An investigation into the effect of Enterprise Risk Management on the achievement of strategic objectives by South African State Owned Entities

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Masters of Business Administration Degree

by
Thiren Pillay
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Supervised by: Mr Arthur Linke
PLAGIARISM DECLARATION

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Thiren Pillay

Date: 09 December 2013
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This paper is dedicated to the memory of the great Nelson Rolihlahla Mandela, an inspirational leader with immense integrity and wisdom.

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ABSTRACT

This research study investigated the effect of Enterprise Risk Management (ERM) on the achievement of strategic objectives in South African State-owned Entities (SOEs).

The South African Government is dependent on SOEs to assist the State in addressing issues of social and economic transformation. Therefore SOEs have a pivotal role to play in addressing the societal and economic challenges of the country, as well as ensuring quality service delivery. However, a number of South African SOEs have consistently been in the limelight due to performance issues, poor service delivery and essentially not meeting their strategic objectives. Enterprise Risk Management (ERM) is a management discipline, which if implemented effectively, can reduce the risks to an organisation’s strategic objectives, and greatly assist the organisation in meeting its strategic objectives. ERM therefore has an important role to play with regards to managing uncertainty and the risks associated with the achievement of South African SOE’s mandate and strategic objectives. This study set out to provide new insight and contribute to the literature on the effect of ERM on performance and in particular the achievement of strategic objectives in South African SOEs.

The study made use of an inductive research approach combined with a qualitative research methodology based on a detailed literature review and assessment of SOE company reports as well as data obtained from a structured and semi-structured interview process. This study established that ERM plays an important role with regards to managing uncertainty and the risks associated with the achievement of South African SOE’s mandate and strategic objectives, and therefore contributes to the overall performance of the SOEs. However, due to the fact that the SOEs have a dual mandate with regards to financial performance and development impact, there are a number of external factors outside of the control of the SOEs which may prevent them from achieving certain strategic objectives

Keywords: Enterprise Risk Management; Performance Measures; Risk Maturity; Strategic Objectives; South African State Owned Entities; Value Creation.
LIST OF ABBREVIATIONS

ACSA – Airports Company South Africa
BSC – Balanced Scorecard
COSO – Committee of Sponsoring Organisations of the Treadway Commission
CRO - Chief Risk Officer
DPE - Department of Public Enterprises
EXCO – Executive Committee
ERM – Enterprise Risk Management
ISO - The International Organisation for Standardisation
PRC - Presidential Review Committee on SOEs
PFMA - Public Finance Management Act
RIMS – The Risk Management Society
SAA – South African Airways
SABC – South African Broadcasting Company
SAFCOL - South African Forestry Company SOC Limited
SOE – State Owned Entity
UCT – University of Cape Town
UNICEF - United Nations Children’s Fund
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1. INTRODUCTION

“The review of State-owned Entities (SOEs) in South Africa took place at a time that was characterised by enormous challenges and great opportunities. The economy is in a fragile period and the growth and development plans of the country are threatened. Societal challenges such as poverty, unemployment, skills development, and job creation demands attention. Infrastructure development plans are being marshalled to contribute to inclusive development and growth of the economy. Demands for improved service delivery are pronounced and Government is hard at work charting the country’s long-term development plan.”

- Mangwashi Victoria Phiyega

Foreword by the Chairperson of the Presidential Review Committee on State Owned Entities (Presidential Review Committee on SOEs Executive Summary, 2013)

1.1. Research area

South African State-owned entities (SOEs) have consistently been in the limelight due to performance issues and poor service delivery. As per the quote above, the South African economy is in a fragile period with significant threats to its growth and development plans. According to the Presidential Review Committee on SOEs Executive Summary (2013), the South African Government is dependent on SOEs to assist the State in addressing issues of social and economic transformation as well as in bridging the gap between rich and poor; black and white; rural and urban and other divisions in society. Therefore SOEs have a pivotal role to play in addressing the societal and economic challenges of the country, as well as ensuring quality service delivery. These challenges include transformation, unemployment, income disparity, limited access to land, housing and finance and addressing insufficient and poor infrastructure.

In South Africa, there have been numerous service delivery protests as a result of many communities not having access to basic services such as water and sanitation as well as
electricity. Additionally, South Africa constantly ranks among the most unequal nations of the world in terms of the GINI coefficient and is experiencing a widening gap in income distribution (UNICEF, 2011). These issues have a significant impact on the South African economy and therefore the South African Government and its SOEs have to play a role in addressing these issues in order to develop and grow the economy as well as enhance the livelihoods of its people. Furthermore, SOEs are required to play a role in addressing market failure where the private sector generally would not get involved in due to the high associated risks and uncertainty. SOEs are therefore faced with a multitude of risks and there are concerns as to whether the SOEs can meet these multiple strategic objectives.

The South African National Treasury regulations and section 38 of the Public Finance Management Act (PFMA, 1999) require the accounting officer or authority of all public institutions, including SOEs, to have and maintain an effective, efficient and transparent system of Enterprise Risk Management (ERM). The implementation of ERM in SOEs is therefore driven to a large degree by compliance requirements. However, the purpose of this study is to investigate whether there is an effect of ERM on improving performance and value creation, decision making and ultimately the successful achievement of strategic objectives.

