that strategic
planning determines where an organization is going over the next year or more and how it is going to get there. According to his theory, the process of strategic planning is organization-wide, or focused on a major function such as a division, department or other major function. Planning typically includes several major activities in the process.

In setting strategic direction, planners carefully come to conclusion about what the organization must do as a result of the major issues and opportunities facing the organization. These conclusions include strategic goals the organization should achieve and the strategies to achieve the accomplishment. Goals should be designed and worded as much as possible to be SMARTER (McNamara, 2009). According to Hall (2004), strategic planning is an organization’s process of defining its strategy, or direction, and making decisions on allocating its resources to pursue this strategy, including its capital and people. Various business analysis techniques can be used in strategic planning, including SWOT analysis, PEST analysis, and EPISTEL analysis. According to this theory, strategic planning is the formal consideration of an organization’s future course. All strategic planning deals with question like “What do we do?” “For whom do we do it?” and “How do we excel?”

According to Mintzberg (1994), organizations begin strategy formulation by carefully specifying their missions, goals and objectives, and then they engage in SWOT analysis to choose appropriate strategies. Further, he suggests that the traditional way of thinking about strategy implementation focuses only on deliberate strategies. Some organizations begin implementing strategies before they clearly articulate mission, goals, or objectives.
In this case strategy implementation actually precedes strategy formulation. Mintberg calls strategies that unfold in this way emergent strategies. Implementation of emergent strategies involves the allocation of resources even though an organization has not explicitly chosen its strategies. Most organizations make use of both deliberate and emergent strategies. Where deliberate or emergent, however, a strategy has little effect on an organization’s performance until it is implemented (Mintzberg, 1994).

2.3 Enterprise Risk Management

Every enterprise is subject to several types of risks and the focus varies across organizations and as such organizations have traditionally entrusted corporate treasurers, portfolio managers, insurers and the hedgers to manage such risks (Shimpi, 2001). Risk is anything that gets in the way of an organization achieving its objectives and in most cases are inevitable and are a function of the strategic objectives and the way an organization is run. ERM is, therefore, a strategic approach to managing all of an organization’s key business risks and opportunities to better maximize shareholder value. Whether profit driven, a non-profit driven or charity or a governmental entity, all organizations must manage both threats and opportunities to achieve an ultimate goal: organizational survival (Germond N, 2009). The objectives of enterprise-wide risk management are first, to develop strategic corporate objectives that are measurable, second, to identify risks that would prevent accomplishing the corporate objectives, and, third, to identify controls that would mitigate those risks. Closely linking risk management to strategy is the hallmark of true ERM programs (Francis and Richards, 2007). Further, Lam (2001) posits that risk management reduces earning volatility,
maximizes value for shareholders and promotes job security and financial security in the organization. Indeed the success of organizations depends upon the risk management and understanding properly the firm's sensitiveness to different types of risk. Thus it can be seen that organizations will be advantageous to establish risk management practices to mitigate various risks facing them. The formal risk management practices entails the following steps namely; risk identification, risk analysis and risk evaluation, risk monitoring and control. According to Burnaby and Hass (2008) organizational risk management process entails seven steps namely; mandate from the top, deciding on a control framework, determining and assessment of risk, identifying business unit objectives and performance measures, initiating monthly reporting and analyzing process and finally continuously monitoring the process.

2.3.1 Mandate from the Top

Risk management is central to the execution of the organization's strategy therefore there must be a linkage between the organization's strategic plan and initiatives and an understanding of all organizational risks across the entity (Gaquin, 1999). The coordination of risk assessment and strategy development will assure that both internal and external stakeholders will consistently manage organizational risks effectively and efficiently. Thus, a mandate from the top is needed to assure the risk management team's success in establishing the ERM program to aid in the achievement of organizational goals (Irwin, 2007).
According to King (2001), in order for a formal and documented ERM process to work, it must be mandated by the board of directors (Board), chief executive officers, and other top level management of the organization. Because business is risk management, understanding the risks accepted by the company as it pursues its strategy to achieve its objectives is essential for the board and relevant stakeholders. In addition, to understand the financial commitment the process will take; the Board should oversee a study to estimate the cost to implement an ERM department. Once the costs are understood, it may be best to hire an expert consulting team to provide technical assistance to management in the development of an implementation plan and to designate an internal team to be responsible for the implementation. To be successful over time, a separate department for ERM should be empowered to collect risk reports monthly and assimilate information to be reviewed by the Board. At a minimum for smaller organizations, there should be a chief risk officer assigned to monitor the process.

2.3.2 Determining and assessing risk

An effort must be made across the entity to collect all known or anticipated risks. If risks are managed in organizational silos, poor communication and the resultant ignorance of the full potential of organizational threats could result in an iceberg of risk. Known risks are reduced and the hidden ones could sink the corporate ship (Rasmussen and McClean, 2007). All employees should be responsible for identifying and sharing potential organizational risks. Based on discussion across the organization, a Risk Dictionary should be developed so that everyone agrees on the meaning of each risk term. This Risk
Dictionary will be used in all education programs to roll out the ERM program to each department or unit.

