



The Influence of Organizational Leadership to Enterprise Risk Management

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Received: 03 February 2022

Accepted: 15 April 2022

Published: 18 May 2022

Abstract: *Enterprise Risk Management assists organizations in reducing potential risk; it is a strategic approach to control the risk that the business may face. The main objective of this study was to determine the influence of organizational leadership on the implementation of enterprise risk management in Toms World Philippines. An assessment was conducted to determine the influence of organizational leadership on the implementation of control activities in the organization. The study was based on descriptive research design involving a quantitative approach. Data gathered were processed statistically using the SPSS by the Centro Escolar University Data Processing Center, and presented using the percentage, frequency distribution, mean, standard deviation and Pearson correlation analysis. The overall analysis revealed that the relationship between the extent of the implementation of enterprise risk management control activities and organizational leadership of Toms World Philippines was significant. However, the implementation of enterprise risk management in the organization and organization leadership can be further improved by a thorough application of the policies and procedures in controlling threats to the organization. There is a significant relationship between the organizational leadership in the implementation of enterprise risk management of Toms World Philippines. It recommends that other researchers along the field can look into the conduct of similar studies that would highlight the implementation of Enterprise Risk Management.*

Keywords: *Enterprise Risk Management, Organizational Leadership, Control Activities.*

1. INTRODUCTION

Companies believe that excellence in the management of risk is an essential part of competitive strategy [6]. Enterprise risk management (ERM) has come a long way [4] and has become part of corporate strategy in today's business world.

Concepts and studies have been recorded on the implementation journey of enterprise risk management (ERM) including its challenges on the application of its principle and frameworks from rating agencies. This includes assessments of enterprise risk management (ERM) methodologies and practices. The Committee of Sponsoring Organization of the Treadway



Commission (COSO) based in USA developed the Enterprise Risk Management (ERM) Framework in 2004 [4] and the International Organization for Standardization (ISO) 31000 risk management which goal is to provide a standard guideline on its implementation.

However, these principles, frameworks and guidelines were challenged by the human judgment and practices of the organization in terms of decision making on responding to risk and establishing controls activities on several uncertainties [5]

The main purpose of enterprise risk management (ERM) is to handle the uncertainty that the firms may face [9] It is a design process to identify potential events that may affect the firm and manage the risk within the firm's risk appetite [5] Furthermore, the implementation of enterprise risk management (ERM) is not only the responsibilities of the board of directors, but also it needs the involvement of people across an organization to identify, address, monitor and evaluate the risk [1] as well as the risk awareness and risk understanding of all managers and employees throughout the corporate structure [9] which are crucial to the success of ERM.

In today's trends of enterprise risk management (ERM), the enhanced responsiveness on the corporation's uncertainty is highly dependent on the participation of employees and top management. Effective risk management is the job of managers who are ultimately responsible, ethically and legally responsible for the judgment on the management of people.

It was further noted that an organization must be capable of creating a culture, in which all employees are involved, empowered and focused on identifying, addressing, and reporting potential risks and [9]

The purpose of this study addressed the influence of organizational leadership on the implementation of enterprise risk management (ERM) at Toms World Philippines, an indoor recreational center in the entertainment industry which markets to all members of families from children to teenagers, as well as to adults in greater Metro Manila.

Review of Empirical Studies

Different studies were conducted by different researchers relative to the influence of organizational leadership to enterprise risk management. In embracing enterprise risk management (ERM) the leaders and senior management should critically challenge its organization risk management practices and opportunity to enhance its current processes and improve the ability to meet the objectives [5]. In addition, the study "reference [8]" stated that the contributory factors of success of risk management were leadership and senior management support. Leadership influences the way in which management competence is expressed. Leaders can increase their effectiveness by working collaboratively with people with various cognitive styles and paying attention to different points of views, attitudes, behaviors, perspectives, and actual cognitions. [3] The emerging enterprise risk management by examining the organizational factors of the role of Chief Risk Officer (CRO), the role of Audit Committee, and Top Management support its implementation. The findings indicated a positive and significant relationship between the deployment of enterprise risk management (ERM) and the presence of the Chief Risk Office, Audit Committee and Top Management support. This study suggested the importance of those roles in the decision making of the organization on effective risk management policies and mechanisms. However, this study did not explain the effective strategic decision-making process of the key persons of the organization. The study of "reference [1]" explored the organizational dynamics of ERM practice of three non-financial companies through a 7-year case study analysis based on the three elements of ERM which are risk rationalities, the uncertainty of experts and technologies. The study emphasized the