ERM is a management discipline, which if implemented effectively, can reduce the risk of not meeting an entity’s strategic objectives. ERM is often perceived to be driven by regulatory and compliance requirements, however there are many benefits of implementing an ERM programme over and above the compliance aspect. One of the key benefits of ERM is that it links strategic objectives to the key risk exposures, which if managed effective can provide reasonable assurance that the organisations strategic objectives will be achieved and therefore create value for stakeholders.

ERM, which has been in discussion since the mid-1990’s, is a relatively new management discipline, and incorporates a systematic and integrated approach to the management of the total risks that a company faces (Dickinson, 2001). ERM has received significant attention in the recent years in both industry practice and academic literature, and continues to grow in interest for both practitioners and scholars. Increasing numbers of organisations have implemented or are considering ERM programs, consulting organisations have established specialised ERM units, rating
agencies have begun to consider ERM in the ratings process, and universities have
developed ERM-related courses and research centers (Hoyt and Liebenberg, 2011).

Hoyt and Liebenberg (2011) notion that organisations that engage in ERM should be
able to better understand the aggregate risk inherent in different business activities
which should provide them with a more objective basis for resource allocation, thus
improving capital efficiency and return on equity. This implies an overall improvement
in performance and therefore supports the notion that ERM has a positive effect on
performance.

According to COSO (2004), the underlying premise of ERM relates to value creation
for stakeholders. SOEs are faced with a multitude of risks and uncertainty as a result of
the environment in which they operate in and their role in assisting the State with
addressing market failures. These risks and uncertainty, if managed effectively will
enable SOEs to effectively deal with the risk exposures and therefore create
opportunities to enhance and build stakeholder value.

Therefore, ERM has an important role to play in SOEs with regards to managing
uncertainty and the risks associated with the achievement of the SOE’s mandate and
objectives.

1.2. Problem statement

This research study investigates the effect of ERM on the achievement of strategic
objectives in South African SOEs.

There has been an increase in the amount of research and studies focused on the effect
and impact of ERM on corporate performance, particularly in the financial services
industry (Nocco & Stulz, 2006; Pagach and Warr, 2010; Hoyt and Liebenberg, 2011;
McShane et al., 2011; Gates et al., 2012). However, research examining the effect of
ERM on performance and value creation particularly in SOEs presents a gap in the
literature.

Economic theory posits various rationales for the State’s involvement in the economy,
namely natural monopoly; capital market failure; externalities (the public good
argument), or a need to achieve equity (Chang, 2007). In South Africa, SOEs have historically been a significant vehicle for developing the South African economy and creating jobs. ERM is particularly important for SOEs as SOEs are created by Government to support strategies for economic development and to promote public interests. The environments in which the SOEs operate are generally exposed to higher risks than the private sector. Additionally, SOEs are required to assist the Government with addressing market failure and this increases the exposure to risks and uncertainty. Therefore SOEs need to manage the risks they are faced with that may prevent them from successfully achieving these objectives.

This research study is therefore intended to provide new insight and contribute to knowledge on the effect of ERM on performance and in particular the achievement of strategic objectives in SOEs.

1.3. Purpose and significance of research

The main thrust of the research entails an investigation of the effect of ERM on the strategic planning process of South African SOEs, in order to enable value creation as well as enhance performance. Paladino et al. (2009) postulate that successful ERM in strategic planning seeks to maximise shareholder value when setting strategic goals by finding a balance between performance goals and targets and related risks. This research project elaborates on this concept and its primary purpose is to investigate the effect of ERM on performance with a specific focus on South African SOEs. The research will be exploratory in nature, and will focus on a qualitative and inductive approach and research methodology.

This research should be of particular interest to South African SOEs as well as to the South African Government in general and other Government departments that have implemented or are looking to implement an ERM process with the view of value creation and enhancing performance. Additionally, the research will provide an opportunity for SOEs to identify the key elements required from ERM that will drive performance. The research will also contribute to the growing literature and debate on ERM as well as provide opportunities for further research on performance in SOEs in South Africa linked specifically to ERM.
1.4. Research questions

This study seeks to primarily answer the question: *Does ERM have an effect on performance in South African SOEs*? The research will investigate the role that ERM processes play in the performance of South African SOEs. The literature review discussed in chapter two below provides five specific themes related to ERM, performance and value creation along which to formulate the research questions. The specific research questions will thus focus on the following five themes:

1. Evolution of ERM
2. ERM maturity
3. ERM and strategic planning alignment
4. Value creation and performance measures in SOEs
5. Effect of ERM on value creation and performance

The following specific questions have been derived from the above themes that will be discussed and elaborated on in the literature review and lead to the questions that will be utilised in the data collection as discussed in the methodology and design in chapter 3:

1. How do South African SOEs determine and measure their strategic objectives?
2. How well are the South African SOEs performing in relation to these performance measures?
3. What are the main reasons for South African SOEs undertaking a formalised ERM process?
4. How is ERM implemented and what is the maturity level of ERM implementation in South African SOEs?
5. Is there an alignment of the ERM processes with strategic planning in South African SOEs?
6. What is the relationship between ERM and performance in South African SOEs

The literature review provides a basis for addressing these questions in the research and leads to formulation of the appropriate research methodology and design.
1.5. Research assumptions and ethics

1.5.1 Research Assumptions

The data collected and reviewed for the research study is expected to be valid and accurate. However, the extensive number of available academic journals, online resources and relevant media articles may have resulted in some key aspects not being adequately identified and reviewed. This issue was addressed by performing a comprehensive literature review positioned around five key focus themes. Additionally, the quality of the information for the literature review was sourced from highly graded, peer reviewed journals.

