Strategic Risk Management Practices Among State Corporations in Kenya

By

Dennis Ochieng'Abuya

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DECLARATION

This management research project is my original work and has not been submitted for a degree in any other university.

Signed: [Signature] Date: 20th November 2008
Dennis Ochieng' Abuya
D61/P/7462/2002

This management research project has been submitted for examination with my approval as the University Supervisor.

Signed: [Signature] Date: 20th November 2008
Professor Evan Aosa
School of Business
University of Nairobi
DEDICATION

To my wife Pauline, daughter Dani and sons Abuya and Gogo: I greatly value your support, encouragement and endless endurance.

To my mum and late dad: It takes being a parent to appreciate the great role that you have played in my life. Thank you for giving me that solid foundation.
ACKNOWLEDGEMENT

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Finally, thanks to the Almighty God for giving me sufficient grace, mercy and blessings that have seen me through this programme.
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The underlying premise of strategic risk management is that every entity, as it seeks to provide value for its stakeholders, faces uncertainty. The challenge for management is to determine how much uncertainty it can accept so it can grow shareholder value.

Strategic risk management enables management to allocate capital with uncertainty and associated risk to opportunities that enhance the capacity to build value. Within the public sector, an area that presents a significant opportunity for improved decision-making through an equilibrium and cost-effective method of strategic risk management.

The objectives of the study were to determine the strategic risk management practices among state corporations in Kenya and to establish the extent to which these entities have been carrying out such practices. The study was designed to benefit the public sector in Kenya in developing and improving their strategic risk management practices. Additionally, scholars, researchers, and others in various aspects of strategic management and public administration may be able to gain from the systematic, wide approach to risk management recommended by this study.

The study was carried out at a counselling service where the study population was the case-study-state-corporations (27) state corporations operating under the State Corporations Act (Cap. 215, 1983), including those state corporations that have been established with the same Act. A proportionate stratified sample of 49 state corporations was used for the study. Descriptive statistics were employed in analyzing the data collected and the results interpreted using the Statistical Package for Social Sciences (SPSS).

The research findings were presented using descriptive measures of central tendency and frequency tables.
ABSTRACT

Public entities, including state corporations, are today under more pressure than ever to manage costs and deliver services more efficiently. As operating budgets are scrutinized, public officials search for creative means of cutting costs, maximizing the productivity of existing staff, and working smarter to serve the public’s interests. In order to fulfil their purpose, many public organizations have crafted strategies to guide them in the competitive environments in which they operate. Pursuing such strategies comes with risk. This risk is occasioned by the fact the strategies are achieved through decision-making about strategic choices characterized by complexity arising out of ambiguous and non-routine situations.

The underlying premise of strategic risk management is that every entity, as it seeks to provide value for its stakeholders, faces uncertainty, and the challenge for management is to determine how much uncertainty to accept as it strives to grow stakeholder value. Strategic risk management enables management to effectively deal with uncertainty and associated risk and opportunity, thus enhancing the capacity to build value. Within the public arena, an area that presents a significant opportunity for improved decision-making capabilities and cost savings measures is strategic risk management.

The objectives of the study were to determine the strategic risk management practices among state corporations in Kenya and to establish the challenges that these entities face in carrying out such practices. The study was to benefit the public sector in Kenya in developing and improving their strategic risk management practices. Additionally, scholars, academicians and researchers in various aspects of strategic management and other stakeholders may be able to gain from the enterprise-wide approach to risk management recommended by this study.

The study was carried out as a cross-sectional survey where the study population was the one-hundred-and-twenty-two (122) state corporations operating under the State Corporations Act (GOK, 1987), including those state corporations that have been exempted from the same Act. A proportionate stratified sample of 60 state corporations was used for the study. Descriptive statistics were employed in analyzing the data collected and the analysis was done using the Statistical Package for Social Sciences (SPSS). The research findings were presented using percentages, measures of central tendency and frequency tables.
The study found out that 60% of state corporations agreed that they have risk management policies. 55.6% of the respondents agreed that their risk management strategy was based on a comprehensive profile of business risks likely to impact the business in the next 2-3 years.

48.1% of respondents also confirmed that the current risk management practices supported strong corporate governance, in line with the fact that a majority of the respondents indicated that strategic risk issues are frequently on the Board Agenda. Regarding the type of risk committees used by the organizations, the Board Risk Committee turned out to be the most popular with 48.1% of the respondents affirming that their organization had implemented it. However, a majority of the respondents indicated that the responsibilities of the Board Risk Committee had not been clearly defined.

With respect to the organizations’ approach to risk management, 51.9% of the respondents indicated that risk assessment is conducted as part of business case justification, while 48.1% stated scenario planning is a key component of the risk management program. This coupled with the lack of enterprise-wide risk assessment indicates that risk assessments were not being undertaken in an integrated risk management system.

Some of the challenges faced by state corporations in their strategic risk management practises include non-revised strategic plans, poor forecasting when drafting strategic plans, poor implementation and huge bureaucracies that hinder the effective implementation of strategic risk management programmes.

A weak area that the study identified is employee awareness of the risk management practices adopted by the state corporations. Establishing the link between the level of this employee awareness and the organization’s performance in terms of achieving its objectives is an area of research that needs to be explored.
LIST OF ABBREVIATIONS AND ACRONYMS

COSO: Committee of Sponsoring Organizations of the Treadway Commission

FERMA: The Federation of European Risk Management Associations

ISO: International Standards Organization

SPSS: Statistical Package for Social Sciences

UK: United Kingdom

U.S.: United States of America
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CHAPTER ONE: INTRODUCTION

1.1 Background

1.1.1. Concept of Strategic Risk Management

Organizations exist for a purpose, perhaps to deliver a service, or to achieve particular outcomes. In the private sector the primary purpose of an organization will generally be concerned with the enhancement of shareholder value; in public institutions the purpose is generally concerned with the delivery of service or with the delivery of a beneficial outcome in the public interest. In order to fulfil their purpose, organizations craft strategies that guide them in the competitive environments in which they operate. Johnson and Scholes (2002) note that organizations face all manner of risks whenever they pursue their chosen strategies. Such strategies are achieved through decision-making about strategic choices characterized by "complexity arising out of ambiguous and non-routine situations with organization-wide rather than operation-specific implications" (Johnson and Scholes, 2002, p.15). These risks can be significant for organizations with major long-term programmes of innovation, or where high levels of uncertainty exist about key issues in the environment. Uncertainty presents both risk and opportunity, with potential to erode or enhance value.

Strategic risks are those threats or opportunities that materially affect the ability of an organization to achieve its stated objectives or mission, and to survive (Allan and Beer, 2006). Strategic risk emerges from strategic decision-making because the future is uncertain and, therefore, all outcomes of strategic choice will be accompanied by varying degrees of uncertainty. Finlay (2000) underscores the importance of considering the risks associated with a proposed strategy, alongside the returns expected from pursuing that strategy. The value that organizations seek to deliver to their clients is maximized when management sets strategy and objectives to strike an optimal balance between growth and return goals on one hand, and related risks on the other hand. Once this balance is achieved, resources can then be efficiently and effectively deployed in pursuit of the entity’s objectives.

The underlying premise of strategic risk management is that every entity, as it seeks to provide value for its stakeholders, faces uncertainty, and the challenge for management is to determine how much uncertainty to accept as it strives to grow stakeholder value.
Strategic risk management enables management to effectively deal with uncertainty and associated risk and opportunity, thus enhancing the capacity to build value. Strategic risk management encompasses aligning risk appetite and strategy; enhancing risk response decisions; reducing operational surprises and losses; identifying and managing multiple and cross-enterprise risks; seizing opportunities and improving deployment of capital (COSO, 2004).

1.1.2. State Corporations in Kenya

A state corporation is an enterprise in which the government is the majority shareholder (GOK, 1979). State corporations were first established during the early days of colonial rule in Kenya, with the objective of exploiting the colony. The first ones to be set up were mainly in transport, communication and agricultural sectors. After independence the new government announced a series of policy initiatives that emphasized the complimentary roles of the public and private sectors in national development (GOK, 1965). The government set out deliberate strategies for development aimed at the decolonisation of the economy, increasing indigenous participation in the economy, promoting development and regional balance, and attaining greater public control of the economy. In order to speed up the achievement of these objectives, the government established more corporations in other sectors of the economy such as commerce, industry, tourism, construction, insurance and banking. The number of commercially oriented state corporations in Kenya rose to 240 by the mid 1980s but currently stand at 122 after the government restructured and privatised some state corporations.

The significant increase in the number of such corporations emphasized the government’s commitment to accelerating national development, promoting equitable regional development and encouraging popular participation in the development process. However, despite their great potential as agents for national development and the confidence placed in them by the government, state corporations have done poorly especially in matters pertaining to financial management and overall performance (GOK, 1979, 1991; PSCGT, 2001).

The 1990s’ introduction of structural adjustment programme posed a new challenge to state corporations. This programme included reform measures aimed at having state corporations operate on commercial principles, requiring them to operate profitably in a competitive environment. Most of the state corporations thus faced contradictory
demands of providing non-commercial services to meet special socio-economic obligations and, at the same time, to operate commercially. The desire to meet these conflicting demands saw most state corporations crafting strategies to guide their performance in the increasingly turbulent and risky environment in which they now found themselves operating.

GOK (2005) reiterated the Kenya Government’s strategic perspective that efficient and effective public service management was a crucial framework for achieving rapid and sustained economic growth and poverty reduction. The government committed itself to transforming the Public Service from process-oriented, process and entitlements, control, unnecessary bureaucratic practices, inward considerations and being risk averse, to targeted results, delegation, enabling and empowering speedy delivery of services/service charters, citizen/client-focused service and risk management (GOK, 2005, p.3).

1.2 Statement of the Problem

Public entities, including state corporations, are today under more pressure than ever to manage costs and deliver services more efficiently. As operating budgets are scrutinized, public officials search for creative means of cutting costs, maximizing the productivity of existing staff, and working smarter to serve the public’s interests. Within the public arena, an area that presents a significant opportunity for improved decision-making capabilities and cost savings measures is risk management (Bennett, 2004).

The challenge for the Public Service is approaching risk management in a more integrated and systematic (TBS, 2001). Strategic risk management, with its systematic, holistic and integrated approach to management of risk, offers public servants the ability to recognize and address important risks, facilitate decisions about how to handle these risks, monitor progress in managing these risks, and learn how to make improvements in dealing with risk. This leads to the fulfilment of the increased responsibility to demonstrate sound decision-making, in line with increasing expectations of due diligence, more intense public and media scrutiny, and initiatives for transparency and open government.