uncertainty of experts accentuated in two ways: through the experts’ approaches and their constraints to act and also the technologies that are to be adopted. They concluded that the decision mind-set and context are dependent on whether risks are represented as real problems for managers or not.

Based on the foregoing literature and studies indicate that enterprise risk management (ERM) is part of the corporate strategy and mainly challenges its internal environment implementation. Focusing on the top management and key personnel of the organization may help in the success of the enterprise risk management. Thus, the literature supports that organizational leadership may influence the effectiveness of enterprise risk management, as well as the control activities being implemented. Therefore, it seems reasonable to presume that the identified gaps and challenges on the implementation of enterprise risk management are the attributes of a leader’s and employees’ commitment toward to the achievement of management objectives.

2. METHODOLOGY

This study used the descriptive research design involving quantitative approach in gathering and treating the data. The survey-correlation design was also employed involving the participation of the personnel from Toms World Philippines operating in Metro Manila, Philippines.

The respondents of the study were 88 employees assigned in 22 branches of Metro Manila, specifically the personnel belonging to the Branch Head and team members such as Branch Head, Team Leaders, Officer in Charge, Accounting Assistant, Merchandising Assistant, Crew Members. These respondents provided the useful information in testing the hypothesis of this research.

The study used the questionnaire technique in gathering data. The researcher utilized unstructured questionnaire based on the on the leadership and control activities conducted at the organization.

3. RESULT AND DISCUSSION

This section presents the data, its analysis and interpretation based on the objectives of the study.

3.1. Respondent's Degree of Agreement on the Descriptive Profile of the Organization Leadership of Tom World Philippines

The discussion focuses on the three areas of the descriptive profile of the organization leadership, namely, decision-making, communication and Information, and Commitment.

Table 4.1.1 Decision Making

Decision Making - Indicators	Mean	Standard Deviation	Verbal Interpretation
Managers facilitate decision making process and consider suggestions before making any decision.	4.14	.805	Agree



Managers analyze data through presenting trend to support decision making	4.05	.776	Agree
Managers are focused on whether a decision is best for the overall organization and how that decision may impact individually	4.07	.841	Agree
Managers educate team members on the risks and trade-offs of specific decisions	4.06	.701	Agree
Managers encourage openness and empowerment through soliciting suggestions and feedback	4.00	.711	Agree
Overall Rating	4.0631	.57026	Agree

Data reflects that the majority of the respondents agree, with an overall rating mean value of 4.0631, in terms of the organization leadership’s decision making. As shown in Table4, all decision-making indicators obtain a verbal interpretation of agree and generally with low standard deviations; the obtained data are reliable pertaining to the leadership’s decision making. However, responses on item 1 with a standard deviation of .805 and item 3 with a standard deviation of .841, are somewhat higher compared to the other indicators although they are all verbally interpreted as agree. This finding indicates that responses do not differ.

Table 4.1.2 Communication and Information

Communication and Information - Indicators	Mean	Standard Deviation	Verbal Interpretation
6. Managers communicate team member duties and distribute task in an effective manner	3.94	.764	Agree
7. Communication flow across the organization enable people to do their responsibilities	3.92	.937	Agree
8. Information is distributed according to its intended purpose only	3.85	.904	Agree
9. The information provides the users with sufficient detail and time to carry out their responsibilities efficiently and effectively	3.95	.757	Agree
10. There is appropriate methods for establishing authority, responsibility and lines of reporting	3.86	.949	Agree
Overall Rating	3.907	.5880	Agree

Based on the data gathered, respondents generally agree on their description of the organization leaders as regards their process of communication and information dissemination.