Includable risks must go beyond consideration of compliance, legal, and financial risks. According to Deloach (2000), an organization should look at internal risks (information technology, business processes, support and documentation) and external risks (political, social, environmental, governmental and economic). This is against the current practice where many organizations spend significant time and money on compliance risks from laws and regulations and therefore to limit the risk assessment to compliance related areas would seriously undermine the value of this effort.

### 2.3.3 Control framework

In order for ERM to work, organizations must commit to the adoption of an internal control framework (McNamee and Selim (1998). The existence of a satisfactory internal control structure reduces the probability of errors and irregularities. In the USA, the SOX Act of 2002 (Act) (Securities and Exchange Commission, 2002) requires annual reports to contain an internal control report and for the CEO and the CFO to certify to the fairness of the public reports. In 2002, internal auditors' audit scope increased when the regulator expanded their role to include assurance services and consulting to improve the effectiveness of risk management, control, and the governance process.

As a response, in 2004 the COSO expanded their suggested control framework from five elements to eight to better address how organizations could better manage enterprise risk.
The components were derived from the way management operates a business, and they should be integrated with the management process.

2.3.4 Periodic reporting and analyzing process

Having a risk management plan and implementing it is not adequate for ensuring that the plan is followed or that the company is controlling its risks. A feedback loop ensuring that the report results get back to the ERM department, upper-level management, and the Board is vital to organizational and strategic success (Robitaille, 2004). The reporting structure should among others define the specific process within the departments, define the specific risks of not reaching the targets identified in the department objectives' that tie into the overall corporate objectives and summarize the results of the department's risk assessment by asking what risks could prevent meeting the identified objectives and what internal controls are in place or need to be developed to mitigate the risks (Kerner and Keltner, 2000).

The Risk Department would summarize the information for upper management and the Board to assess progress towards achievement of overall corporate goals and to alert them of high-risk areas that need attention. The information could also be used to share best practices and alert the internal audit department about high-risk areas that may need to be reviewed for adequacy of internal controls. Corporate governance includes implementation of a control framework and continuous improvement and monitoring of a control structure, all of which should be included in an ERM management system (Morris, 2000).
2.4 Challenges of Enterprise Risk Management

Very few organizations find enterprise risk management implementation easy as it requires a rare combination of organizational consensus, strong executive management and an appreciation for various program sensitivities. Despite the effort required, however, ERM is worth it because it forces most organizations to step back and identify their risks, which is one of the first steps to protecting capital and driving shareholder value. As boards and executive management evaluate ERM, however, they usually come away with more questions than answers. While each company faces specific concerns, the more challenging ERM issues are generally consistent across companies and are largely unrelated to industry, geography, regulation or competitive landscapes. By examining some of these common ERM challenges, as well as the creative solutions that have been applied by other organizations, management will be better equipped to develop and revamp their own enterprise risk management programs.

The challenges of ERM include: Difficulty in assessing its value hence organizations find it difficult to provide sufficient evidence to justify implementation costs; balancing risk visibility and legal exposure; challenges of establishing a consistent and commonly applied risk nomenclature; risk assessment methodology pose challenges as there are a variety of approaches and tools, thus each may give different results; most risks have multiple event likelihoods and risk severities i.e. multiple potential scenarios; there are challenges also associated with ERM ownership as its often unclear who owns it; Risk reporting challenges caused by difficulty in determining what should be communicated.
and how; and finally challenges emanating from continuous evolution of risks and the need to continuously review the risk registers.

2.5 Enterprise Risk Management and Strategic Management process

The primary benefit of a risk-based approach to strategic execution is that it allows managers to focus on the opportunities outlined in their firms' strategic plans, while at the same time minimize the potential impact of any threats. A risk-based management control system allows managers to quickly and confidently react to opportunities (or threats) (Berinato, 2004), for example by purchasing a struggling rival. Another notable advantage of systematically integrating risk into the management control system is that firms achieve higher stock prices if its managers effectively demonstrate to financial analysts that they understand risk and are managing it (Kersnar, 2009).

According to Andersen (2006) strategic risk management increasingly is being viewed as a core competency at both the management and board levels. The exact steps that an organization should take will depend on the level of maturity of its overall ERM processes. For some organizations that have already started to implement ERM, the focus on strategic risks will be a refinement and evolution of their activities. For those just starting or just considering an ERM effort, an initiative focused on strategic risks will start by assessing the maturity of the organization's ERM efforts relative to its strategic risks, this involves considering whether management and the board feel that they have a good understanding of the organization's strategic risks and the related risk management
processes, then conducting a strategic risk assessment followed by review of the process for strategy setting, including the identification of related risks. This stage involves reviewing the organization’s process for setting and updating its strategies and strategic objectives and ensuring that the process requires the identification and assessment of the risks embedded in the strategies, then review of the processes to measure and monitor the organization’s performance and finally development of an ongoing process to periodically update the assessment of strategic risks.