Various studies have been done on the risk management practices among public sector entities in different countries. Hill and Dinsdale (1969) set a foundation for developing risk management learning strategies in the public sector, based on a study of risk management practices among public sector organizations in Canada. KPMG (1999)
identified best practices in risk management in the private and public sectors, following a study of organizations in Australia, France, Germany, Sweden, Switzerland, the United Kingdom, New Zealand, South Africa, Taiwan and the United States. SU (2002) proposed a comprehensive programme of change to improve risk management across the government following a study commissioned by the UK government. TBS (2002) studied risk management practices among private and public organizations in Canada. KPMG (2005a) carried out a survey of contemporary strategic risk management practices among private and public sector organizations in Australia and New Zealand. KPMG (2006) conducted a survey to determine why and how U.S. private-sector companies are implementing risk management within their operations and business lines. Schroder (2006) examined the patterns of risk management practices among Danish companies, identified the key drivers behind the current practices, and determined critical barriers to adopting a more enterprise-wide management approach.

Locally, Safari (2003) studied the state of strategic planning, with particular reference to risk measurement and management, in Kenyan state corporations. His study focused on the state corporations’ awareness of risk factors critical to successful strategic planning. He found out that although strategic planning was widely practised, there was further need to consider the risks that were involved.

These studies established that organizations have not embraced strategic risk management as a modern management discipline due to lack of commitment from top management, including boards of directors. Whereas scholars have shown interest in this field of study, no study of holistic risk management practices in the public sector in the Kenyan context has been done. This study, therefore, aims to fill this void by setting out to establish the strategic risk management practices among state corporations in Kenya. It will focus on state corporations because of their unique settings, with goals of a wider scale encompassing both the organization and the country as a whole, and operations that call for accountability to varied stakeholders, as established by Bavon (1999), Bradley (1979), and Grosh (1991). The study aims to answer two research questions, namely: (i) What are the strategic risk management practices employed by state corporations in Kenya? (ii) What challenges do state corporations face in their strategic risk management practices?
1.3 Research Objectives

This study has two objectives. These are:

- To determine the strategic risk management practices among state corporations in Kenya.
- To establish the challenges that state corporations face in their strategic risk management practices.

1.4 Significance of the Study

The public sector in Kenya will be able to use the findings and recommendations to develop and improve their strategic risk management practices. Other stakeholders, such as the government and the private sector in Kenya, will also find the results of the research useful.

The study will also stimulate further research by students and scholars in the areas of strategic management and corporate governance. Furthermore, the research project will also contribute to the bulk of knowledge and research at the School of Business of the University of Nairobi.
2.1. Strategic Risk Management

The first instance of the term strategic risk management in scientific literature appears to be in Miller (1992). Miller highlights the confusion regarding inconsistent definitions of the term risk. It can refer to unanticipated, negative variation in business outcome variables (i.e., effects) or to factors (external or internal) that impact on the risk experienced by the firm (i.e., actual sources of risk). To remove this confusion, Miller defines risk as the unpredictability in corporate outcomes (effects), and uncertainty as the unpredictability of environmental or organizational variables that impact corporate performance (sources).

Closely associated with risk are the related concepts of risk categories, risk response mechanisms and risk appetite. These are explored in the following sections, beginning with a definition of strategic risk. The rationale of strategic risk management, its objectives and benefits are also presented.

2.1.1. Strategic Risk

TBS (2001) defines risk as “the uncertainty that surrounds future events and outcomes. ...the expression of the likelihood and impact of an event with the potential to influence an organization's achievement of objectives” (p.8). Risk, therefore, is the probability that an event in the future, either good or bad, will occur. Strategic risk, on the other hand, is defined as internal and external uncertainties, events, or circumstances that a firm must understand and manage effectively as it executes its strategies to achieve business objectives and create shareholder value (Andersen and Terp, 2006).

Vedpurishwar (2001) identifies the three types of uncertainties, which may constitute strategic risks, faced by organizations. The first type is state uncertainty, which refers to unpredictability about the environment. Causes of state uncertainty include volatility in the environment, complexity in the environment, and heterogeneity in the environment. The second type of uncertainty is effect uncertainty, which is the uncertainty about the impact of developments in the environment on the organization. Finally, there is response uncertainty that refers to the unpredictability about the options available to an organization and their outcome. This last category highlights the inertial effects that may
be experienced even after an option is selected due to the organization’s internal processes and culture.

Vedpurishwar (2001) also points out that risk may not only arise because of environmental changes. Many of the risks that organizations assume have more to do with their strategies, practices (e.g., poor management control) and culture (e.g., excessive risk taking culture and reckless plans) than any external factors.

2.1.2. Traditional Risk Categories

There are various types of risk that an organization can be exposed to. Vedpurishwar (2001) classifies these into four categories. Firstly, there are the hazard risks, which refer to natural hazards, accidents, fire, etc. Hazard risks are insurable. Secondly, there are financial risks, which include such things as volatility in interest rates, exchange rates, defaults, asset-liability mismatch, etc. Hedging tools such as derivatives can be used to manage financial risk. Thirdly, there are operational risks that cover systems, processes and people and include issues such as succession planning, human resources, information technology, control systems, and compliance with regulations. The last category is that of strategic risk, which stems from an inability to adapt to changes in the environment such as changes in customer priorities, competitive conditions and geopolitical developments. Strategic risks may also arise from a firm’s core business strategies, such as excessive dependence on a single or few products, or a single or few regions for generating revenue.

Andersen and Terp (2006) make an important distinction among these classifications of risk, with respect to strategic risk management. They distinguish pure risks are those that are considered not to have an upside potential, meaning they have no chance of gain. Such risks are insurable and include risks associated with hazards. Pure risks contrast with speculative risks (or business risks), which have an upside potential for gain as well as a downside risk of loss. The latter category of risk includes financial, operational and strategic risks.

2.1.3. Risk Response Mechanisms

Several mechanisms for handling risk have been developed over the years. In practice, these mechanisms are almost always used in combination. These are summarized in Table 1 below.
**Table 1: Risk Response Mechanisms**

<table>
<thead>
<tr>
<th>Mechanism</th>
<th>Description</th>
</tr>
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<tbody>
<tr>
<td>1. Transfer</td>
<td>Transferring the risk by taking insurance or by paying a third party to take the risk in another way.</td>
</tr>
<tr>
<td>2. Tolerate/Accept</td>
<td>Accepting the risk if the ability to do anything about it may be limited or the cost of taking any action may be disproportionate to the potential benefit gained.</td>
</tr>
<tr>
<td>3. Treat/Reduce/Mitigate</td>
<td>Implementing internal controls to contain the risk to an acceptable level.</td>
</tr>
<tr>
<td>4. Terminate/Avoid</td>
<td>Ending/avoiding the activity that causes the risk. It should be noted that applying this option in the public sector may be severely limited when compared to the private sector, since a number of activities are conducted in the public sector because the associated risks are so great that there is no other way in which the output or outcome, which is required for the public benefit, can be achieved.</td>
</tr>
</tbody>
</table>


Andersen and Terp (2006) introduce a fifth mechanism for handling risk, risk segregation, whose objective is to reduce an organization’s dependence on any single asset, activity or person and simultaneously to make individual risks more manageable. This mechanism includes two different but closely related aspects, namely separation and duplication. Separation refers to dividing assets or operation into two or more separate units, whereas duplication is the complete recreation of an organization’s own standby asset or facility that is kept in reserve. In duplication, the redundant asset or facility is only employed if the primary one is compromised.

### 2.1.4. Rationale for Strategic Risk Management

Kaplan and Norton (1992) emphasized the need for assessing performance of an organization from four different angles— the customer perspective; the internal perspective; the innovative and learning perspective; and the financial perspective. The financial perspective provides a lag indication of actions that have already been taken, whereas the other perspectives provide measures that drive future financial performance. The Balanced Scorecard, thus, provides a holistic view of an organizations performance.
Similarly, there is a need to consider the various business risks that an organization faces alongside the financial risks (Vedpurishwar, 2001). This need has given rise to the Enterprise Risk Management framework, which integrates risk management in a more comprehensive and coherent manner. The available literature uses various terminologies to refer to this framework; business risk management, holistic risk management, enterprise risk management, strategic risk management (Miccolis and Shah, 2000; Tillinghast-Towers-Perin, 2002; Turpin, 2002; Viles and Easterbrook, 2003). In this study, the more commonly used terminology, strategic risk management, will be adopted.

Strategic risk management, then, is an enterprise-wide structured and disciplined approach aligning strategy, processes, people, technology and knowledge with the purpose of evaluating and managing the uncertainties the organization faces as it creates value (KPMG 2001). It is the process that seeks to eliminate, reduce and control pure risks, enhance benefits and avoid detriments from speculative exposures (Andersen and Terp, 2006). AON (2002) defines strategic risk management as a method of risk management that takes an enterprise-wide approach to monitoring and managing risk in support of a company’s strategic goals. Another definition is “a systematic approach to setting the best course of action under uncertainty by identifying, understanding, acting on and communicating risk issues” (TBS, 2001, p.9).

Strategic risk management involves directors and executives in building organisational resilience and flexibility in an environment of uncertainty. It is about leadership, making informed choices and intelligent risk taking (KPMG, 2005a). Strategic risk management requires active management in a systematic, holistic, and integrated manner. This systematic approach is designed to help public servants recognize and address important risks, facilitate decisions about how to handle these risks, monitor progress in managing these risks, and learn how to make improvements in dealing with risk.

2.1.5. Objectives of Strategic Risk Management

According to Andersen and Terp (2006), strategic risk management has four general objectives. The first one is creating transparency, which ensures that top management, the board of directors, the owners or stakeholders, and potential investors can evaluate the organization’s significant exposures and appraise how they are dealt with by the organization. The second objective is enhancing risk awareness through creating an organizational culture where risk awareness is an integral part of all management
decisions and thus is taken into account when deciding on future business venues. This culture also ensures all employees can effectively handle the exposures that apply to their specific areas. The third objective is controlling risk environment. This is achieved by minimizing the probability (and potential severity) of future losses; ensuring adequate financial protection against adverse events; establishing and maintaining preparedness to deal effectively with significant adverse events; and minimizing the overall total cost of risk. The fourth objective is focusing on risk appetite by maximizing the probability of success and minimizing the risk of failure in reaching organizational objectives.

2.1.6. Benefits of Strategic Risk Management

Implementing strategic risk management leads to several benefits that relate to organizational objectives and the management process (KPMG, 1999). The major benefit of managing risks strategically is the achievement of organizational objectives. Other reported benefits are better focus on business priorities, strengthening of the planning process and the means to help management identify opportunities. The reported benefits to the management process include: a cultural change that supports open discussion about risks and potentially damaging information; improved financial and operational management by ensuring that risks are adequately considered in the decision-making process; and increased accountability of management.