Communication and information are vital aspects of enterprise risk management success. The quality, value, and timeliness of communication and information serve as basis for sound decision making, and the practical implementation and coordination of response activities. Since communication is one of the most important aspects of any organization, it is easy to see why a better understanding of communication efficacy is critical to the overall success of risk objectives.

Table 4.1.3 Commitment

Commitment - Indicators	Mean	Standard Deviation	Verbally Interpreted
11. Organization actively seeks for opinions and ideas on relevant issues to risk management	3.83	.937	Agree
12. Organization is focused on achieving objectives towards to risk management	3.99	.864	Agree
13. Organization enhances its abilities to identify potential risk and assess risk events effectively	4.12	.869	Agree
Overall Rating	3.9811	.58582	Agree

Respondents’ agreement on the descriptive profile of organization leadership as regards Commitment is presented in Table 1.3. Based on the responses gathered, respondents generally agree on the organizational leadership in terms of their commitment on risk management as indicated by the overall rating of the computed mean, 3.9811, with standard deviation of .58582.

Findings imply that decision making of managers was not clearly shown to employees on how they discuss a certain issue; this is because managers keep some confidentiality of information prior to making decision. Managers avoid leaking information when a decision has not yet been made clearly. Presenting data and a history of previous risk events helps team members understand how their managers respond to specific risks. Well-coordinated monthly meetings assist the Board of Directors (BOD) and managers in understanding the risk operation. Discussing it with all department heads fosters openness and empowerment on how risk objectives are to be met.

According to the study of “reference [7], on the mediation of risk perception between leadership styles and risk management styles of managers, the leaders' decision-making ability on risk management has gained importance in the modern decision literature because decision making is the responsibility of the leaders regardless of the situation.

Organizational leadership is frequently regarded as one of the most important organizational factors influencing organizational performance and sustainability to risk management [7]. A systematic approach to decision making, communication and information flow, and encouraging all employees to participate in risk identification will lead to the organization's success in meeting its enterprise risk management goal.



3.2. Extent of Performance of the Leadership in the Implementation of the Enterprise Activities

The discussion focuses on three areas of the extent of performance of the leadership in implementing enterprise activities: the Physical Control, Segregation of Duties, Policies, and Procedures.

Table 4.2.1 Physical Control

Physical Control -Indicators	Mean	Standard Deviation	Verbal Interpretation
14. Leadership performs daily checking of physical store before and after the operations.	3.92	.847	Moderate extent
15. Leadership has established procedures to prevent unauthorized access or destruction of documents and records.	3.24	.971	Moderate extent
16. Leadership strictly implements access measures to machines.	3.15	.751	Moderate extent
17. Leadership designates person responsible to oversee the actions of guest while playing inside the stores.	2.65	.910	Moderate extent
18. Leadership provides CCTVs that are operational 24/7.	2.77	.991	Moderate extent
Overall Rating	3.145	.4020	Moderate extent

Based on the responses gathered, the performance of the leadership as regards physical control gets an overall rating of 3.145 with a standard deviation of .4020, verbally interpreted as Moderate Extent

Among the five indicators, the highest mean value of 3.92 and standard deviation of .847 is given to indicator 14, that is, the leadership performs daily checking of physical stores before and after the operation. The verbal interpretation is Moderate Extent. Nonetheless, it appears that some respondents are dissatisfied with how the leadership conducts daily checks before and after operations. The data indicate that respondents perceive that leadership does not perform well as regards physical control. Results also suggest that leadership needs to improve further its daily checks on the physical store prior to the start of operations.