The strategic implications of ERM refer to the effects of the ERM process on setting strategic objectives and on strategy. As ERM is a process whose mechanisms should be/are built into the infrastructure of the entity with the goal of ensuring, with reasonable assurance, that the entity’s objectives are achieved. These objectives are that the board of directors and management has reasonable assurance that they understand to what extent the entity’s strategic objectives are being met or affected, ensure operations objectives are met, that the entity’s reporting is reliable and that all applicable laws and regulations are being complied with. It is therefore of great importance for businesses to take advantage of making appropriate strategic decisions on uncertain outcomes, as at worse it would cut-down losses due to disaster and at best, improve profitability in cases of opportunities. Uncertainties present both risks and opportunities, with potential to erode or enhance value (Busman, 1998).

Today, directors and executives are seeing increased expectations from shareholders, regulators, rating agencies, and other stakeholders that they understand and are managing
the organization’s risk and risk management processes including strategic risks and that there is transparency in the risk management process. It appears that this re-emergence of risk management, when coupled with the catastrophic losses incurred by some organizations, has fuelled the current emphasis on “strategic risk management.” The rationale behind this approach is that value is maximized when the decision-makers sets strategy and objectives to strike an optimal balance between growth and return goals, and the related risks, and efficiently and effectively allocate resources in pursuit of the entity’s objectives. Andersen (2006) stated that the goal of this new approach is to create, protect, and enhance shareholder value by managing uncertainties that could influence the achievement of organisational objectives. According to Monahan (2008) this new, strategic imperative has grown momentum, and summarizes the activities of ERM which will take organisations years and years to accomplish, stating that: organisation can support ERM solutions when they reach a certain level of business and information maturity. When this occurs, they establish a “risk culture” and then gather risk intelligence. The adoption of a process focused on strategic management process as against the “siloed” issue-by-issue style follow. In addition to these, they suggest that the organisations establish a risk and compliance architecture that considers the business processes, the people and the information technology. And finally, the organisation commits and trains the members consistently on corporate policies and procedures.
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the proposed research design, data collection and the techniques for data analysis that was used.

3.2 Research Design

The research design was a case study. A case study is an in-depth investigation of an individual, institution or phenomenon. The primary purpose of a case study is to determine factors and relationships among the factors that have resulted in the behavior under study (Mugenda and Mugenda, 2003). This research design was adopted in this particular case since not all the potential population of the study were knowledgeable of the influence of enterprise risk management on the strategic management process in the organization. In light of this therefore, a case study design was deemed as the best design to fulfill the objective of the study as the results will be expected to provide an insight in understanding what risk management practices the institution has put in place during its operations. It is through an interview with some selected persons concerned with formulation and implementation of the organizations strategies that the researcher can be able to identify the influence of enterprise risk management on the strategic management process. As a result of this, a case study research design was considered an appropriate design.
3.3 Data Collection

The study made use of primary data which was collected through a face to face interview with the researcher. An interview guide was used to collect data on the influence of enterprise risk management on the strategic management process at Kenya Power and Lighting Company. The interview guide consisted of questions that the interviewer will ask the respondents. The respondents interviewed were those involved with the formulation, evaluation, and implementation of the organizations risk management. Specifically, the researcher interviewed staff in the Corporate Planning, Risk and Insurance, Internal Audit, Distribution, Security and Regional operations Departments; in which the researcher believes are instrumental in the development and implementation of the organizations risk management process. The interview guide was made up of three sections namely; respondent’s profile, influence of enterprise risk management on the strategic management process and challenges faced by the organization in managing enterprise risk.

3.4 Data Analysis

The data obtained from the interview guide was analyzed using qualitative analysis. The qualitative analysis was done using content analysis. Content analysis is used to describe and systematically analyze the content of written, spoken, or pictorial communication (Vogt, 2005). It involves observation and detailed description of objects, items or things that comprise the object of study. The themes (variables) that were used in the analysis were broadly classified into two: influence of enterprise risk management on the strategic management process and factors faced by the organization in managing enterprise risk.
CHAPTER FOUR

FINDINGS AND DISCUSSION

4.1 Introduction

The research objective was to determine the influence of enterprise risk management on the strategic management process at Kenya Power and Lighting Company and also establish the challenges faced by the organization in managing enterprise risks. This chapter presents the analysis and findings with regard to the objective and discussion of the same.

4.2 Respondents’ Profiles

The respondents comprised the middle and the top management of Kenya Power & Lighting Company Ltd. In total, the researcher interviewed 7 respondents, all of whom had been targeted. As a result the response rate was around 100%. The respondents comprised one staff member each from the following departments: Corporate planning, company secretary office (Insurance and risk management), regional operations, distribution, security department and two from internal audit (One Technical Auditor and one head of audit).