Furthermore, limitations around the availability of interviewees from the respective SOEs selected in the sample could have had an impact on the research in terms of the SOEs surveyed. In addition, obtaining secondary data posed a challenge as this information was not necessarily freely available. The likelihood of this occurring was reduced due to the purposive method of sampling selected, which only included SOEs under the administration of the Department of Public Enterprises, which generally has publically available annual reports.

1.5.2 Research Ethics

The research was conducted in a considerate and transparent manner in line with the ethics standards set out in the UCT Graduate School of Business Research in Ethics policy. All interviewees and participants in this research were timeously informed of the purpose of the research and were also made aware of the fact that their participation in the study was voluntary and that they were free to withdraw from the study at any point in time. The details of the interviewees were kept confidential and formal confidentiality agreements were drawn up and signed. Additionally, ethical clearance was obtained from the UCT Graduate School of Business.
1.6. Outline of Subsequent Chapters

The outline of the subsequent chapters of this research study is as follows:

**Chapter 2: Literature review** – The literature review provides an overview of the themes developed to form the research questions which relate to the evolution of ERM, ERM maturity, ERM alignment to strategic planning and the value creation and performance measures in SOEs.

**Chapter 3: Research Methodology** – The aim of the research methodology chapter is to develop the research approach and design, sampling techniques, research instruments data collection and analysis including the validity and reliability of data as well as the ethical considerations and research limitations taken into account in this study.

**Chapter 4: Research Findings** – The purpose of this chapter is to present the sample of SOEs selected for the research including the respondents that participated in the qualitative interviews as well as to present the results from the document analysis and the interviews that were conducted.

**Chapter 5: Research Analysis and Discussion** – The purpose of this chapter is to analyse and discuss the results from the research findings and elaborate on these results based on the specific research questions and literature reviewed for this study.

**Chapter 6: Research Conclusion** – The purpose of this chapter is to summarise the key findings from this research study, address the primary research question for this study and highlight any limitations from the study.

**Chapter 7: Further Research Recommendations** – This chapter provides an overview of future potential research areas.
2. LITERATURE REVIEW

2.1. Introduction

The literature review provides an overview of the research themes leading to the development of the research questions which relate to the evolution of ERM, ERM maturity, ERM alignment to strategic planning and the value creation and performance measures in SOEs. Additionally, the literature review highlights prior research findings relating to the effect of ERM on performance. The literature review has been divided into five sections.

The first section looks at SOEs and in particular the related performance measures in SOEs, which provides insight into the underlying theory and models used to measure success. The next section relates to the evolution of ERM and provides a high-level overview of the evolution of ERM theory and practices as well as ERM maturity. The following section deals specifically with the key factors linking ERM and strategic planning and the last section focuses on existing literature relating to the effect of ERM on performance.

The conclusion highlights the key outcomes of the literature reviewed and demonstrates the linkage between the research problem and the research questions developed, as well as any gaps identified in the literature. It also covers the basic overview of the underlying theory for the purposes of this research.

2.2. SOEs and Performance measures

According to the Presidential Review Committee on SOEs (2011), there are an estimated 300 SOEs in South Africa across the 3 spheres of government which forms the population for this research study. This estimation excludes SOE subsidiaries and other forms of state owned establishments. SOEs such as South African Airways (SAA) and the South African Broadcasting Company (SABC) have been making significant losses, with SAA reporting a loss of R1.3 billion in 2012 (SAA, 2012) and SABC reporting a net loss of approximately R300 million over the past 3 years (SABC, 2012). Furthermore these SOEs have failed to deliver on their strategic objectives over the past few years,
requesting bailouts from the national Government. However, Transnet and Airports Company South Africa (ACSA) have performed fairly well in terms of financial performance with Transnet reporting a profit of R21 billion in 2013 and creating 8500 jobs (Transnet, 2012). ACSA managed to turnaround its financial performance from a reported loss of R220 million in 2011 to a net profit of R187 million in 2012 (ACSA, 2012). This observation was echoed by the Presidential Review Committee on SOEs report in 2013 which stated that, “The service delivery performance of SOE’s was found to be mixed, some exhibiting excellence and providing high quality services, while in other areas there are deficiencies characterised by low levels of customer satisfaction, complaints and service delivery civil protests” (Presidential Review Committee on SOEs Executive Summary, 2013, p. 8).

The Presidential Review Committee on SOEs report released in May 2013 examines what measures can be taken to improve the performance of state-owned entities so that they can advance developmental objectives. According to the preliminary observations of the Presidential review in September 2011, the rationale for creating SOEs by Governments is to undertake commercial activities to promote economic growth; improve service delivery; undertake infrastructure development and management; promote national values and heritage; ensure domestic and constitutional values are upheld; serve less profitable areas and ensure constant and reliable supply of life critical commodities (Presidential Review Committee on SOEs, 2011). Additionally, SOEs are required to play a role in addressing market failure where the private sector would not get involved. SOEs are therefore faced with a multitude of risks and there are concerns as to whether the SOEs can meet these multiple objectives.