Many risk-related events involve physical assets such as machinery, inventory, and securities. Organizations should implement appropriate risk-based physical control measures, such as physical checklists or security procedures to avoid unnecessary incidents. [10]

Table 4.2.2 Segregation of Duties

Segregation of Duties Indicators	Mean	Standard Deviation	Verbally Interpretation
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19. The organizational structure defines key areas of responsibility and establishes accountability.	2.98	.742	Moderate extent
20. The assignment of authority and responsibility clearly establishes the role of individuals and teams.	3.70	.899	Great extent
21. Employees know how their actions interrelate and contribute to achievement of the company objectives.	3.94	.927	Great extent
22. The review and approval of documents or reports is performed by different personnel.	2.84	.693	Moderate extent
23. There is documented job description for each position.	3.18	.687	Moderate extent
Overall Rating	3.330	.3919	Moderate extent

The extent of leadership performance in the implementation of control measures in terms of segregating duties. The overall rating indicates a mean value of 3.330 and standard deviation of .3919, verbally interpreted as Moderate Extent which still indicates that the leadership performs satisfactorily in the aspect of Segregation of Duties.

The extent of performance of the leadership in the implementation of the enterprise activities as regards policies and procedures are presented in Table 9. Based on the responses gathered, the overall rating obtained on the leadership performance on the implementation of policies and procedure is .48242. This implies that generally, respondents are satisfied with the performance of leaderships as regards the implementation of policies and procedure. Data also reveal that not all respondents have the same responses, although responses are clustered within the mean.

Table 4.2.3 Policies and Procedures

Policies and Procedures Indicators	Mean	Standard Deviation	Verbal Interpretation
24. Policies and procedures are properly communicated within the organization.	3.68	.878	Great extent
25. Procedures are being implemented in the organization to ensure correct execution of organizational objectives in a timely manner.	3.74	1.056	Great extent
26. Policies and procedures are periodically reviewed to ensure appropriateness.	2.90	.803	Moderate extent
27. Corresponding disciplinary actions on violation of policies and procedures are in place.	3.16	.693	Moderate extent



Overall Rating	3.3693	.48242	Moderate extent
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Identifying organizational control measures, risk, and vulnerability will assist the organization in developing strategies to eliminate or reduce risk factors. All guidelines on physical control, segregation of duties, policies, and procedures for doing things at work are included in the standard operating procedures (SOP). Furthermore, a thorough internal review of control measures on a regular basis may aid in proper risk control and response planning. Organizational control activities such as physical control, segregation of duties, policies, and procedures are required to ensure that identified risk responses are implemented. It is a mechanism designed to motivate an individual or an organization to achieve desired goals. Aside from organizational leadership, control measures are required to achieve successful risk management. It addresses risk factors that could result in loss or damage due to accident, natural disaster, negligence, intentional fraud, or theft. It is possible to reduce or eliminate them by implementing these control measures. With the proper risk management measures in place, the organization will identify at-risk employees and guests and understand when, where, and how they are exposed to risk. This simplifies the process of eliminating or reducing those risks. Furthermore, it will identify risk factors that are common in the workplace.

3.3. Extent of Implementation Organization Policies in Controlling Threats

The discussion focuses on two areas on the extent of implementation of organization's policies in controlling threats such as risk of fraud, theft, accidents and natural disasters

Table 4.3.1 Addressing Risk of Fraud and Theft

Addressing Risk of Fraud and Theft Indicators	Mean	Standard Deviation	Verbal Interpretation
28. Leadership periodically performs an assessment of its exposure to fraudulent activities and how the operations could be impacted.	3.40	.929	Moderate implementation
29. Leadership assessment of fraud risks considers opportunities for unauthorized acquisition, use and disposal of assets, altering the reporting records, and committing other inappropriate acts.	3.70	.761	High implementation
30. Leadership has a whistleblower policy for people to report suspected improprieties regarding fraud; errors in recording and reporting daily sales; misrepresentation or false statements.	3.02	.982	Moderate implementation
31. Leadership establishes a communication process to obtain information about potential fraud and deploys a coordinated approach to investigation and corrective action to address fraud appropriately and in a timely manner.	3.98	.694	High implementation



Overall Rating	3.5256	.47802	High implementation
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The respondent's overall rating on extent of implementation of organization's policies in controlling threats as regards addressing risk of fraud and theft obtains an overall mean value of 3.5256, verbally interpreted as High Implementation, and a standard deviation of .47802. However, indicator 28 with standard deviation .929 and indicator 30 with standard deviation of .982 are somewhat higher compared to the other indicators, which means that respondents differ in their opinions, but data are clustered and still, within the mean.