All the respondents interviewed had worked in their respective positions for at least 3 years and cumulatively had work experience of 112 years within KP and other organizations. Academically, the respondents had all attained university education with 4
of them having undertaken a master’s degree in their respective fields. In addition 2 of the interviewees had risen through the ranks in the organization to occupy their present management positions, having worked in the company for over 25. With their solid academic and work life background in the affairs of the organisation, the respondents were found to be knowledgeable on the subject matter of the research and thus capable to help in the realization of the research objective.

4.3 Enterprise Risk Management Process at Kenya Power

This section of the interview guide sought to establish from the respondents whether they acknowledged the existence of the enterprise risk management process at Kenya power and also understand its operations. This section will help in judging the respondents capacity to answer questions on the other sections of the interview guide.

The respondents were asked on whether, in their opinion, enterprise risk management is important and at the same time embraced in their departments. All of them answered to the affirmative and indeed pointed ERM is being factored in every decision making process. It was further noted that ERM is being applied in the planning, managing and controlling risks and in the process help in proactively mitigating against risks that threaten the achievement of the company’s business objectives. In addition, they pointed that by considering the risk level in any decision made, it helps the organization to focus on areas that are most significant and important to the achievement of the company’s vision and mission. From the respondents’ answers, the researcher formed the opinion that they all understood the importance and operations of ERM in the organization.
An organization, depending on the nature of operations that it is undertaking, will face different types of strategic, financial, regulatory and operational risks. On the questions of what types of risks, KP face, the respondents identified various risk levels which can be categorized broadly as Legal/regulatory/contractual risks, Engineering/technical/ICT risks, Operational/management, Natural/environmental risks, Safety/security risks and political risks. Within the different levels of risks, it was found that the risks could take different operational forms. Some of the examples of risks that the organization face include, third party risks such as power theft, electrocution (power liability), conflict of interests, political risks and market risks. In order for the organization to compete effectively, the respondents pointed out that several risks affect or have the potential of affecting the future sustainability of the firm and this include, risk of not being able to be decentralized enough especially in the distribution of power, new entrants coming into the distribution of power business in which KPLC is a monopoly, failure to offer high quality power as is stipulated the company’s vision, and legal risk due to the failure to meet the stipulated delivery standards in the KP customer charter. It was also found that since the company depends to a higher proportion on hydro power, changes in the climatic conditions which has recently been experienced has had an effect in the operations of the firm. The regulatory environment has not been any better to the firm since the company’s decision has in some cases been countermanded by the government and the regulator. As the major power distributor, the government has always followed keenly any changes made to the organization such as the recent increase in the connection fee that was adjusted, but the government ruled for the status quo to be maintained. Included also are legal and regulating risk whereby the constitution says that a service
provider has to provide quality service in accordance with service contracts they have with customers. Failure to do these may prove detrimental to the company’s survival due to potential litigations.

The process of identifying risk in an organization is considered an important step in the risk management process. Before an organization comes up with a process of managing the risk, it should be able to identify the existence of the same and therefore the risk identification process is considered an essential process. At Kenya Power, the risk identification process takes several forms and includes brainstorming, process flow, fault tree analysis and the root cause analysis. During brainstorming, it was found that the organization holds risk management meetings where the management participates in identifying risks in their respective functions and various participants contribute in identifying what they perceive to be risks in their respective sections and departments. The risk department is also used to: identify new risks, develop and maintain risk registers which is viewed regularly to update emerging risks. They appreciated that since the establishment of the risk management department, the organization has been able to come up with an effective processes of managing risks.

On the question of whether the respondents consider the risk management process as adequate, their views were varied. The respondents’ views dependent on the department in which they operate in and for those who answered to the affirmative, it was pointed that the process of risk identification is adequate though improvement is needed in the areas of risk articulation/presentation. However, another section of the respondents pointed that the present risk management process in not adequate and noted that the ERM
practices in the organization is still young and therefore the process of risk management is not adequate as most of the implementation process is fragmented across the company. They suggested that the organization’s ERM process need to be enhanced through carrying out of interviews and involving those who are not part of the working group to get their inputs. However, it was also found that the establishment of the risk section in the organization has helped in identifying and aligning the operational risks with the corporate risks, coming up with the mitigations for the risks identified and also helping in identification emerging risks to be incorporated in the corporate risk register. The risk management department has also helped in sensitization of the stakeholders on ERM and its benefits and also tracking the implementation of ERM across the organization. It was also found that the department, since its establishment about 5 years ago, has been in the forefront in offering training, organizing workshops to create awareness and also help in coming up with risk registers, documents and coordinating feedback and providing reports to management and the audit committee of the board. As a result the risk management concept has come to be appreciated at Kenya Power.