According to the Presidential Review Committee on SOEs (2013), the performance of SOE’s in Developmental States is measured differently from those of private companies. SOEs are created by Government to support strategies for economic development and to promote public interests. However, such entities are often challenged with trying to strike a balance between the interests of the public and the revenue and profitability targets (Presidential Review Committee on SOEs Executive Summary, 2013). There is a natural conflict between the commercial interests of SOEs and the State’s developmental interests. In addition, at any given time there are multiple stakeholders’ expectations of SOEs. Many countries are therefore searching for ways to strike the correct balance between economic imperatives and socio-political objectives (Presidential Review
Committee on SOEs Volume 2, 2013, p. 55). It is not a simple task to measure performance in SOEs, whereas in the private sector there are many established measures and tools to measure value creation and corporate performance. Additionally SOEs are faced with a conflicting role in terms of creating development impact and remaining financially sustainable.

The SOEs that will be reviewed in this study are under the administration of the Department of Public Enterprises (DPE) and have been purposively selected as per the table below:

<table>
<thead>
<tr>
<th>SOE</th>
<th>Mandate/ Objectives</th>
<th>Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alexkor SOC Limited</td>
<td>The primary mandate of Alexkor is the exploitation of diamond resources on a commercially viable basis and to contribute towards the socio-economic upliftment of the regions in which it operates</td>
<td>Mining</td>
</tr>
<tr>
<td>Broadband Infraco SOC Limited</td>
<td>Provides affordable access to long-distance telecommunications network infrastructure and broadband telecommunications</td>
<td>Communications</td>
</tr>
<tr>
<td>Denel SOC Limited</td>
<td>Denel’s Key role is to supply strategic defence capabilities and technology to the SANDF on a commercially viable basis, act as a catalyst for advanced manufacturing in the broader economy, and export products to improve revenue</td>
<td>Manufacturing</td>
</tr>
<tr>
<td>Eskom Holdings SOC Limited</td>
<td>Generates, transmits and distributes electricity to industrial, mining, commercial, agricultural and residential customers and redistributors</td>
<td>Energy</td>
</tr>
<tr>
<td>South African Airways SOC Limited</td>
<td>The national airline carrier delivering sustainable profits and growth through world class service to customers internally and externally</td>
<td>Transportation</td>
</tr>
<tr>
<td>South African Forestry Company SOC Limited</td>
<td>Dedicated to growing South African business in the forestry and forest products industry</td>
<td>Manufacturing</td>
</tr>
<tr>
<td>Transnet SOC Limited</td>
<td>A focused freight transport company, delivering integrated efficient, safe, reliable and cost-effective services to promote economic growth in South Africa</td>
<td>Transportation</td>
</tr>
<tr>
<td>South African Express SOC Limited</td>
<td>A regional airline which operates predominantly on routes that are secondary in South Africa and the region</td>
<td>Transportation</td>
</tr>
</tbody>
</table>

*Table 1: State Owned Companies Reporting to the Department of Public Enterprises (DPE, 2012)*
These SOEs are the only SOEs that currently report into the DPE. The other SOEs not listed in the table above report into various government departments representing the specific sectors under which the SOE is focused on. For example, the SABC reports into the Department of Communication and the Development Bank of Southern Africa reports into the Department of Finance. Therefore, the SOEs under the administration of the DPE provide a diverse set of organisations representing various sectors as illustrated in the table above.

Theoretical perspectives on performance measurement can be broadly categorised into shareholder and stakeholder perspectives (Fitzgerald, 2007, p. 223). The shareholder view is based on the belief that financial measures provide the most relevant and direct focus for improving performance, as measuring and rewarding activities that improve financial performance is thought to best enhance shareholder wealth. However, there is an alternative view which relates to the stakeholder perspective which has reshaped thinking about performance measurement. The stakeholder perspective argues “that companies compete on many dimensions whose evaluation cannot be confined to narrow financial indicators” (Fitzgerald, 2007, p. 224). This relates to stakeholder theory. Usually, performance measurement frameworks which are underpinned by stakeholder theory incorporate both financial and non-financial measures. Stakeholder theory recognises that financial outcomes are important for shareholders, however the non-financial measures are designed to reflect the strategic importance of focusing on other stakeholders, such as suppliers, employees and customers.

According to Jensen (2001), stakeholder theory states that managers should make decisions that take account of the interests of all the stakeholders in an organisation. Stakeholders include all individuals or groups who can substantially affect, or be affected by, the welfare of the organisation which includes not only the financial claimholders, but also employees, customers, communities, and government officials. Stakeholder theory offers another multi-dimensional approach for organisation performance measurement. Stakeholders are defined as the groups or individuals, inside or outside the organisation, that have a stake or can influence the organisation’s performance. The theory generally identifies five stakeholder groups for an organisation: three of them, shareholders, customers, and communities, define the external expectations of an organisation’s performance; the other two, suppliers and employees, participate with the organisation to plan, design, implement and deliver the
organisation’s products and services to its customers (Atkinson et al., 1997, p. 27). Stakeholder theory is relevant to SOEs as it relates to the multiple stakeholder groups that SOEs need to take into account in terms of measuring performance. In contrast to the grounding of value maximisation in economics, stakeholder theory has its roots in sociology, organisational behaviour, the politics of special interests, and managerial self-interest. Therefore, stakeholder theory is aligned to the conflict that SOEs experience in terms of the commercial interests and developmental interests.

Venkatraman and Ramanujam, (1986) posit the option to move away from defining and measuring performance or effectiveness is not a viable due to performance improvement being at the heart of strategic management. The managerial importance of business performance is evident in the many prescriptions offered for performance improvement (Venkatraman & Ramanujam, 1986).