Findings imply that the organization's control measures should address both internal and external factors that may have an impact on its effectiveness. Continuous improvement and team member awareness are critical components of effective control measures. Fraud and theft schemes are frequently ongoing crimes that can go undetected for months or even years, making resolution time-consuming and costly. As a result, it is often difficult to fully understand and quantify the extent of the fraud and the harm caused. The actual cost of fraud and theft is greater than the direct financial loss, loss of productivity, potential legal and compliance costs associated with remediation, and impact on an organization. If not given time and expense to investigate.

Table 4.3.2 Addressing Accidents and Natural Disasters

Addressing Accidents and Natural Disasters Indicators	Mean	Standard Deviation	Verbal Interpretation
32. Leadership is trained well in responding to bodily injured guest or employees.	3.50	.773	High implementation
33. Leadership is aware of the building's evacuation plan in case of disasters.	3.95	.741	High implementation
34. Leadership ensures that safety policies and procedure of the organizations are clear and communicated.	3.52	.546	High implementation
35. Leadership sees to it that a warning system that is operational in the event of natural disasters occurrences	3.88	.740	High implementation
Overall Rating	3.7131	.37050	High implementation

The extent of Implementation as regards controlling threats of addressing accidents and natural disasters obtains an overall rating of a mean value of 3.7131 with a standard deviation of .37050, verbally interpreted as high implementation. However, the statements 32, 33, and 35 are spread over a wide range of values based on the respective standard deviation on the four statements.

4.4 Influence of Leadership to Enterprise Risk Management

The data that indicate the influence of Leadership to Enterprise Risk Management which gains an overall rating of a mean value of 4.0852, a standard deviation of .44186, and verbally



interpreted as High Influence.

Table 4.4.1 Influence of Leadership to Enterprise Risk Management

Leadership Influence to Enterprise Risk Management Indicators	Mean	Standard Deviation	Verbally Interpretation
36. Leaders who inspire employees to pursue and achieve the vision of the company has set to risk management through communicating with the employees the matters of strategy, plans and result are consistently monitored.	3.64	.647	High influence
37. Leaders' helps the subordinates to have a clear view in taking risk and give the appropriate level of risk in the nature of operation.	4.31	.667	High influence
38. Leaders encourage employees to develop creative ideas for improving the overall operation.	4.16	.693	High influence
39. Leaders' Commitment helps organization to establish an atmosphere of continuous improvement culture in operation's risk management.	4.24	.661	High influence
Overall Rating	4.0852	.44186	High influence

Managers show clear support for the organization's enterprise risk management initiatives and oversee what management has designed and implemented to manage risk exposures. [10] Effective leaders are widely respected in the branch operations and have accepted responsibility for overall risk management leadership, resources, and support to accomplish the organization's risk management effort.

4. CONCLUSIONS

Based on the findings of the study, the following conclusions were drawn:

- a. Active involvement of managers to risk management is a major factor to creating an organization that is committed in pursuing successful enterprise risk management.
- b. The Toms World Philippines needs a thorough internal review of its control measures to be able to improve their implementation.
- c. The organization's policies in controlling threats in addressing risk of fraud and theft necessitates a need to periodically review its vulnerability in order to control fraud and theft within the organization.
- d. The influence of leadership indicates that team members are motivated by their managers. Organizational leadership can contribute to improving the ERM of the organization in terms of



encouraging and motivating the personnel to perform their tasks and functions.

- e. There is a significant relationship between organizational leadership with the implementation of the Enterprise Risk Management of Toms World Philippines.

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