The risk management process of an organization need to be evaluated frequently to assess the adequacy of the system and also whether any emergent risk has arisen that need to be addressed. The researcher also sought to establish whether Kenya power undertakes evaluation of its risk in timely basis. On this question, the respondents noted that the evaluation process is done through a risk reporting mechanism though it was noted that it has not been effective enough. It was also observed that the risk department is tasked with the work of evaluating risk strategies. The risks are ranked and rated according to consequences and probability of occurrence. The audit department is mandated to
evaluate and give assurance on effectiveness of ERM framework being implemented and also suggest mechanisms to be made to improve the existing framework in order to enhance the risk management process in the firm. The risk evaluation results need to be communicated to the relevant sections and a follow up for the implementation to be undertaken. It was found that the communication process in the firm is made through the use of management papers and Board’s Audit Committee’s circulars. In addition, the company has in some cases used the updates in the risk register as well as deliberation in the risk management committee. Additionally, the internal audit department has also adopted risk based internal auditing which ensures that major risks are continuously audited. Their reports are presented quarterly to the board through the audit committee.

4.4 Influence of Enterprise Risk management on Strategic Management Process

The enterprise risk management process of an organization is affected by a number of factors. In this section, the researcher sought to establish a number of factors in the organization’s strategic process that influence its enterprise risk management process. The factors considered include mandate from the top, determining and assessing risk, existence of a control framework and periodic reporting and analysis.

4.4.1 Mandate from the Top Management

The top management of an organization has an important role to play in the risk management process of the firm. They need to incorporate the risk assessment process in the overall strategy of the firm as well as make it part and parcel of any decision being
made in the organization. The findings from the study were that the company incorporates enterprise risk management in its strategic management processes. The organization has a risk committee which includes the management and the board members. This ensures that enterprise risk management is incorporated in key strategic decisions. Kenya power faces a number of risks in its operation and therefore, the respondents noted that they need to establish an elaborate system to prevent or limit its effect in the organization. Several risks were identified that affect the firm and these includes, the failure to align business process to emerging trends and legal and regulatory risks arising out of devolved government.

The firm also faces financial risk in which its financial resources are not enough to meet its objective of supplying high quality electricity. There are also legal risks arising from cases due to failure to meet service delivery standards as defined by the customers and also operational risks arising from vandalism and inadequate electricity supply. In addition to the financial and legal risks, it was also found that the firm faces inadequate generation capacity due to lack of adequate infrastructure maintenance. The organizational workforce was also found to have negative attitude towards their work and there is therefore need to undertake a change process to ensure that the staff adopt positive attitude towards what they are doing and also strive towards realization of the organization objective.

The top management of an organization need to ensure that the risk management process of the firm succeeds. In the case of Kenya Power, the respondents noted that the
management of the organization has put in place effective mitigation steps at the corporate level that is able to detect at an early stage any risk that might be facing the firm from its activities. It was also found that the firm integrates risk management process in all the activities of the company and thus ensuring that strategic risks are cascaded down to all departments and sections within the company. It was also pointed that the firm has established a risk function which coordinates risk management process, provide adequate support and adopt effective feedback mechanism on any risk detected to face the firm. Consequently, it was found that the organization had put in place adequate risk mitigation mechanisms though it was noted to be still in early stages of implementation.

The enterprise risk management practice in a firm should be able to align effectively to the overall organizations strategy. On the question of how the firm’s ERM contribute to corporate strategy, the respondents answers was mixed. Some respondents pointed that at the current structure, it is not treated as a process to be complied with rather than an embedded culture. It was found that ERM has been able to assist in identify key risks that the management should focus on to drive the business in the turbulent environment it is currently operating on. The ERM has also been able to help the company to mitigate against the potential risks that threaten the achievement of the corporate strategy through a process of ensuring risks are identified assessed and promptly mitigated companywide. Further, it was found that ERM has been able to create awareness and help management align its risk management to the corporate objectives. It also helps in coordinating and providing feedback on the status of ERM in the company.
One of the mechanisms that can be adopted by a firm to manage its level of risks is through establishment of an audit committee which is mandated among others to assess and remedy any potential risk facing the firm. On the question of whether there is a board committee tasked with oversight on organization’s ERM, the respondents answered to the affirmative. It was pointed that the audit committee receives quarterly reports through the company secretary / CEO and internal audit manager. They highlighted that the audit committee plays an oversight function and reviews progress regularly through reports presented in board meetings where upon they ensure effective enforcement of implementation of audit recommendations whenever there are weaknesses in ERM process.