The Balanced Scorecard (BSC) as promulgated by Kaplan and Norton (1996) is one of the most widespread frameworks striking a balance between multiple performance dimensions and objectives, and aligned to stakeholder theory. Jensen (2001) posits that the BSC developed by Kaplan and Norton is the managerial equivalent of stakeholder theory. The BSC method is a strategic approach and performance management system that allows organisations to implement the vision and strategy, working from 4 perspectives (Kaplan & Norton, 1996):

- Financial perspective,
- Customer perspective,
- Internal Business Processes perspective, and
- Learning and Growth perspective.

The BSC was originally interpreted as an advanced performance measurement system. However, it was soon noticed that it could be used as a managerial system when implementing strategies at all organisational levels by supporting the following functions (Kaplan & Norton, 1996, p.77):

1. Explaining the strategy – translating strategic goals into quantitative measures, explains understanding the strategy by the management and facilitates consistent consensus development;
2. Communicating with strategic goals. The Balanced Scorecard can transform high levels of goals into operative goals, so as to communicate with strategies within the organisation;

3. Planning and setting goals. Ambitious, but feasible goals are set for each perspective and analysis, and activities are undertaking in their realisation and

4. Strategic feedback and learning – a signal whether strategy implementation is realised as planned, and whether it is successful.

According to Frigo (2012), these four functions have contributed to BSC becoming an effective management system for strategy implementation as it results in high level of culture change and creates strategy focussed organisation.

The BSC has proven to be a robust and innovative framework that has continued to develop in many directions and applications. It represents a disciplined approach for managing strategy execution and performance measurement that can help organisations drive superior performance. The development of the new body of knowledge in strategy management that Kaplan and Norton have led has significantly increased the value of management accounting and elevated its value in organisations (Frigo, 2012).

SOEs have a broad mandate and are faced with a conflicting role in terms of creating development impact and remaining financially sustainable. Hence, measuring performance in SOEs could be very challenging. The principles of the BSC will therefore be utilised as a tool to determine the success of these SOEs rather than just focusing on financial measures such as profitability.

Based on the literature reviewed it would appear that the BSC developed by Kaplan and Norton would be an appropriate tool to measure performance of SOEs in South Africa and help SOEs understand what creates value in their organisations. Furthermore, the BSC takes into account both financial and non-financial measures in assessing performance and is aligned to stakeholder theory which South African SOEs should be taking into account in their strategic planning.
2.3. Evolution of ERM

Risk management has been a widely debated topic from the early days of finance research, where it was considered irrelevant (Modigliani & Miller, 1958) under perfect market conditions (McShane et al., 2011). The Modigliani and Miller (1958) theory emphasised that risk management could not create or destroy value. The debate continues today as many organisations adopt ERM programmes and both academics as well as practitioners investigate its effectiveness and value creation as well as the effect on performance of organisations.

According to McShane et al. (2011), some finance scholars responded to Modigliani and Miller’s (1958) ‘‘risk management irrelevance principle’’ by citing capital market imperfections and proposing theories that explain why risk management can increase organisation value. These theories relate to the benefit that risk management can create for organisation value by reducing the total risk or volatility resulting from increased costs associated with tax payments, financial distress, underinvestment, asymmetric information and undiversifiable stakeholders. This is essentially the traditional or silo based approach to risk management (McShane et al., 2011). Beasly et al. (2006) proposes that ERM differs from the more traditional approach, frequently described as the "sil o" approach, where risks are often managed in isolation. ERM seeks to strategically consider the integrative effects of various risk events with the goal of balancing an organisation's entire portfolio of risks to be within the stakeholders' appetite or tolerance for risk.

Risk management has, however, evolved over the decades from the traditional silo based approach to an enterprise-wide risk management (ERM) approach. The ERM approach to risk management emerged in the late 1990’s after the Enron and WorldCom scandals. Early adopters of ERM recognized that changes in technology, globalization, corporate financing, and numerous other risk drivers were increasing the complexity and volume of risks. They also began to realize that traditional approaches were no longer effective ways to identify, assess, and respond to the growing array of risks across a complex enterprise (Beasly et al. 2006). ERM takes an enterprise-wide focus by strategically looking at risks in a coordinated, consistent manner. The ultimate goal is to ensure that the value of the organisation is preserved and even enhanced (Beasly et al. 2006, p. 50).
According to Mikes (2009) ERM consists of an assembly of 4 risk management ideal types set out in the table below:

<table>
<thead>
<tr>
<th>Risk silo Management</th>
<th>Integrated risk management</th>
<th>Risk-based management</th>
<th>Historic risk management</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Institutional background</strong></td>
<td>International regulation of bank capital adequacy</td>
<td>Rating agency expectations of bank capital adequacy</td>
<td>Rise of the shareholder value imperative</td>
</tr>
<tr>
<td><strong>Related theme in literature</strong></td>
<td>Risk quantification</td>
<td>Risk aggregation</td>
<td>Risk-based performance measurement</td>
</tr>
<tr>
<td><strong>Focus on</strong></td>
<td>Measurement and control of risk silos; calculation of minimum regulatory capital; tuning capital to the regulatory standard</td>
<td>Assigning a common denominator of risk to the risk silos (economic capital); fine-tuning capital standard; risk limit setting</td>
<td>Calculation of shareholder value created; linking risk management with performance measurement</td>
</tr>
<tr>
<td><strong>Techniques</strong></td>
<td>Loss distributions; value at risk; credit rating models; standardised and advanced measurement approaches set by regulators</td>
<td>Economic capital</td>
<td>Risk-adjusted return on capital (RAROC); shareholder value added; risk pricing; risk transfer; portfolio risk management</td>
</tr>
</tbody>
</table>

**Table 2:** Four Ideal Types of Enterprise Risk Management (Mikes, 2009)

Mikes (2009) argues that innovations in ERM techniques cluster around four themes: risk quantification, risk aggregation, risk-based performance measurement and the management of non-quantifiable risks. “Each of these themes represents different ambitions and objectives that risk officers might pursue, giving rise to four risk management ideal types. These all have enterprise-wide ambitions, and can be viewed as the building blocks that constitute the risk management mix in a given organisation” (Mikes, 2009, p 36). The integrated risk management, risk based management and holistic risk management types relate to ERM whereas the risk silo management type relates to the traditional risk management approach.