The benefits lead to improved business performance. However, given the push for strategic risk management as a way of complying with government and industry regulatory requirements, it is important to balance improving business performance and driving value with regulatory compliance (KPMG, 2005a). Figure 1 below depicts this balance.
TBS (2001) identifies the challenge for the Public Service as approaching risk management in a more integrated and systematic way that includes greater emphasis on consultation and communication with stakeholders and the public at large. In meeting this challenge, the Public Service can fulfill its increased responsibility to demonstrate sound decision-making, in line with increasing expectations of due diligence, more intense public and media scrutiny, and initiatives for transparency and open government. Strategic risk management is now seen as an organization-wide issue that, as one of several co-ordinated initiatives, will improve decision-making, enabling the shift to results-based management. Integrated risk management requires looking across all aspects of an organization to better manage risk. Organizations that manage risk organization-wide have a greater likelihood of achieving their objectives and desired results. Effective risk management minimizes losses and negative outcomes and identifies opportunities to improve services to stakeholders and the public at large.

TBS (2001) also recommends that the systematic, integrated but adaptable approach to risk management requires an organization to build capacity to address risk explicitly, to increase the organization’s and stakeholders’ confidence in its ability to achieve its goals.
It contributes to better use of time and resources, improved teamwork and strengthened trust through sharing analyses and actions with partners. In emphasizing the need for more active and frequent consultation and risk communication, an integrated approach to risk management leads to shared responsibility for managing risk. It also increases confidence in the organization’s process, and improves public and stakeholder understanding of trade-offs.

2.1.7. Risk Appetite

HMT (2004) asserts that the concept of risk appetite is critical to achieving effective risk management and it is important to consider it before evaluating how risks can be addressed. They define it as the amount of risk an organization is prepared to accept, tolerate, or be to be exposed to at any point in time. They further provide two ways of considering the concept, depending on whether the risk being considered is a threat or an opportunity. When considering threats, the concept of risk appetite embraces the level of exposure, which is considered tolerable and justifiable should it be realized. When considering opportunities the concept embraces consideration of how much one is prepared to actively put at risk in order to obtain the benefits of the opportunity.

2.2. Strategic Risk Management Frameworks, Strategy and Structure

2.2.1. Strategic Risk Management Frameworks


DeLoach’s Enterprise-Wide Risk Management framework was developed in 2000 by James W. DeLoach of Arthur Andersen as a strategy for linking risk and opportunity. It comprises definitions, specific guidelines on risk identification, risk assessment, and various methods of risk control within the enterprise-wide context.

COSO’s Integrated Enterprise Risk Management Framework was developed in 2004 by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also referred to as COSO 2, it has been promoted by the industry as the framework of choice and comes in two volumes. Volume I includes the framework structure, recommendations
for key risk management activities, and guidelines for internal supportive initiatives. Volume II presents a range of application and implementation techniques.

FERMA, the United Kingdom’s Risk Management Standard, was developed in 2003 by three UK-based risk management organizations, i.e., The Institute of Risk Management, The Association of Insurance and Risk Managers, and The National Forum for Risk Management in the Public Sector. The Federation of European Risk Management Associations (FERMA) published it. It gives key elements of a framework as a generic guideline for enterprise-wide risk management, and follows the risk terminology presented by ISO’s “Guide 73 – Risk Management – Vocabulary – Guidelines for use in standards.”

The AS/NZS 4360:2004 Standard was developed in 2004 as a joint product of the Australian and New Zealand standard organizations. It was as an improvement on recommendations from several special-interest groups and public institutions. AS/NZS 4360:2004 is a revision of AS/NZS 4360:1999. It is available in two versions; the core standard itself and a commented handbook that includes in-depth commentaries and provides various application techniques.

The four frameworks are, basically, decision models that aid decision makers improve the quality of their strategic, tactical and operational risk-based decisions. Henriksen and Uhlenfeldt (2006) identify the common structures among the four frameworks, as is demonstrated in six-stage generic model given in Figure 2 below.
The first step is for top management to formulate and decide objectives and strategies for the organization and the organizational risk management activities vis-à-vis corporate vision, mission and overall objectives. This is then followed by risk identification wherein the events with potential impact on the achievement of corporate objectives and successful implementation of strategies are outlined.

In the third stage, the level of uncertainty for identified events are assessed by means of a classical risk evaluation model, which considers the likelihood of occurrence of each event and links to the potential impact (consequence) on the achievement of corporate objectives. Events are then prioritized and response mechanisms determined in the fourth step. Response mechanisms may include risk avoidance, risk reduction, risk transfer, or risk acceptance.
Based on the response mechanisms selected, action plans are next developed and implemented for each prioritized risk. Risk owners are also appointed at this time. Finally, control activities for each action plan are established in order to safeguard timely and correct execution of the decided response mechanism.

Henriksen and Uhlenfeldt (2006), however, note that the four frameworks presented above exclude strategy formulation processes from their context. Their strategic focus is limited to strategy implementation, the consideration of strategic risks and to technical-economic processes.

2.2.2. Strategic Risk Management Strategy and Policy

Strategic risk management should be intrinsically linked to the organization’s business strategy (KPMG, 2001). Risk strategy, which provides guidance for the risk activities within an organization, is built around and supports the business strategy. Risk portfolio development, optimization, and measuring and monitoring then take place in the context of the business and risk strategies, based on an established strategic risk management structure that provides the means for embedding it in the organizational structure. Risk optimization is defined as determining the organization’s risk appetite and capacity among a group of risks (risk portfolio) across the enterprise, seizing opportunities within those defined parameters, and capitalizing on the rewards that result (KPMG, 2001). Risk measuring and reporting activities provide insights into risk management strengths and weaknesses. Figure 3 below shows this risk management architecture.
Determining a risk management strategy and defining it in a policy is critical to the effectiveness of the strategic risk management system. The policy should establish the internal environment, define how risk is viewed and addressed by management and staff, including risk management philosophy and risk appetite (KPMG, 2005a).

2.2.3. Strategic Risk Management Structure

Risk management structures should be established that clearly identify ownership, responsibilities and accountabilities for risk management. The organizational structure and incentive system should be aligned with the goals and objectives of the risk management program. Responsibilities and accountabilities for implementing the risk management strategy should be clear to all public servants. Objectives, strategies and processes should be well documented and available to all stakeholders (Hill and Dinsdale, 1969).

HMT (2004) presents two common alternative structures for risk management. The first one involves an Audit Committee, established as a Committee of the Board, ideally with non-executive membership and chaired by a non-executive, which will be charged with
supporting the Accounting Officer in their responsibilities for issues of risk, control and governance and associated assurance.

The second alternative involves the establishment of a Risk Committee. If this one is set up as a Committee of the Board and is largely non-executive (i.e., as a Risk Assurance Committee), it may undertake functions similar to those of the Audit Committee. However, if it is a forum for executive managers with significant responsibility for the ownership and management of risk in their functions (i.e., as a Risk Management Committee), then the Audit Committee should retain the independent assurance role.

KPMG (2001) presents two organizational approaches to risk management: centralized at the corporate level or decentralized among divisions or processes, depending on the nature of the risks in question and the organizational preferences of management. Centralized risk management tends to be common in cases whereby there are risks that affect the achievement of key corporate objectives and strategies, and significantly affect most, if not all, functions and processes (e.g. reputation). Other risks that may be managed centrally include those that require specialized skill sets that cannot be duplicated at the divisional level, or those that require partnering or contracting at the corporate level. Decentralized risk management, on the other hand, tends to be applied to risks that are significant only within a particular process but, nonetheless, affect the organization’s ability to successfully implement its strategies overall.
CHAPTER THREE: RESEARCH METHODOLOGY

3.1. Research Design
This study was carried out as a cross-sectional survey. It was designed to survey the state corporations operating in Kenya.

Churchill (1991) points out the usefulness of survey research in answering questions about the current status of the subject or topic of study. A survey also facilitates gathering of a wide array of data that is useful for comparative analysis.

3.2. Population
The study population was the one-hundred-and-twenty-two (122) state corporations operating under the State Corporations Act (GOK, 1987), including those state corporations that have been exempted from the same Act. The list of these state corporations is attached as Appendix II.

These state corporations were divided into seven clusters determined by the nature of their operation. The clusters are Commercial State Corporations, Regulatory Sector; Research Sector; Education/Professional Sector; Development/Promotional Sector; Culture/Social Services Sector; and Revenue Collection.

3.3. Sample Design
A proportionate stratified sample of 60 state corporations was used for the study. This represented 49% of the entire population. The strata sample sizes are given in Table 2 below.

Table 2: Sample Selection

<table>
<thead>
<tr>
<th>Cluster (Stratum)</th>
<th>Stratum Population</th>
<th>Stratum Sample Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Commercial State Corporations</td>
<td>34</td>
<td>17</td>
</tr>
<tr>
<td>B. Regulatory Sector</td>
<td>27</td>
<td>13</td>
</tr>
<tr>
<td>C. Research Sector</td>
<td>8</td>
<td>4</td>
</tr>
<tr>
<td>D. Educational/Professional Sector</td>
<td>16</td>
<td>8</td>
</tr>
<tr>
<td>E. Development/Promotional Sector</td>
<td>27</td>
<td>13</td>
</tr>
<tr>
<td>F. Culture/Social Services Sector</td>
<td>8</td>
<td>4</td>
</tr>
<tr>
<td>G. Revenue Collection Sector</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td><strong>122</strong></td>
<td><strong>60</strong></td>
</tr>
</tbody>
</table>

Source: Fieldwork.
3.4. Data Collection

Churchill (1991) points out that the choice of method to be used in data collection is largely determined by the nature of data to be collected. Survey methods are found to be superior to other methods because they have the lowest cost and staff requirements and they make it possible to capture study variables that may not be directly observed if observation methods were to be used.

Primary data was collected using a standardized questionnaire to allow comparison of results among the respondents. Both closed- and open-ended questions were employed to enable the collection of both standardized and supplementary data. The questions covered background information on the respondent plus the five areas of risk management, namely risk management policies and frameworks; risk management structure; risk optimisation; portfolio risk management; and measuring and monitoring risk exposures. The questionnaire is attached as Appendix III.

The questionnaires were dropped at the respondent’s premises and picked later at a pre-agreed time to allow the respondents adequate time to fill them in. However, given the low response rates typical with mail surveys, personal interviews based on the same questionnaire were also employed as a follow up on the mail surveys. The respondents in the study were Chief Executive Officers, Chief Financial Officers, Directors, Operational Management, Corporate Planners or Heads of Internal Audit. This was because it is these top managers who are most familiar with and involved in the strategic risk management practices in their organizations.