4.4.2 Determining and assessing risk

The risk assessment process was found to incorporate the views of all employees. The organization was found to be cognizant of the need to of all employees to be aware of enterprise risk management process. This was done through the process of implementing a top to bottom approach with the structure spreading to all departments and functions. The organization also arranges risk assessment sessions/ trainings in which risk review and workshops are contacted. The other approach, which was employed, include incorporating employees in the risk identification process and coming up with risk register which is accessible to all employees and therefore can keep track of all the risk exposures in the firm. Additionally, each division/department has a risk champion who has been mandated to manage risks in their functions
4.4.3 Periodic Reporting and Analysis Process

In a given enterprise process, there is need for feedback on the results of the risk management process to be communicated back to the ERM department, upper-level management, and the Board, a practice which is important to the attainment of the organizational and strategic objectives of the firm. There are various means by which feedback of the enterprise risk management information takes and this will depend on the recipients targeted. The respondents pointed that the common forum at which the feedback is relayed include the quarterly review on corporate risks communicated through management paper and board circular, through risk review workshops and meetings and assigning responsibilities and timelines. The feedbacks also take the form of regular reports and also the continuous reviews of the ERM while the projects are under implementation. Internal audit department also carries out continuous review of major risks and adequacy of mitigations put in place by management. Their reports are discussed at the board level quarterly (Audit Committee).

The risk department’s reports also form part of Kenya Power feedback of risk media. On the question of what the company use the risk departments reports for, it was found that such reports provide information of the company’s performance and management of risks: used for decision making on either to transfer the risk, accept, eliminate or reduce and also in planning and making critical management decisions. The risk department reports also assist in monitoring the effectiveness of risk management strategies and develop mitigating/corrective and improvement measures to the firm.
4.5 Challenges Faced by Kenya Power in Managing Enterprise Risk

An organization’s capacity to manage its enterprise risk will depend on several factors that will affect its effective implementation. These factors include: lack of the management support, lack of consensus on how to manage the risks, lack of appreciation programs on employees for being able to manage effectively the existing risk and in ability to balance risk visibility and legal exposure. Other factors include: continuous evolution of risks, and organizational silos. An organization should also come up with an appropriate risk culture in the organization where risk is considered as a prime factor to consider when undertaking any project.

The findings of the study on the challenges that face the management of enterprise risk management process at KP was surprisingly that most of the potential challenges above were not facing the firm’s implementation of ERM. The respondents pointed that KP implement ERM upon arriving at a consensus on the best way of handling the risk and also that there exists a management consensus. Risk reporting challenges caused by difficulty in determining what should be communicated and how; and challenges emanating from continuous evolution of risks and the need to continuously review the risk registers was found to be the major challenges facing the firm in implementing ERM. It was also noted that organizational silos have impacted negatively on the successful integration of ERM.

The respondents were also asked to indicate any other challenge facing implementation of ERM that had not been covered in the questions on the challenges. Several challenges were pointed that still affects the firm’s ERM practices. These challenges include: failure
to inculcate ERM in the decision making process, failure to adopt risk based management in operations, structural challenges in ERM reporting where risk function does not directly report to BAC, lack of strong tone on ERM at the top and lack of consistency in the communication relating to the management of the risks. It was also found that the organization has, in some cases, been reactive in reporting of emerging risks which hinders proactive decisions making. It was also noted that the firm has allocated limited resources to the implementation of ERM. They observed that there is need for the sensitization of all stakeholders on risk management exposure of the firm and also what is being done to manage the same. It was also pointed that there is need to interface the ERM toolkits with Kenya Power IT systems which was noted is not the case presently.

4.6 Discussion

In the present day business environment, organizations are confronted with substantial increases in both competition and uncertainty and consequently, the realization of the organization strategies has never been challenging than before. The probability of the firm not being able to achieve its objectives as planned has increased the level of risk exposure to the firm. In recognition of the risks that potentially affect Kenya Power, the organization has implemented enterprise risk management process. It was found that, the intention of establishing a risk management structure in the firm is to help the managers realize the set strategy objectives better. This finding was also noted by Berinato (2004) when he observed that the primary benefit of a risk-based approach to strategic execution is that it allows managers to focus on the opportunities outlined in their firms' strategic
plans, while at the same time minimize the potential impact of any threats. It therefore allows managers to quickly and confidently react to opportunities or threats present in its operations.

The study found that the operations of the firm is affected by the many stakeholders that it deals with which in the case of Kenya Power include, customers, government, suppliers/contractors, financiers, employees, IPPs and power producers. It was found that the ability of a company to implement its strategies depend on its ability to safeguard the interest of these group of stakeholders since any opposition from them will influence the success of the strategy implementation in the firm. This finding will be consistent with Porters (2007), five forces theory of strategic planning which provides that when companies are implementing strategies, they must do so within the framework of five forces; the force of suppliers, the force of buyers the force of substitute products, the force of new entrants and the force of competitive rivalry.

The top leadership of the organization were found to support the implementation of enterprise risk management at Kenya Power. It was highlighted that for a successful ERM strategy implementation, the management of the organization should support it through allocation of adequate resources and guidance. This position is consistent with that of King (2001) who observed that in order for a formal and documented ERM process to work, it must be mandated by the board of directors (Board), chief executive officers, and other top level management of the organization. Because business is risk management, understanding the risks accepted by the company as it pursues its strategy to achieve its objectives is essential for the board and relevant stakeholders to be brought
on board. In addition, to understand the financial commitment the process will take; the Board should oversee a study to estimate the cost of implement ERM and establishing an ERM department in the company.
CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of the key findings of the study as well as the conclusion, limitations of the study, and recommendations for further research.