Celona et al. (2011) postulate the concept of value driven ERM that takes the traditional silo approach to risk management to a new level that enables the safeguarding and realisation of greater enterprise value. Value driven ERM expands on the capabilities of traditional risk management and shifts focus from controlling and mitigating risks to creating strategic value.
Additionally, regulatory reforms and compliance requirements due to the corporate scandals globally have contributed to the growth of ERM. However, according to Beasly et al. (2006), ERM offers significant opportunity for competitive advantage, providing value well beyond mere compliance with regulatory expectations. SOEs are also driven by the compliance requirements as the PFMA require all public institutions including SOEs to have an effective, efficient and transparent system of enterprise risk management. The evolution in risk management led the Committee of Sponsoring Organisations of the Treadway Commission (COSO) to develop a conceptual framework for ERM. The COSO framework defines ERM as follows:

“A process, effected by an entity’s board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives” (COSO, 2004).

According to COSO (2004), ERM forms an inherent and critical component in achieving an organisation’s objectives. COSO (2004) states that the underlying premise of ERM is that every entity exists to provide value for its stakeholders. ERM enables management to effectively deal with uncertainty and associated risk and opportunity, enhancing the capacity to build value (p.1). The COSO ERM framework is geared toward achieving an organisation’s objectives, as illustrated in the figure below:

**Figure 1:** The relationship between business objectives and ERM components (COSO, 2004)
The 3 dimensional COSO figure illustrates the link between the four business objectives to the eight components of ERM across the various levels of an organisation. Beasley and Frigo (2007) suggest that ERM has to be driven from the top. The board of directors and senior executives set the tone and direction for enterprise-wide risk management.

Second, ERM is directly related to strategy setting. Therefore, for ERM to be value creating, it must be embedded in and connected directly to the organisations strategy. Lastly, the goal of ERM is to help the organisation achieve its core objectives (Beasley and Frigo, 2007, p. 26)

There are various opinions regarding what risk management involves, how it should be implemented and what it can achieve. The International Organisation for Standardisation (ISO) standard 31000 was published in 2009 and seeks to answer these questions (AIRMIC, Alarm & IRM, 2010).

ISO 31000 defines risk as "the effect of uncertainty on objectives" which focuses on both the downside and upside of risk, whereas COSO defines risk as “the possibility that an event will occur and adversely affect the achievement of objectives”, which focuses only on the downside.

The figure below illustrates the framework for managing risk based on ISO 31000.

![Framework for managing risk](image)

**Figure 2:** Framework for managing risk (AIRMIC, Alarm & IRM, 2010).
One of the frequent themes in the ISO 31000 standard is that in order to be effective, risk management must be integrated into an organisation’s decision-making processes. This relates to the embedding risk management point in the figure above. Furthermore, ISO 31000 is directly linked to strategy as it implies that management should embed ERM into the strategic planning process. AIRMIC, Alarm & IRM (2010) suggest that most organisations that have taken significant steps to implement ERM would assert that ERM is a journey. Therefore, because ERM cannot be implemented overnight, companies must evolve their thinking based on their experience and needs. All of the risk management frameworks can be useful as companies continue to learn and advance their risk management capabilities (AIRMIC, Alarm & IRM, 2010).

According to Purdy (2010), there are some clear performance requirements that ensure risks are managed both effectively and efficiently. The principles of effective risk management in ISO 31000 are that it should:

- Create and protect value;
- Be an integral part of all organisational processes;
- Be part of decision making;
- Explicitly address uncertainty;
- Be systematic, structured, and timely;
- Be dynamic, iterative, and responsive to change;
- Facilitate continual improvement of the organisation.

Due to their maturity, their holistic approach and their methodological consistency, both the COSO ERM and ISO 31000 frameworks can help organisations to realise the potential benefits associated with the application of a generic risk management standard to their organisational context. Both frameworks mentioned above touch on similar aspects of the risk management process. While there are nuances among the frameworks, each is basically a representation of the same body of knowledge. The frameworks are built on the same model of selecting an objective and using that objective as a standard for evaluating the effectiveness and efficiency of risk management. ISO 31000 however, focuses more on the strategic objectives and evaluating the risks that associated with achieving the strategic objectives of an organisation.
Arena et al. (2011) investigated amongst other topics, how risk management systems can assist managers in decision-making. “ERM can in fact be implemented to obtain more information about an organisation’s risks, which potentially results in more informed management and better decisions” (Arena et al., 2011, p.781). Therefore ERM can be integrated with performance measurement systems to monitor the strategic uncertainties of an organisation.