3.5. Data Analysis

The nature of the data obtained from the respondents was mainly quantitative. Therefore, descriptive statistics were used to analyze this data.

Descriptions of the research findings were analyzed using the SPSS package. The data was presented using percentages, measures of central tendency, such as mean, median and mode, and frequency tables.
CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

4.1. Introduction

This chapter discusses the data findings, analysis, interpretation and presentation. The study sought to determine the strategic risk management practices among state corporations in Kenya and to establish the challenges that these entities face in carrying out such practices. A total of 60 questionnaires were distributed to the respondents. A total of 45 responses were received, giving a response rate of 75%.

Data was collected using a semi-structured questionnaire and then analyzed using SPSS. Likert scales were also used where the mean and standard deviation explained the level of importance of the various factors.

4.2. Organization Background Information

Part A of the questionnaire aimed at establishing the organization’s name, nature of operation, geographical spread, size and whether the organization has a strategic plan, a risk management department and also the caliber of the organization’s management staff.

4.2.1. Geographical Spread of the Organizations

State corporations in Kenya have different service coverage within the country. The purpose of this question was to find out the extent of that coverage.

Table 3: Geographical Spread of the Respondent Organizations

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Only in Nairobi</td>
<td>9</td>
<td>20.0</td>
</tr>
<tr>
<td>In Every Province</td>
<td>36</td>
<td>80.0</td>
</tr>
<tr>
<td>Total</td>
<td>45</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Fieldwork.

The results, as illustrated in Table 3, show that 80% of respondent organizations had presence in every province while 20% operated only in Nairobi. This could be because the respondent organizations had undertaken expansion programmes to broaden their reach in every province.
4.2.2. Presence of a Strategic/Corporate Plan

Many state corporations have drafted strategic plans to guide their operations. The purpose of this question was to establish the percentage of state corporations that have strategic/corporate plans.

All the organizations that responded had strategic/corporate plans. This could be so because many state corporations have embraced strategic planning as a modern management tool to guide their operations in the mid term.

4.2.3. Period Covered by the Strategic/Corporate Plans

In understanding the organization’s management strategy, one of the important factors was the planning horizon of the respondent organizations.

<table>
<thead>
<tr>
<th>Period Covered</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 years</td>
<td>7</td>
<td>15.6</td>
</tr>
<tr>
<td>5 years</td>
<td>30</td>
<td>66.7</td>
</tr>
<tr>
<td>More than 5 years</td>
<td>5</td>
<td>11.1</td>
</tr>
<tr>
<td>Don’t Know</td>
<td>3</td>
<td>6.7</td>
</tr>
<tr>
<td>Total</td>
<td>45</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Fieldwork.

From Table 4, 66.7% of the respondents stated that their organization’s strategic plan covered 5 years while 15.6% indicated a period of 3 years. Only 6.7% indicated they do not know the period covered.
4.2.4. Presence of a Risk Management Department in the Respondent Organizations

The presence of a risk management department underscores the importance that the organization attaches to risk management.

Table 5: Presence of a Risk Management Department in the Respondent Organizations

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>25</td>
</tr>
<tr>
<td>Yes</td>
<td>20</td>
</tr>
<tr>
<td>Total</td>
<td>45</td>
</tr>
</tbody>
</table>

Source: Fieldwork.

From Table 5, 55.6% of respondents indicated there was no risk management department in their organization while 44.4% confirmed the presence of such a department in their organization.

4.2.5. Number of Employees in the Respondent Organizations

The number of employees in the respondent organization was significant in understanding the size of the organization.

Table 6: Number of Employees in the Respondent Organizations

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>101 to 500</td>
<td>9</td>
</tr>
<tr>
<td>501 to 1000</td>
<td>15</td>
</tr>
<tr>
<td>Over 1000</td>
<td>21</td>
</tr>
<tr>
<td>Total</td>
<td>45</td>
</tr>
</tbody>
</table>

Source: Fieldwork.

Table 6 indicates that 46.7% of respondent organizations had over 1000 employees, 33.3% had between 501 and 1000 employees, while 20% had between 101 and 500 employees.
4.2.6. Predominant Calibre of the Senior Management Staff

An important aspect of the organization’s appreciation of the role of risk management was the calibre of its senior management staff.

Table 7: Predominant Calibre of the Senior Management Staff

<table>
<thead>
<tr>
<th>Predominant Calibre of the Senior Management Staff</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technical specialist with no management training but on-the-job experience</td>
<td>11</td>
<td>24.4</td>
</tr>
<tr>
<td>Professional managers with business and management training</td>
<td>34</td>
<td>75.6</td>
</tr>
<tr>
<td>Total</td>
<td>45</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Fieldwork.

According to Table 7, 75.6% of the respondents stated that the statement “Professional managers with business and management training” best described their senior management staff while 24.4% indicated the statement “Technical specialist with no management training but on-the-job experience” best described their senior management staff. This shows that the majority of the staff viewed their managers as professionals competent with good business and management training.

4.3. Strategic Risk Management Practices

The objective of this research was to illuminate contemporary strategic risk management practices among state corporations in Kenya. The questions in the following sections sought to bring that out.

4.3.1. Presence of a Formally Approved Risk Management Policy

Table 8 shows the presence of formally approved risk management policy.
Table 8: Presence of a Formally Approved Risk Management Policy

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>15</td>
<td>33.3</td>
</tr>
<tr>
<td>Don't Know</td>
<td>3</td>
<td>6.67</td>
</tr>
<tr>
<td>Yes</td>
<td>27</td>
<td>60</td>
</tr>
<tr>
<td>Total</td>
<td>45</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Fieldwork.

From Table 8, 60% of the respondents stated that their organizations have risk management policies in place, while 33.3% indicated they do not have. However, 6.7% of the respondents said that they do not know whether their organizations have risk management policies. This implies that, majority of the state corporations have risks management policies.

4.3.2. Authority Providing Final Approval of the Risk Management Policy

Table 9 presents findings on the authority providing the final approval of the risk management policy. Since only 33.3% of respondents confirmed the presence of a formal risk management policy, the researcher projected this to 100%.

Table 9: Authority Providing Final Approval of the Risk Management Policy

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board</td>
<td>20</td>
<td>74</td>
</tr>
<tr>
<td>Risk Committee</td>
<td>7</td>
<td>26</td>
</tr>
<tr>
<td>Total</td>
<td>27</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Fieldwork.

According to Table 9, 74% of the respondents stated Board of Directors while 26% indicated it is the Risk Committee that provides the final approval of risk management policy. This implies that in majority of the organizations, the authority providing the final approval is the board of directors. None of the respondents indicated the CEO or the Audit Committee provided final approval of the risk management policy.
4.3.3. Specification of Appetite and Tolerance for Risk in the Risk Management Policy

Table 10 shows the specification of appetite and tolerance for risk in the respondent organization's risk management policy.

Table 10: Appetite and Tolerance for Risk in the Risk Management Policy

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>14</td>
<td>51.9</td>
</tr>
<tr>
<td>Don't Know</td>
<td>3</td>
<td>11.1</td>
</tr>
<tr>
<td>Yes</td>
<td>10</td>
<td>37</td>
</tr>
<tr>
<td>Total</td>
<td>27</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Fieldwork.

From Table 10, 51.9% of the respondents said no while 37% said yes. Only 11.1% of the respondents pointed out that they did not know whether their organization appetite and tolerance for risk had been clearly specified in the risk management policy. This indicates that, majority of the respondents' organizations have an appetite and tolerance for risks in their risk management policy.

4.3.4. Profiling of Business Risks in the Risk Management Strategy

Table 11 shows whether the risk management strategy of the respondent's organization is based on a comprehensive profile of business risks likely to impact the business in the next 2 - 3 years.

Table 11: Profiling of Business Risks in the Risk Management Strategy

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>10</td>
<td>37</td>
</tr>
<tr>
<td>Don't Know</td>
<td>2</td>
<td>7.4</td>
</tr>
<tr>
<td>Yes</td>
<td>15</td>
<td>55.6</td>
</tr>
<tr>
<td>Total</td>
<td>27</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Fieldwork.
The researcher noted that 55.6% of the respondents agreed that their risk management strategy was based on a comprehensive profile of business risks likely to impact the business in the next 2 - 3 years. 37% of the respondents indicated that their risk management strategy was not based on a comprehensive profile of business risks likely to impact the business in the next 2 - 3 years. This could be due to the lack of knowledge regarding the risk management strategy in the respondent organization. Only 7.4% indicated they did not know whether business risk profiling was used to determine their risk management strategy.

4.3.5 Risk Management Practice Support for Corporate Governance

Table 12 shows whether the respondent organization’s current risk management practices support strong corporate governance.

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>12</td>
<td>44.4</td>
</tr>
<tr>
<td>Don’t Know</td>
<td>2</td>
<td>7.4</td>
</tr>
<tr>
<td>Yes</td>
<td>13</td>
<td>48.1</td>
</tr>
<tr>
<td>Total</td>
<td>27</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Fieldwork.

From Table 12, a majority of respondents (48.1%) confirmed that their current risk management practices supported strong corporate governance. 44.4% of the respondents denied that their risk management practices supported strong corporate governance.

4.3.6 Importance of an Effective Risk Management Strategy

Table 13 shows the importance of an effective risk management strategy in achieving the goals and objectives of the respondent’s organization.
Table 13: Importance of an Effective Risk Management Strategy

<table>
<thead>
<tr>
<th>Importance</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Critical</td>
<td>17</td>
<td>63</td>
</tr>
<tr>
<td>Very Important</td>
<td>10</td>
<td>37</td>
</tr>
<tr>
<td>Total</td>
<td>27</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Fieldwork.

In this regard, 63% of respondents stated that an effective risk management strategy was critical in achieving the goals and objectives of their organizations. The other 37% indicated an effective risk management strategy was very important in achieving the goals and objectives of their organizations. None of the respondents suggested an effective risk management strategy was unimportant or marginally important in achieving the goals and objectives of their organizations. Therefore, majority of the respondents felt that an effective risk management strategy was critical in achieving the goals and objectives of their organizations. The reason for this would be that risks curtail achievement of an organizations goals and objectives.

4.3.7. Alignment of Risk Management Strategy with Organizational Goals

Table 14 gives information on whether the respondent organization’s risk management strategy is aligned with the organization’s goals, objectives and strategies.