5.2 Summary

The results centered on the influence of Enterprise Risk Management on the strategic management process at Kenya Power and also identifying the challenges that the organization face while implementing the same strategy. The study established that risk management was very important in the organization. The knowledge about the management of the risks in the organization was exhibited by the respondents as they have worked in the organization for more than 3 years and also due to their positions as middle and top level managers who are involved with management of risk in the organization.

It was found out that as Kenya Power gears up to effectively respond to the changed environment, it needs to become aware of the ever emerging conditions prevailing in the internal and external environment that will affect its operations. One of these conditions was the management of the operational risks which it faces. The risks facing the organization was found to include Legal & regulatory risks, Financial risks, Hazard risks (Environmental safety & health security risks) and political risks. Within the different
levels of risks, it was found that the risks could take different operational forms. Some of the operational risks that the organization face include, third party risks, power theft, electrocutes (power liability), conflict of interests, political risks and market risks. It was also found that the company’s overdependence on hydro power is a source of operational risk due to unpredictable weather patterns. The regulatory environment also poses great risks since some of the company decisions have been countermanded by the government and the regulator.

The enterprise risk management process of an organization was found to be affected by a number of factors and the factors that were considered included mandate from the top, determination and assessment of risk, existence of a control framework and periodic reporting and analysis. The top management of an organization was found to play an important role in the risk management process of the firm since they will be expected to incorporate the risk assessment process in the overall strategy of the firm as well as make it part and parcel of any decision being made in the organization. The risk identification process involved need of all employees to be aware of enterprise risk management process and this was achieved through the process of implementing a top to bottom approach with the structure spreading to all department and functions. The organization also arranges risk assessment sessions/ trainings in which risk reviews and workshops are contacted. In the case of periodic reporting and analysis, it was found that Kenya Power had established a common forum at which the feedback is relayed through having quarterly review on corporate risks. The risk exposure was communicated through preparation of management papers and board circulars, through risk review workshops and meetings and assigning responsibilities and timelines. The feedbacks also take the
form of regular reports and also the continuous reviews of the ERM while the projects are under implementation.

**5.3 Conclusion**

Risk management is vital for the functioning of any organization. From the findings, it was established that risk management in the organization was an all inclusive exercise where the employees were involved in the formulation of the policy and framework on risk management which was adopted as the official risk management policy in the organization. The employees are the ones who implement the policy and their involvement was necessary in order to ensure the success of the policy ultimately. The organization faces various risks in its day to day operations and the alignment of the process with strategic plan and the mission of the organization was a step towards the achievement of the objectives by the organization.

The existence of the coordinating risk management function/committee would ensure that the risks facing the organization would be dealt with adequately as they will be collaborating the risks which are facing the various departments. The existence of risk evaluation and control would ensure that the organization would be able to gauge whether the practices which they have put in place to mitigate the risks are working and if they are not then they can come up with others thus discouraging a situation whereby the risks would affect the performance of the organization. Communication is an essential tool in an organization as it a way of disseminating information between the employees and the management. The communication of the objectives and performance measures
and the evaluated results openly throughout the organization would inspire the confidence of the employees as they will be able to know what measures were used to measure the performance and at the same time they will know the current results and aspire to achieve greater results in future.

5.4 Recommendation for Policy and Practice

Since the ERM is a process whose mechanisms should be built into the infrastructure of the entity with the goal of ensuring, with reasonable assurance, that the entity’s objectives are achieved, the board of directors and management should have a reasonable assurance that they understand to what extent the entity’s strategic objectives are being met or affected, ensure that operations objectives are met, that the entity’s reporting is reliable and that all applicable laws and regulations are being complied with. It is therefore of great importance for businesses to take advantage of making appropriate strategic decisions on uncertain outcomes, as at worse it would cut-down losses due to disaster and at best, improve profitability in cases of opportunities.

The study has established that Kenya Power has allocated limited resources to the risk management function hence hampering its operations. It is recommended therefore that the organization continuous to invest more resources in ERM function so as to enable it promptly identify and mitigate risks facing the organization. In addition, there is need to address the challenge of the structure where ERM function does not report directly to the CEO or the board and ensure consistency in communication relating to management of
risks. Finally, there is need to integrate the ERM toolkits with Kenya Power’s ICT systems.

5.5 Limitations of the Study

One of the limitations of this study is the possible biasness on the part of the respondents because for any study making use of an interview guide, there is a possibility that the answers from the respondents for some or all of the questions are not true; this study is no exception. Since the interview guide questions were personally administered and all questions asked were related to practices of risk management and strategic management, the researcher reserves the right to believe that the responses were true and honest to the extent of the knowledge of the respondent and contain minimum level of biasness.