From the literature reviewed there appear to be many different variants of risk management that have evolved over the years. For the purposes of this research study the focus will be on ERM base on the ISO 31000 standard which incorporates integrated risk management, holistic risk management and value driven risk management.

2.4. ERM Maturity

Organisations have to determine the quality and the quantity of risk management activities that have been implemented in order to determine whether risks are appropriately managed and whether the risk management process is in line with what is communicated to its stakeholders. This refers to the risk maturity of the organisation. “The more effectively management has implemented the relevant activities and elements of the risk management framework, the more risk mature the organisation is” (RIMS, 2006, p.4). Additionally, the primary drivers for the maturity of ERM programmes include improved performance, enhanced risk governance, and the integration of known risk management best practices – which all link directly to enhancing stakeholder value (AON, 2010).

According to Chapman (2009), the assessment of risk maturity provides organisations with a tool to combine the various components of a risk management framework which are aligned to the needs of their organisation. The benefits of using a risk maturity model to determine the risk maturity level of an organisation are increasingly being recognised by organisations globally (Chapman 2009).

Furthermore, Chapman (2009), suggests that risk maturity models are primarily used by risk managers to assess how advanced their risk management framework is in order for them to communicate this information to senior management and the board. This information can then be incorporated into the organisations decision making with regard to the risk management approach and strategy. Additionally, the risk maturity
assessment assists with identifying areas that need improvement within the organisation’s risk management strategy, therefore providing an appropriate action plan for the development and enhancement of the organisation’s risk management framework (Chapman, 2009).

Therefore, the assessment of risk maturity provides organisations with an approach to progressively reach the desired maturity levels in order to deliver value. There are various different differentiators for risk maturity and of the different stages of adoption of the risk management framework. For example, an organisation with advanced risk maturity has an increased awareness of the complexity of risk relating to the organisation whereas an organisation with an initial or lacking risk maturity may not have any understanding or awareness of risk relating to the organisation.

There are various risk maturity index’s and models that have been developed and used by consultants globally. The Risk and Insurance Management Society (RIMS) have developed a risk maturity model which assesses defined attributes of the risk management program and uses six maturity levels, from non-existent to leadership (RIMS, 2006). Aon has developed the Aon Risk Maturity Index (AON, 2013) which is a tool that is designed to capture and assess an organisation’s risk management practices and provide participants with feedback in the form of a Risk Maturity Rating based on the 10 characteristics of risk maturity listed below:

1. Board Understanding & Commitment to Risk Management
2. Executive Level Risk Management Stewardship
3. Risk Communication
4. Risk Culture: Engagement & Accountability
5. Risk Identification
6. Stakeholder Participation in Risk Management
7. Risk Information & Decision Making Processes
8. Integrating Risk Management & Human Capital Processes
9. Risk Analysis & Quantification to Understand Risk & Demonstrate Value
10. Risk Management Focus on Value Creation

These 10 characteristics enable organisations to assess the maturity of their ERM programmes in a comprehensive and structured manner.
According to survey by Aon (2013), organisations that are adept at gathering high-quality risk information from a variety of sources; analysing that information using both quantitative and qualitative techniques; and leveraging their analysis to understand the correlations between key risks will be best able to drive value through their improved understanding of risk. Organisations that are successful in promoting more stable financial performance incorporate risk information into the development of realistic performance expectations and accurate forecasts, better enabling the achievement of those financial goals.

Having developed a strong awareness of risk, an organisation with advanced risk management practices will work to build agreement on strategy and action. Board and management communication and consensus on risk management strategy is very important, along with the development of guiding risk appetite and tolerance statements and clear, consistent communication to the organisation about overall risk management goals and expectations (Aon, 2013).

According to Aon (2013), in order to reduce performance volatility, organisations with advanced risk maturity must ensure that this agreement and consensus remains dynamic. These organisations continually re-evaluate strategies and activities based on lessons learned, conduct post-mortems on key initiatives and incorporate of data around underlying assumptions into their strategy, applying existing guiding risk management policies to all major strategic decisions (Aon, 2013).

The figure below illustrates the various risk maturity levels as per the Aon Risk Maturity Index and well as the 2013 distribution of the risk maturity ratings.
It can be seen that the majority of the survey respondents are at a maturity level of basic to defined and defined. Many organisations may want to strive for the highest risk maturity level (advanced), however this may not always be possible, as the highest level may be very costly and time consuming to achieve. The risk maturity level of the organisation should be determined by the management and the board in terms of their risk strategy.

Based on the literature reviewed, it is important for organisations to establish the risk maturity in order to determine the quality and effectiveness of the risk management processes and activities. A more advanced risk maturity may possibly lead to efficient and effective management of risk exposures as well as improved performance; however this could be very costly. Therefore organisations need to determine what level of risk maturity they would like to achieve that will best fit their risk strategy.

Due to the fact that there are various different risk maturity models and many organisations develop their own internal risk maturity index, the risk maturity for this research study will be benchmarked against both the RIMS risk maturity model as well as the Aon Risk Maturity Index.
2.5. ERM and strategic planning alignment

A core element of ERM is that risk management and strategy are aligned. As management examines various strategic alternatives, it also evaluates them to determine the impact on the organisation's total risk profile. Once strategy choices are made, management identifies risk responses, assigns accountabilities, and monitors implementations in a coordinated and integrated approach to ensure the objectives are met (Beasley et al. 2006). Therefore, ERM is integral to strategic planning and performance assessment.