Table 14: Alignment of Risk Management Strategy with Organizational Goals

<table>
<thead>
<tr>
<th>Alignment</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fully</td>
<td>5</td>
<td>18.5</td>
</tr>
<tr>
<td>Partially</td>
<td>16</td>
<td>59.3</td>
</tr>
<tr>
<td>Not Aligned</td>
<td>4</td>
<td>14.8</td>
</tr>
<tr>
<td>Don’t Know</td>
<td>2</td>
<td>7.4</td>
</tr>
<tr>
<td>Total</td>
<td>27</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Fieldwork.

From Table 14, 59.3% of the respondents stated their risk management strategy was partially aligned with the organization’s goals, objectives and strategies, 18.5% indicated
it was fully aligned, and 14.8% answered that it was not aligned. Only 7.4% indicated they did not know whether their risk management strategy was aligned with the organizational goals. This is an indication that in the majority of the respondent organizations there was some alignment between the risk management strategy and the entities’ goals, objectives and strategies.

4.3.8. Recognized Risk Management Framework Used by the Respondent Organizations

Table 15 gives the recognized risk management framework the respondent organizations employ as the basis for their risk management programmes.

Table 15: Risk Management Framework Used by the Respondent Organizations

<table>
<thead>
<tr>
<th>Framework</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>DeLoach's Enterprise-Wide Risk Management</td>
<td>7</td>
<td>25.9</td>
</tr>
<tr>
<td>COSO-Integrated Control Framework</td>
<td>20</td>
<td>74.1</td>
</tr>
<tr>
<td>Total</td>
<td>27</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Fieldwork.

According to the Table 15, a majority of the respondents (74.1%) stated that their organizations used the COSO-Integrated Control Framework, while 25.9% indicated their organization used DeLoach's Enterprise-Wide Risk Management framework. AS/NZ 4360 and FERMA were not in use by the organization or maybe the respondents did not understand their usage in the organization.

4.3.9. Responsibility for Risk Management Processes

Table 16 captures the overall entities responsible for risk management processes in the respondent organizations.
Table 16: Responsibility for Risk Management Processes

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board of Directors</td>
<td>22</td>
<td>81.5</td>
</tr>
<tr>
<td>Chief Executive Officer</td>
<td>5</td>
<td>18.5</td>
</tr>
<tr>
<td>Total</td>
<td>27</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Fieldwork.

81.5% of the respondents stated it was the responsibility of the Board of Directors while 18.5% said it was the Chief Executive Officer’s. None of the respondents gave the Audit Committee or the Chief Financial Officer as the overall entity responsible for risk management processes. That a majority of the respondents said it was the Board of Directors’ responsibility could be because the board handles major organizational processes.

4.3.10. Risk Committees Implemented by the Respondent Organizations

Table 17 presents information on the types of the risk committees implemented by the respondent organizations.

Table 17: Risk Committees Implemented by the Respondent Organizations

<table>
<thead>
<tr>
<th>Risk Committee</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk Committee of the Board</td>
<td>13</td>
<td>48.1</td>
</tr>
<tr>
<td>Executive Risk Management Committee</td>
<td>4</td>
<td>14.8</td>
</tr>
<tr>
<td>Project Steering Committee</td>
<td>10</td>
<td>37.0</td>
</tr>
<tr>
<td>Total</td>
<td>27</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Fieldwork.

From Table 17, 48.1% of the respondents stated that their organization had implemented the Risk Committee of the Board, while 37% said they had implemented the Project Steering Committee. Only 14.8% had implemented the Executive Risk Management Committee.
Committee. A majority of the respondents had, therefore, implemented the Risk Committee of the Board.

4.3.11. Combination of the Risk Committee with the Board Audit Committee

Table 18 shows whether the respondent organization’s Risk Committee is combined with the Board Audit Committee.

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>21</td>
<td>77.8</td>
</tr>
<tr>
<td>Don’t Know</td>
<td>1</td>
<td>3.7</td>
</tr>
<tr>
<td>Yes</td>
<td>5</td>
<td>18.5</td>
</tr>
<tr>
<td>Total</td>
<td>27</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Fieldwork.

In this respect, 77.8% of the respondents indicated that the two committees were not combined, whereas 18.5% stated that they were combined. Only 3.7% indicated they did not know what type of risk committee their organization had adopted. This is an indication that where a risk committee had been established, it was operating independently of the Board Audit Committee in a majority of the cases.

4.3.12. Membership of the Board Risk Committee and its Meeting Frequency

Table 19 presents the members of the board risk committee in the respondent organizations.
From the Table 19, 48.1% of the respondents indicated the Board Risk Committee was composed of non-executive members, 37% stated the Chair of the Board was a member, while 7.4% pointed out it was composed of independent directors with another 7.4% stating that the Chief Executive Officer was also a member. The respondents did not mention executive management as a member of the Board Risk Committee. The majority of the respondents indicated the committee was composed of non-executive members.

Where a Board Risk Committee had been established, the Chair of the Board in all cases chaired it. 77.8% of the respondents also noted that the Board Risk Committee met quarterly to review the risk profile, risk mitigation strategies and risk tolerance and appetite of their organization, while 22.2% indicated that they met on a monthly basis.

### 4.3.13. Responsibilities of the Board Risk Committee

Table 20 gives the respondents’ view on the best statement in regard to the responsibilities of their organization’s Board Risk Committee.
66.7% of the respondents suggested the statement “Responsibilities have not been defined clearly” best applied to their organization with respect to the responsibilities of the Board Risk Committee. The remaining 33.3% indicated that the statement “Responsibilities have been clearly defined and documented” best applied to their organization. The statement “Responsibilities have been documented but not defined clearly” was not considered best by any respondent.

### 4.3.14. Membership of the Executive Risk Committee

Table 21 shows the composition of the respondent organization’s Executive Risk Committee.

**Table 21: Composition of the Respondent’s Organization Executive Risk Committee**

<table>
<thead>
<tr>
<th>Member</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Management</td>
<td>27</td>
<td>100</td>
</tr>
<tr>
<td>Chief Executive Officer</td>
<td>27</td>
<td>100</td>
</tr>
<tr>
<td>Chief Financial Officer</td>
<td>27</td>
<td>100</td>
</tr>
<tr>
<td>Head of Internal Audit</td>
<td>27</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Fieldwork.

All the respondents suggested that General Management, Chief Executive Officer, Chief Financial Officer and the Head of Internal Audit were all members of the Executive Risk Committee. However, the absence of the Chief Risk Officer from these organizations may reflect the lack of appreciation of this role in the organizations sampled.

### 4.3.15. Responsibilities of the Executive Risk Committee and its Meeting Frequency

Table 22 gives the respondents’ view on the best statement in regard to the responsibilities of their organization’s Executive Risk Committee.
Table 22: Responsibilities of the Respondent Organizations' Executive Risk Committee

<table>
<thead>
<tr>
<th>Responsibilities</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responsibilities have been clearly defined and documented</td>
<td>9</td>
<td>33.3</td>
</tr>
<tr>
<td>Responsibilities have not been defined clearly</td>
<td>18</td>
<td>66.7</td>
</tr>
<tr>
<td>Total</td>
<td>27</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Fieldwork.

66.7% of the respondents suggested the statement “Responsibilities have not been defined clearly” best applied to their organization with respect to the responsibilities of the Executive Risk Committee. The remaining 33.3% indicated that the statement “Responsibilities have been clearly defined and documented” best applied to their organization. The statement “Responsibilities have been documented but not defined clearly” was not considered best by any respondent.

Where an Executive Risk Committee had been established, 77.8% of the respondent’s noted that it met annually to review the risk profile, risk mitigation strategies and risk tolerance and appetite of their organization, while 22.2% indicated that they met on a monthly basis. None of the respondent indicated that they met monthly or bi-annually.

4.3.16. Usage of Risk Management Systems or Processes

Table 23 presents the respondent’s view on the best activities applying to their organization in relation to the usage of risk management systems or processes.
Table 23: Respondent Organizations' Usage of Risk Management Systems or Processes

<table>
<thead>
<tr>
<th>Activity</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regular Reporting on Risk Management Activities and Incidents</td>
<td>18</td>
<td>66.7</td>
</tr>
<tr>
<td>Compliance Audit Function</td>
<td>5</td>
<td>18.5</td>
</tr>
<tr>
<td>Internal Audit Function</td>
<td>3</td>
<td>11.1</td>
</tr>
<tr>
<td>Integrated Risk Management Systems</td>
<td>1</td>
<td>3.7</td>
</tr>
<tr>
<td>Total</td>
<td>27</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Fieldwork.

From Table 23, 66.7% of the respondents stated the activity Regular Reporting on Risk Management Activities and Incidents applied to their organizations, 18.5% indicated the activity Compliance Audit Function applied to their organizations. Only 3.7% chose the activity Integrated Risk Management Systems as applying to their organizations. Business Unit Risk Assessment and Early Warning Reported to Escalate Material Risks to the Board were not considered to apply in the respondent organizations. Thus, the majority of the respondent organizations used risk management systems for regular reporting on risk management activities and incidents.

4.3.17. Reporting Lines for Internal Audit Function

Table 24 shows the reporting lines for the Internal Audit function in the risk management activities.

Table 24: Reporting Lines for Internal Audit

<table>
<thead>
<tr>
<th>Reporting Line</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit Committee</td>
<td>18</td>
<td>66.7</td>
</tr>
<tr>
<td>Chief Financial Officer</td>
<td>4</td>
<td>14.8</td>
</tr>
<tr>
<td>Chief Executive Officer</td>
<td>5</td>
<td>18.5</td>
</tr>
<tr>
<td>Total</td>
<td>27</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Fieldwork.
A majority of the respondents sampled noted that the Internal Audit function reports directly to the Audit Committee, with 66.7% representation. Others, 18.5%, stated that it reported to the Chief Executive Officer, while in 14.8% of the cases Internal Audit reports to the Chief Financial Officer. Therefore, the majority viewed the reporting line was the Audit Committee.

4.3.18. Performance of a Risk/Return Analysis

Table 25 singles out the respondent organizations’ performance of risk/return analyses to help determine risk tolerance and appetite.

Table 25: Respondent Organizations’ Performance of a Risk/Return Analysis

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>27</td>
</tr>
<tr>
<td>Total</td>
<td>27</td>
</tr>
</tbody>
</table>

Source: Fieldwork.

The respondents that had established a risk management policy unanimously agreed that their organizations performed risk/return analyses. On how often this is carried out, 77.8% of the respondents indicated it was done quarterly while 22.2% said they perform it on a monthly basis.