The other limitation of this study was the reliance on interviews and discussion held with the management of Kenya Power only. It would have been of importance to obtain views from the other stakeholders of the company such as: other employees, customers, suppliers, government, in order to get a more balance view of the subject matter. It is therefore assumed that the responses from the seven respondents are representative.

Finally, the researcher was constrained by time factor and also financial resources which limited the scope and depth of the study.
5.6 Suggestions for Further Research

The study confined itself to Kenya Power. This research should therefore be replicated in other organization especially those ones whose decisions are not subject to government regulations as a shareholder.

Since the current study looked at the influence of ERM on strategic management process of Kenya Power from the perspective of Kenya Power management only, it is recommended that further study is conducted on other stakeholders of Kenya Power such as: customers, suppliers, generators of electricity, other employees, financiers and government.
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APPENDIX: INTERVIEW GUIDE

The interview guide will seek to achieve the following objectives;

i) To determine the influence of enterprise risk management on the strategic management process at Kenya Power and Lighting Company

ii) To establish the challenges faced by the organization in managing enterprise risk

Interview Questions

Section I: Respondent’s Profile

- Which Division/Department/Section of Kenya Power do you work in?
  ........................................................................................................................................

- For how long have you worked in Kenya Power?
  .................................................................................................................................

- What is your current position (Designation) in Kenya Power?
  .................................................................................................................................

Section II: Enterprise Risk Management

- Do you embrace ERM in your division/department?
  ........................................................................................................................................

- If yes, how is it important to Kenya Power/ your function?
  ........................................................................................................................................

  What type of risk is Kenya Power faced with? Please expound
• How does Kenya Power identify the risks it is exposed to?.................................................

• In your view, do you think the process is adequate?.........................................................

• Do you have a risk section/function in your organization?..............................................If so, how does it contribute to the management of risks in Kenya Power?

• Is there risk implementation team that work with each reporting department to link the organization's strategy to that area's objectives?

• Has Kenya Power management put in place measures to evaluate the success of risk management strategies put in place?................................................................. How is the evaluation of results communicated?

Section III: Influence of Enterprise Risk Management on Strategic management process

a) Mandate from the top management

• Does the company incorporate enterprise risk management in its strategic management processes?...........................................if yes, how?

• Does the company stakeholders consistently manage organizational risks effectively and efficiently?

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• In your view, what significant risks may affect realization of Kenya Power business strategy? .................................................................................................................................
  How does the top management team of the company ensure that the enterprise risk management program succeed in the achievement of organizational goals? ........................................................................................................................................

• How does ERM/Risk function contribute to corporate strategy in Kenya Power? ..............................................................................................................................................................................

• In which areas is the risk function included in the strategic management decision process in Kenya Power? ..............................................................................................................................................................................

• Is there a board committee that is mandated to provide oversight on enterprise risk management? If yes how do they perform their duties? ..................................................................................................................................................

b) Determining and assessing risk

• Has the company’s strategic management process ensured that all employees are responsible for identifying and sharing potential organizational risks? ..................................................................................................................................................
• How does the company ensure that all the employees are aware of enterprise risk management?

• Has the company rolled out the enterprise risk management program to each division, department, section and unit?

• Does the company consider both internal and external risks in its enterprise risk management systems?

c) **Control framework**

• Has the company committed to the adoption of an internal control framework in order for enterprise risk management to work?

• Does the company control framework ensure that the company better manage enterprise risks?

• Was the component of control framework adopted by the company derived from the way management operates a business, and integrated with the management process?
d) Periodic reporting and analyzing process

- How does the company ensure that the feedback on the results of the risk management process is communicated back to the ERM department, upper-level management, and the Board which is vital to organizational and strategic success?

- How often is the feedback done?

Does feedback on results of risk management incorporated into strategic decisions?

How is the ERM reporting structure in Kenya Power?

- How does the company use the risk department's reports?

- Does the company include corporate governance in its enterprise risk management system?

- Is enterprise risk management mapped into business objectives and performance measures?
Section IV: Challenges faced by KP in managing enterprise risk

- Does the organization have consensus on how to manage enterprise risks?

- Is there strong executive management support to ensure successful implementation of enterprise risks?

- Does the organization have an appreciation for various program sensitivities which has been instituted to ensure success of enterprise risk management?

- Does the company face difficulty in assessing the risk value proposition hence the difficulty to provide sufficient evidence to justify implementation costs?

- Does the company face the challenge of balancing risk visibility and legal exposure?

- Has the challenge of establishing a consistent and commonly applied risk nomenclature affected risk management in the company?

- Does your organization face the challenge of developing a risk culture throughout the organization?
• In your view, does organizational silos prevent effective integration of risk management structures and responsibilities?

• Does Kenya Power face challenges emanating from continuous evolution of risks and the need to continuously review the risk registers?

• Kindly state any other challenges that Kenya Power faces in implementing ERM

• In your view, how should these challenges be addressed?

THANK YOU FOR YOUR TIME