4.3.19. Formal Evaluation of the Effectiveness of Existing Risk Management Controls

Table 26 shows the availability of formal evaluation of the effectiveness of existing risk management controls and the cost of controls in the respondent organizations.
In this regard, 74.1% of respondents indicated there existed formal evaluation of the effectiveness of existing risk management controls and the cost of controls in their organization, while 18.5% stated such formal evaluations are not carried out in their organizations. Only 7.4% of the respondents did not know of the availability of such formal evaluation.

4.3.20. Validation Processes Employed in Risk Management

Table 27 presents the methods applied in the respondent organizations in relation to the validation processes employed in risk management.

From Table 27, equal percentage of respondents suggested External Audit, Risk Management Reviews, and Internal Audit as the validation processes employed in risk management. Management Certification, Regulatory Compliance Certification, Control Risk Self Assessment, Independent Quality Audits, Consultant Reviews and Independent Agency Ratings were not considered as applying to the respondent organizations in relation to the action process employed in risk management.
4.3.21. Level of Reliance on Applicable Validation Process

Table 28 shows the level of respondent organizations reliance upon each of the applicable validation processes referred to in Section 4.3.20.

Table 28: Level of Reliance on Applicable Validation Process

<table>
<thead>
<tr>
<th>Validation Process</th>
<th>High</th>
<th>Medium</th>
<th>Low</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>External Audits</td>
<td>12</td>
<td>9</td>
<td>6</td>
<td>1.8</td>
<td>0.8</td>
</tr>
<tr>
<td>Risk Management Reviews</td>
<td>16</td>
<td>3</td>
<td>8</td>
<td>1.7</td>
<td>0.9</td>
</tr>
<tr>
<td>Management Certification</td>
<td>10</td>
<td>10</td>
<td>7</td>
<td>1.9</td>
<td>0.8</td>
</tr>
<tr>
<td>Internal Audits</td>
<td>20</td>
<td>0</td>
<td>7</td>
<td>1.5</td>
<td>0.9</td>
</tr>
<tr>
<td>Regulatory Compliance Certification</td>
<td>18</td>
<td>5</td>
<td>4</td>
<td>1.5</td>
<td>0.7</td>
</tr>
<tr>
<td>Control Risk Self Assessment</td>
<td>5</td>
<td>4</td>
<td>18</td>
<td>2.5</td>
<td>0.8</td>
</tr>
<tr>
<td>Independent Quality Audits</td>
<td>14</td>
<td>3</td>
<td>10</td>
<td>1.9</td>
<td>0.9</td>
</tr>
<tr>
<td>Consultant Reviews</td>
<td>9</td>
<td>2</td>
<td>16</td>
<td>2.3</td>
<td>0.9</td>
</tr>
<tr>
<td>Independent Agency Ratings</td>
<td>9</td>
<td>2</td>
<td>16</td>
<td>2.3</td>
<td>0.9</td>
</tr>
</tbody>
</table>

Source: Fieldwork.

A three-point Likert scale was used to interpret the extent of reliance upon the validation processes. The scale ranged from ‘High’ to ‘Low’ and those processes with ‘High’ level of reliance were awarded 3, those with ‘Medium’ awarded 2, while those with ‘Low’ were awarded 1. Mean and standard deviations for the levels of reliance were also calculated to help in analyzing the data.

According to the researcher those processes with a mean close to 3 were considered of ‘High’ extent while those with a mean close to 1 were awarded ‘Low’ extent. On the same note, the higher the standard deviation, the higher the level of disagreement or dispersion among the respondents. According to the Table 28, Control Risk Self Assessment was considered to be ‘High’ reliance with a mean of 2.5 and a standard deviation of 0.8. Other highly relied upon processes were Consultant Reviews, Independent Agency Ratings, Independent Quality Audits, Management Certification and External Audits. All these processes had a mean of between 1.8 and 2.5. This implies that majority of the respondents valued Control Risk Self-Assessment as the most relied upon validation process. On the other hand, they viewed Internal Audits and Regulatory...
Compliance Certification of ‘Low’ reliance extent. This could be due to mistrust and the difficult process of acquiring compliance certification.

4.3.22. Level of Ownership to Drive a Risk Management Culture

Table 29 shows the level of respondent organizations’ ownership at board, executive and line management levels to drive risk management culture.

<table>
<thead>
<tr>
<th>Table 29: Level of Ownership to Drive a Risk Management Culture</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image" alt="Table showing level of ownership to drive risk management culture" /></td>
</tr>
<tr>
<td>Source: Fieldwork.</td>
</tr>
</tbody>
</table>

A five-point Likert scale was used to interpret the level of ownership, ranging from ‘Excellent’ to ‘Don’t Know’. According to the scale, those levels with ‘Excellent’ were awarded 5, while those with ‘Don’t Know’ were awarded 1. Within the continuum were 4 for ‘Satisfactory’, 3 for ‘Good’, and 2 for ‘Unsatisfactory’. Mean and standard deviations for the levels of ownership were also calculated to help in analyzing the data. According to the researcher, those processes with a mean close to 5 were considered ‘Excellent’ while those with a mean close to 1 were awarded ‘Don’t Know’. On the same note, the higher the standard deviation, the higher the level of disagreement or dispersion among the respondents. In regard to this, the respondents were most satisfied with the executive level of ownership, with a mean of 2.2 and standard deviation of 1.5. Their satisfaction with the board’s ownership followed with a mean of 2.0 and a standard deviation of 1.6. Line management’s level of ownership was least on the satisfaction scale with a mean of 1.9 and a standard deviation of 1.4. Therefore, the majority of the respondents were most satisfied with the executive level of ownership.
4.3.23. Risk Assessments Performed

Table 30 gives the respondents’ view on the risk assessments done by their organizations.

Table 30: Risk Assessments Done by the Respondent Organizations

<table>
<thead>
<tr>
<th>Risk Assessment</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operational Risk Assessment</td>
<td>18</td>
<td>66.7</td>
</tr>
<tr>
<td>Project Risk Assessment</td>
<td>6</td>
<td>22.2</td>
</tr>
<tr>
<td>Environment Risk Assessment</td>
<td>2</td>
<td>7.4</td>
</tr>
<tr>
<td>Fraud Risk Assessment</td>
<td>1</td>
<td>3.7</td>
</tr>
<tr>
<td>Total</td>
<td>27</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Fieldwork.

In this respect, 66.7% of the respondents selected Operational Risk Assessment, 22.2% picked Project Risk Assessment, while 7.4% indicated Environment Risk Assessment as the type of risk assessment done by their organization. Only 3.7% chose Fraud Risk Assessment. The respondents indicated that their organizations did not carry out the following types of risk assessments: Financial Risk Assessment, Information Technology Risk Assessment, Legal/Regulatory Risk Assessment, Entity-wide Strategic Risk Assessment, Business Contingency Risk Assessment, Programme Risk Assessment and Transitional/Change Risk Assessment. This is an indication that the majority of the respondents thought that the Operational Risk Assessment was the most popular form of risk management, even though the level ownership to drive risk management appeared to be lowest with line management.

4.3.24. Risk Assessments Performed

Table 31 gives the respondents’ view regarding their organizations approach to risk management.
In this regard 51.9% of the respondents indicated the statement ‘Risk assessment is conducted as part of business case justification’ applied to their organizations, while 48.1% stated the statement ‘Scenario planning is a key component of the risk management program’ applied to their organizations. This coupled with the lack of enterprise-wide risk assessment highlighted in Section 4.3.23 indicates that risk assessments were not being undertaken in an integrated risk management system.

### 4.3.25. Criteria for Assessing

Table 32 gives the respondents’ view on the criteria used by their organizations to assess the impact of risks.

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial</td>
<td>9</td>
<td>33.3</td>
</tr>
<tr>
<td>Regulatory/Compliance</td>
<td>18</td>
<td>66.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>27</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Source: Fieldwork.

66.7% of the respondents pointed out the regulatory/compliance criteria were used by their organizations, while 33.3% indicated they considered the financial criteria. None of the respondent indicated their organization uses the political or reputation/brand criteria to assess the impact of risks. This may be an indication of the organizations’ attempts to comply with government expectations.
4.3.26. Use of Technology Tools to Drive the Risk Management Process

Table 33 above shows the availability of technology tools or software to drive the risk management process.

Table 33: Use of Technology Tools to Drive the Risk Management Process

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>15</td>
<td>55.6%</td>
</tr>
<tr>
<td>Don't Know</td>
<td>7</td>
<td>25.9%</td>
</tr>
<tr>
<td>Yes</td>
<td>5</td>
<td>18.5%</td>
</tr>
<tr>
<td>Total</td>
<td>27</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Source: Fieldwork.

From Table 33, we deduce that 55.6% of respondents said there did not exist technology tools or software to drive the risk management process while 18.5% said there did exist technology tools or software to drive the risk management process in their organization. Only 25.9% of the respondents did not know of the availability of such tools. This implies that the use of technology tools is yet to be adopted as a means of driving the risk management process.

4.3.27. Methods Used in Measuring and Monitoring Risk

Table 34 gives the methods used by the respondent organizations in measuring and monitoring risk.
Table 34: Methods Used by the Respondent Organizations in Measuring and Monitoring Risk

<table>
<thead>
<tr>
<th>Method</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal Audit to monitor the performance of your risk management</td>
<td>4</td>
<td>14.8</td>
</tr>
<tr>
<td>Strategic risk issues are frequently on the Board Agenda for independent oversight</td>
<td>19</td>
<td>70.4</td>
</tr>
<tr>
<td>Key risk indicators are used to measure the performance of the risk management process</td>
<td>4</td>
<td>14.8</td>
</tr>
<tr>
<td>Total</td>
<td>27</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Fieldwork.

According to Table 34, 70.4% stated strategic risk issues are frequently on the Board Agenda, while 14.8% stated key risk indicators are used to measure the performance of the risk management process, and the same percentage indicated Internal Audit is used to monitor the performance of their risk management. The fact that a majority of the respondents indicated that strategic risk issues are frequently on the Board Agenda is in line with the earlier finding that 48.1% of the respondents reported that risk management is used to support strong corporate governance.

Where Internal Audit is used to monitor the performance of risk management, all the respondents indicated that is done on a quarterly basis.

4.3.28. Methods Used to Report Risk Management Activities

Table 35 presents the methods used by the respondent organizations to report risk management activities.
From Table 35, 59.2% of respondents stated their organizations used institutional presentations, while 22.5% indicated their organizations used annual reports to report risk management activities. Only 18.6% of the respondents indicated the suggested methods did not apply to their organizations.

Where Annual Reports were used to report risk management activities, 4 respondents (projected to 66.7%) indicated a description of the risks faced by the organization was included. The other 2 respondents (projected to 33.3%) stated a description of the strategic risk management approach taken by the organization was included in the report.

4.3.29. Challenges Faced in Strategic Risk Management Practices

Various factors were mentioned as presenting challenges to the practice of strategic risk management. Many respondents cited the lack of agility in revising strategic plans in time, which leads to rigid strategic risk management practices. Another commonly suggested challenge was the poor implementation of strategies and lack of follow up.

A considerable number of respondents also mentioned poor forecasting when drafting strategic plans as challenge. Others pointed out that huge bureaucracy in state corporations was a hindrance to effective strategic risk management practices.
CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1. Summary of Findings

The aim of this study was to investigate the strategic risk management practices among state corporations in Kenya and to establish the challenges that these entities face in carrying out such practices. From the findings, 80% of respondent organizations had a spread in every province while 20% were only in Nairobi, implying that majority of the respondent organizations had a geographical presence in all provinces. The respondents unanimously agreed that there existed a strategic/corporate plan for their respective organizations. There were 66% of the respondents who said that their organization’s strategic plan covered 5 years and 15.6% indicated a period of 3 years. Only 6.7% indicated they do not know the period covered. Thus majority of respondents indicated the strategic plan covered 5 years. However, 55.6% of respondents indicated there was no risk management department in their organization while 44.4% confirmed the presence of such a department in their organization.

5.1.1. Strategic Risk Management Practices

The study established that 33.3% of the respondents indicated that risk management policies have not been in their organizations, while 60% agreed that the policies exist. However, 6.7% of the respondents said that they do not know whether their organizations have risk management policies. 55.6% of the respondents agreed that their risk management strategy was based on a comprehensive profile of business risks likely to impact the business in the next 2 - 3 years. 37% of the respondents indicated that their risk management strategy was not based on a comprehensive profile of business risks likely to impact the business in the next 2 - 3 years. 74.1% of respondents said their organizations used COSO-Integrated Control Framework while 25.9% said their organization used DeLoach’s Enterprise-Wide Risk Management. This implies that majority of the respondent organization used COSO-Integrated Control Framework.

According to the research, 48.1% of respondents confirmed that the current risk management practices supported strong corporate governance with 44.4% denying the risk management practices supported strong corporate governance. This is in line with the fact that a majority of the respondents indicated that strategic risk issues are frequently on
the Board Agenda. On the importance of an effective risk management strategy in achieving the goals and objectives of the respondent’s organization, 63% of respondents said an effective risk management strategy was critical in achieving the goals and objectives of their organizations. The other 37% said an effective risk management strategy was very important in achieving the goals and objectives of their organizations.

Regarding the type of risk committees used by the organizations, the Board Risk Committee turned out to be the most popular with 48.1% of the respondents affirming that their organization had implemented it. Other risk committees adopted by the organizations included the Project Steering Committee (37%) and the Executive Risk Management Committee (14.8%). On the composure of the Board Risk Committee, 48.1% of respondents said the committee was composed of non-executive members, 37% said it was composed of the chair of the board while 7.4% said it was composed of independent directors with another 7.4% saying it was composed of chief executive officer. However, a majority of the respondents indicated that the responsibilities of the Board Risk Committee had not been clearly defined.

Concerning the availability of formal evaluation of the effectiveness of existing risk management controls and the cost of controls in the respondent’s organization, 74.1% of respondents said there existed formal evaluation of the effectiveness of existing risk management controls and the cost of controls in their organization, while 18.5% said that the controls do not exist. Only 7.4% of the respondents did not know of the availability of such formal evaluation. On the validation processes employed in risk management, there was high reliance on self-assessment with a mean of 2.5 and a standard deviation of 0.8. Other equally relied upon processes were consultant reviews, independent agency ratings, independent quality audits, management certifications and external audits. All these processes had a mean of between 1.8 and 2.5. This implies that majority of the respondents relied upon control risk self-assessment as the validation process in risk management.

With respect to the organizations’ approach to risk management, 51.9% of the respondents indicated that risk assessment is conducted as part of business case justification, while 48.1% stated scenario planning is a key component of the risk management program. This, coupled with the lack of enterprise-wide risk assessment, indicates that risk management was not being undertaken in an integrated manner.
5.1.2. Challenges Encountered in Strategic Risk Management Practice

Various factors were mentioned as presenting challenges to the practice of strategic risk management. Many respondents cited the lack of agility in revising strategic plans in time, which leads to rigid strategic risk management practices. Another commonly suggested challenge was the poor implementation of strategies and lack of follow up.

A considerable number of respondents also mentioned poor forecasting when drafting strategic plans as challenge. Others pointed out that huge bureaucracy in state corporations was a hindrance to effective strategic risk management practices.

5.2. Conclusion

Based on the above observations, the researcher could conclude that state corporations have undertaken expansion programmes in every province and most of them have risks management policies. Majority of the employees in state corporations lack enough knowledge regarding the risk strategy in the respondent organization. However, most state organizations' current risk management practices support strong corporate governance. The COSO-Integrated Control Framework is the most widely used risk management framework. From the research, state corporations do not carry out an enterprise-wide management of risks, even though effective risk management is critical in achieving the goals and objectives of organizations.

State corporations view the process regarding internal audit and regulatory compliance certification as inferior due to mistrust and the process of acquiring compliance certification. However state corporations encounter various challenges that hinder the effective implementation of strategic risk management programmes. These include non-revised strategic plans, poor forecasting when drafting strategic plans, poor implementation and state bureaucracies.

5.3. Recommendations

From the research various recommendations can be made. Firstly, state corporations should undertake programmes to effectively educate their employees on their strategic risk management. Only 60% of the respondents indicated their organizations had a risk management strategy and out of those, majority gave answers suggesting they did not
know whether or how they were implemented. This will help them even in understanding, monitoring, and being accountable for risks that fall under their areas of operation.

Secondly, risk management strategies employed by state corporations should support strong corporate governance. This will ensure effective and responsible management of these entities as required by the public.

Thirdly, state corporations should ensure effective strategic risk management since this is critical in achieving the goals and objectives of their organizations. The reason for this is that risks curtail achievement of an organization’s goals and objectives.

Lastly, the process regarding internal audit and regulatory compliance certification should be amended to ensure the corporations’ trust in them. This will have the desired effect of their wide-scale adoption that, in turn, leads to stronger internal controls and standardization of operations.
REFERENCES


TO WHOM IT MAY CONCERN

Dennis Abuva

Reg No. DG/1/7462/02

MBA student of the University of

He is required to submit as part of his/her coursework assessment a
project report on a management problem. We would like the
students to design projects on real problems affecting firms in Kenya. We
therefore, appreciate if you assist him/her by allowing him/her to
interview your organization for the research.

All the reports will be used solely for academic purposes and a
copy will be mailed to the interviewed organizations on request.

Yours sincerely

[Signature]

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAM

[Name]

[Position]

[Phone]

[Email]

September 2008
DATE: 15th September, 2008

TO WHOM IT MAY CONCERN

The bearer of this letter, DENNIS ABUAYA

Registration No: D61/P/7462/02

is a Master of Business Administration (MBA) student of the University of Nairobi.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate if you assist him/her by allowing him/her to collect data in your organization for the research.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAM - LOWER KABETE CAMPUS

MBA OFFICE
P. O. Box 30197
NAIROBI

CO-ORDINATOR, MBA PROGRAM
APPENDIX II

LIST OF STATE CORPORATIONS WITH HEAD OFFICES IN NAIROBI, AS PER OFFICE OF PUBLIC COMMUNICATIONS, AUGUST 2008.

Category A - Commercial State Corporations

1. Agricultural Development Corporation
2. Agricultural Finance Corporation (AFC)
3. Agro-Chemical & Food Company Ltd
4. Chemilil Sugar Company Limited
5. Consolidated Bank of Kenya
7. Gilgil Telecommunications Industries
8. Industrial and Commercial Development Corporation
9. Kenya Broadcasting Corporation (KBC)
10. Kenya Electricity Generating Company
11. Kenya Industrial Estate Limited
12. Kenya Literature Bureau
13. Kenya Meat Commission
14. Kenya National Shipping Line
15. Kenya National Trading Corporation Limited
16. Kenya Ordinance Factories Corporation
17. Kenya Pipeline Company Ltd
18. Kenya Post Office Savings Bank
19. Kenya Railways Corporation
20. Kenya Re-insurance Corporation
21. Kenya Tourist Development Corporation (KTDC)
22. Kenya Wine Agencies Limited
23. Kenyatta International Conference Centre
25. National Cereals & Produce Board
26. National Housing Corporation
27. National Oil Corporation of Kenya Ltd
28. New K.C.C
29. Nzoia Sugar Company
30. Postal Corporation of Kenya
31. School Equipment Production Unit (SEPU)
32. South Nyanza Sugar Company
33. Telkom (K) Ltd
34. University of Nairobi Enterprises & Services Ltd

Category B - Regulatory Sector

1. Capital Markets Authority
2. Central Water Services Board
3. Coffee Board of Kenya
4. Commission for Higher Education
5. Communications Commission of Kenya
6. Deposit Protection Fund Board
7. Export Processing Zone Authority
8. Horticultural Crops Development Authority
9. Kenya Anti-Corruption Commission
10. Kenya Bureau of Standards
11. Kenya Civil Aviation Authority
12. Kenya Dairy Board
13. Kenya Industrial Property Institute
14. Kenya Maritime Authority
15. Kenya National Assurance Company
16. Kenya Plant Health Inspectorate Services
17. Kenya Sisal Board (has some financial functions)
18. Kenya Sugar Board
20. National Environment Management Authority
21. NGO Coordination Bureau
22. Pests Products Control Board
23. Pyrethrum Board of Kenya (has some financial functions)
24. Retirement Benefits Authority
25. Tea Board of Kenya
26. Teachers Service Commission
27. Water Services Regulatory Board

Category C - Research Sector
1. Coffee Research Foundation
2. Kenya Agricultural Research Institute
3. Kenya Forestry Research Institute
4. Kenya Industrial and Research Development Institute
5. Kenya Institute for Public Policy Research and Analysis
6. Kenya Marine and Fisheries Research Institute
7. Kenya Sugar Research Foundation
8. Tea Research Foundation of Kenya

Category D - Educational/Professional Sector
1. Cooperative College of Kenya
2. Council of Legal Education
3. Egerton University
4. Higher Education Loans Board
5. Jomo Kenyatta University of Agriculture and Technology
6. KASNEB
7. Kenya College of Communication & Technology
8. Kenya Institute of Administration
10. Kenya Utalii College
11. Kenya Water Institute
12. Kenyatta University
13. Maseno University
14. Moi University
15. University of Nairobi
16. Western University College of Science and Technology
Category E - Development/Promotional Sector
1. Athi Water Services Board
2. Catchment Area Advisory Committee
3. Coast Development Authority
4. Coast Water Services Board
5. Ewaso Ng’iro South Development Authority
6. Export Promotion Council
7. Industrial Development Bank
8. Investment Promotion Centre
9. Kenya Airports Authority
10. Kenya Ports Authority
11. Kenya Roads Board
12. Kenya Safari Lodges & Hotels
13. Kenya Seed Company Ltd
14. Kenya Tourism Board
15. Kenya Wildlife Service
16. Kerio Valley Development Authority
17. Lake Basin Development Authority
18. Lake Victoria South Water Service Board
19. National Co-ordinating Agency for Population and Development
20. National Irrigation Board
22. Numerical Machining Complex
23. Nyayo Tea Zones Development Corporation
24. Rift Valley Water Services Board
25. Sports Stadia Management Board
26. Tana and Athi Rivers Development Authority
27. Water Resources Management Authority
Category F - Culture/Social Service Sector
1. Bomas of Kenya Ltd.
2. Kenya Ferry Services Limited
3. Kenya National Library Services
4. Local Authorities Provident Fund
5. National Aids Control Council
6. National Hospital Insurance Fund
7. National Museums of Kenya
8. National Social Security Fund

Category G - Revenue Collection Sector
1. Catering Tourism and Training Development Levy Trustees
2. Kenya Revenue Authority
This questionnaire seeks to establish strategic risk management practices among state corporations in Kenya. The information obtained will be treated in utmost confidence and used for only academic purposes. Your assistance in completing this questionnaire will be highly appreciated.

The questionnaire is in two parts, A and B. Part A consists of questions aimed at obtaining general information about your organization. Part B seeks information on the strategic risk management practices of your organization.

Date ______________ Questionnaire No. ______________

PART A: BACKGROUND INFORMATION.

1. What is the name of your organization?

2. What is the nature of operation of your organization?

In the following set of questions, tick the box that best applies to your situation.

3. What is the geographical spread of your organization within the country?
   - Only in Nairobi
   - In every province
   - Other (Please specify):

4. Does your organization have a strategic/corporate plan?
   - No
   - Don’t know
   - Yes

5. If yes, what period, in years, does the plan cover?
   - 1 year
   - 2 years
   - 3 years
   - 4 years
   - 5 years
   - More than 5 years
   - Don’t know
6. Do you have a risk management department?
   - No
   - Don’t know
   - Yes

7. How many employees do you have?
   - Less than 50
   - 50 to 100
   - 101 to 500
   - 501 to 1000
   - Over 1000

8. Which of the following statements best describes the predominant calibre of the senior management staff (From Heads of departments to the C.E.O) in your organization?
   - No technical and management training
   - Technical specialist with no management training but with on-the-job experience.
   - Technical specialist with management training
   - Professional managers with business and management training
   - Other (Please specify)

PART B: STRATEGIC RISK MANAGEMENT PRACTICES

I. Risk Policy and Strategy

9. Does your organization have a formally approved risk management policy?
   - No
   - Don’t know
   - Yes

10. Who provides the final approval of your organization’s risk management policy?
    - Board
    - Audit Committee
    - CEO
    - Risk Committee

11. Has your organization’s appetite and tolerance for risk been clearly specified in your risk management policy?
    - No
    - Don’t know
    - Yes

12. Is your organization’s risk management strategy based on a comprehensive profile of business risks likely to impact the business in the next 2 – 3 years?
    - No
    - Don’t know
    - Yes
13. Do you believe that your organization’s current risk management practices support strong corporate governance?
- No
- Don’t know
- Yes

14. How important is an effective risk management strategy in achieving the goals and objectives of your organization?
- Critical
- Very important
- Marginally important
- Unimportant

15. Is your organization risk management strategy aligned with the organization’s goals, objectives and strategies?
- Fully
- Partially
- Not aligned
- Don’t know

16. Which recognized risk management framework does your organization use as the basis for its risk management programs?
- DeLoach’s Enterprise-Wide Risk Management
- AS/NZ 4360
- COSO – Integrated Control Framework
- FERMA
- Other. Please specify: .................................................................

II. Risk Structure

17. Who has overall responsibility for risk management processes in your organization?
- Board of Directors
- Chief Executive Officer
- Audit Committee
- Chief Financial Officer
- Other. Please specify: .................................................................

18. Has your organization implemented any of the following risk committees? (Check as many as are appropriate).
- Risk committee of the board
- Executive risk management committee
- Project steering committee
19. If your organization has established a risk committee, is it combined with the board audit committee?
- No
- Don’t know
- Yes

20. Who are the members of the Board Risk Committee? (Check as many as are appropriate).
- Non-executive directors
- Independent directors
- Chair of the Board
- Chief Executive Officer
- Executive management

21. Who chairs the Board Risk Committee?
- Audit Committee Chair
- Independent Non-Executive Director
- Chair of the Board
- Other (including CEO or Director)

22. How often does your Board Risk Committee meet to review the risk profile, risk mitigation strategies and risk tolerance and appetite of your organization?
- Monthly
- Quarterly
- Bi-annually
- Annually
- Other. Please specify: ______________________________________________________________

23. Which of the following statements best applies to your organization in relation to the responsibilities of the Board Risk Committee?
- The risk committee’s responsibilities have been clearly defined and documented.
- The risk committee’s responsibilities have not been defined clearly.
- The risk committee’s responsibilities have been documented but not defined clearly.

24. If your organization has established an Executive Risk Committee, what is its composition? (Check as many as are appropriate).
- Chief Financial Officer
- General Management
- Chief Executive Officer
- Head of Internal Audit
- Other. Please specify: ______________________________________________________________
25. Which of the following statements best applies to your organization in relation to the responsibilities of the Executive Risk Committee?
- The risk committee’s responsibilities have been clearly defined and documented.
- The risk committee’s responsibilities have not been defined clearly.
- The risk committee’s responsibilities have been documented but not defined clearly.

26. How often does your Executive Risk Committee meet to review the risk profile, risk mitigation strategies and risk tolerance and appetite of your organization?
- Monthly
- Quarterly
- Bi-annually
- Annually
- Other. Please specify:

27. Which of the following activities apply to your organization in relation to the usage of risk management systems or processes? (Check as many as are appropriate).
- Regular reporting to the board on risk management activities and incidents.
- Business unit risk assessments.
- Compliance audit function.
- Internal audit function.
- Early warning reported to escalate material risks to the board.
- Integrated risk management systems.

28. If the Internal Audit function plays a role in the risk management activities of your organization, what are the reporting lines for this function?
- Audit Committee
- Chief Executive Officer
- Chief Financial Officer
- Other. Please specify:

III. Risk Optimization

29. Does your organization perform a risk/return analysis to help determine the risk tolerance and appetite?
- No
- Don’t know
- Yes

30. If your organization performs a risk/return analysis, how often is this done?
- Monthly
- Quarterly
- Bi-annually
- Annually
- Other. Please specify:
31. Does your organization formally evaluate the effectiveness of existing risk management controls and the cost of controls?

- No
- Don’t know
- Yes

32. Which of the following methods apply to your organization in relation to the validation processes employed in risk management? (Check as many as are appropriate).

- External audit.
- Risk management reviews.
- Management certification.
- Internal audit.
- Regulatory compliance certification.
- Control risk self assessment.
- Independent quality audits.
- Consultant reviews.
- Independent agency ratings.

33. Indicate the level of your organization’s reliance upon each of the applicable validation processes.

<table>
<thead>
<tr>
<th>Validation Method</th>
<th>High</th>
<th>Medium</th>
<th>Low</th>
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</thead>
<tbody>
<tr>
<td>External audit</td>
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<td>Risk management reviews</td>
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<td>Management certification</td>
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<td>Regulatory compliance certification</td>
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<td>Control risk self assessment</td>
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<td>Consultant reviews</td>
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<td>Independent agency ratings</td>
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IV. Risk Portfolio

34. How satisfied are you with the level of ownership at board, executive and line management levels to drive a risk management culture? Indicate your answer in the table below.

<table>
<thead>
<tr>
<th>Level of ownership</th>
<th>Excellent</th>
<th>Satisfactory</th>
<th>Good</th>
<th>Unsatisfactory</th>
<th>Don’t know</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board</td>
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<td>Executive</td>
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<tr>
<td>Line management</td>
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</table>
35. Which of the following risk assessments does your organization perform? (Check as many as are appropriate).
- Operational risk assessment
- Financial risk assessment
- Information technology risk assessment
- Project risk assessment
- Legal/regulatory risk assessment
- Entity-wide strategic risk assessment
- Business contingency risk assessment
- Environmental risk assessment
- Fraud risk assessment
- Program risk assessment
- Transition/change risk assessment

36. Which of the following statements apply to your organization when assessing its approach to risk management? (Check as many as are appropriate).
- Risk assessment is conducted as part of business case justification for key strategic projects initiatives, e.g. major capital expenditure
- Scenario planning is a key component of the risk management program
- Other methods used in assessing risk. Please specify:

37. What determines the method(s), specified in Question 28 above, that your organization employs when assessing its approach to risk management?

38. Which criteria does your organization use to assess the impact of its risks? (Check as many as are appropriate).
- Financial
- Regulatory/compliance
- Reputation/brand
- Political
- Other. Please specify:

39. Does your organization use any technology tools or software to drive the risk management process?
- No
- Don't know
- Yes
V. Measuring and Monitoring Risk

40. Which of the following method(s) is (are) used by your organization in measuring and monitoring risk? (Check as many as are appropriate).
   - Internal audit is used to monitor the performance of your risk management program
   - Strategic risk issues are frequently on the Board agenda for independent oversight
   - Key risk indicators are used to measure the performance of the risk management process

41. If your organization uses internal audit to monitor the performance of the risk management program, how often is this done?
   - Monthly
   - Quarterly
   - Bi-annually
   - Annually
   - Other. Please specify: .................................................................

42. Which method(s) does your organization use to report risk management activities? (Check as many as are appropriate).
   - Annual report
   - Media briefings
   - Institutional presentations
   - Not reported
   - Not applicable
   - Other. Please specify: .....................................................................

43. If your organization uses the Annual Report to report risk management activities, what risk management information is included in it? (Check as many as are appropriate).
   - A description of the risks faced by the organization
   - A description of the strategic risk management approach taken by the organization
   - A risk management declaration by the Board and/or CEO
44. Briefly highlight the challenges you face in your strategic risk management practices.

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

Filled by (designation)

THANK YOU VERY MUCH FOR YOUR COOPERATION.