Organisations need to have ERM programmes properly aligned with their strategies at various levels, including business strategy level; only then risks can be effectively managed through a comprehensive approach (Killackey, 2009).

Beasley and Frigo (2007) argue that successful deployments of ERM in strategic planning seek to maximize value when setting strategic goals by finding an optimal balance between performance goals and targets and related risks. As management evaluates various strategic alternatives designed to reach performance goals, it includes related risks across each alternative in that evaluation process to determine whether the potential returns are commensurate with the associated risks that each alternative brings. At that point, management is in a better position to evaluate various strategic alternatives to ensure that risks that the entity might take on are within the stakeholders’ appetite for risk. (Beasley and Frigo, 2007)

Paladino et al. (2009) confirm this by stating that finding a balance between performance goals and targets and related risks when setting strategic goals maximises shareholder value. Therefore aligning ERM to the strategic planning process can lead to the successful achievement of strategic objectives and ultimately value creation for the organisation and shareholders.

Frigo and Anderson (2011) also argue that in order for ERM to be value-creating, it must be embedded in and connected directly to the organisation’s strategy and in order to be effective, ERM must be part of the strategic planning process and the execution of strategy.
Arena et al. (2011) argue that ERM can be integrated with performance measurement systems to monitor the strategic uncertainties of an organisation and that that this integration may be made in the balanced scorecard of an organisation, linking risk management practices to strategic performance measurements. According to Arena et al. (2011), ERM supports decisions at both the corporate, strategic level and at the operational level. At the corporate level, ERM is integrated with strategic planning and budgeting. At the operational level, the analysis performed on different risk categories supports those managers who are responsible for specific functions in making decisions related to their areas of responsibility. Managers who deal with certain risks benefit from the overall analysis and achieve a better understanding of the impact, at a corporate level, of the events related to their areas (Arena et al., 2011, p.791).

ERM assists organisations with achieving the objectives stated in their strategies through management of risks in line with risk appetite, while protecting and creating shareholders value. According to Frigo, (2008), the ultimate goal is to strengthen the ERM programme, and re-establish the “risk – strategy accountability” by aligning ERM with, among others, a strategy. However, in current business practices, risk management and strategy setting often operate in parallel sequences with little connection. Therefore, when strategists do not take into account all risks in the strategy development stage, risks may be unintentionally omitted or misinterpreted, and thereby affect business performance (Frigo, 2008). The strategic planning process should therefore be aligned with the ERM risk identification stage, and strategic choices should be coherent with risk appetite. In order to create a winning ERM alignment with the strategy is to integrate specific ERM capabilities within various phases of the strategic planning process.

From the literature review performed it is clear that in order for ERM to be effective and create value in an organisation, it is integral that ERM must be aligned to the strategic planning process. From an SOE perspective it is also very important to ensure that ERM is aligned to the SOE strategic planning process in order to effectively manage their conflicting role in terms of creating development impact and remaining financially sustainable at the same time.
2.6. Effect of ERM on value creation and performance

There has been an increasing number of studies performed on the effect of ERM on value creation and performance of organisations. However, many of these studies relate to publicly listed companies rather than SOEs. This section will review the existing literature on the effect of ERM on value creation and performance and will form a basis for applying the results and findings thereof to a South African SOE context.

According to Nocco and Stulz (2006), risk reduction can add value due to the various market imperfections and agency costs such as transactions costs, taxes and the cost of financial distress that organisations are faced with. Research suggests that risk management may also possibly create value through the reduction or exploitation of market imperfections. Nocco and Stulz (2006) posit that there has been considerable progress in the implementation of ERM with the promise of major benefits for corporate shareholders and that these benefits can only be expected to grow to create value for stakeholders.

Gates et al. (2012) support the view above and suggest that an ERM framework and ERM implementation can help organisations improve performance by enabling executives to manage the organisation better. Their results show that value comes from implementing the ERM process, which then enables the organisation to make better decisions. Given that implementing the components of ERM takes time, organisations should be patient with finding immediate value (Gates, et al. 2012). Therefore based on this study, ERM does have a positive effect on performance however it may take time to realise the positive effect.

McShane et al. (2011) however, argue that managing risks has become a critical function for organisations as the environments that they operate in have become increasingly turbulent and complex. Their results suggest that organisational value increases as organisations implement increasingly more sophisticated traditional risk management tools, however as organisations implement ERM the value does not increase. This could be due to the low level of maturity of the ERM programmes or alternatively the high initial costs associated with implementation of ERM programmes.

Hoyt and Liebenberg (2011) notion that organisations which engage in ERM should be able to better understand the aggregate risk inherent in the different business activities
which should provide them with a more objective basis for resource allocation, therefore improving capital efficiency and return on equity. This implies an overall improvement in performance and therefore supports the notion that ERM has a positive effect on performance.

However, Pagach and Warr (2010) argue that there is very little impact of ERM adoption on value creation and organisational performance. Pagach and Warr (2011) posit that ERM adoption might be related to sharp declines in shareholder value if organisations feel pressure to convey to the shareholders that they are taking corrective steps to prevent continued value reduction. The recent mandates from both public and private entities for ERM implementation has resulted in more and more organisations adopting ERM and expending corporate resources on implementation therefore decreasing value. This relates to the high cost of implementation of an ERM programme.

Paape and Spekle, (2012) argue that public sector organisations may experience unique problems in ERM implementation due to the complex political environment in which they operate and their dominant culture and management style. Their analysis suggest that it may be the case that in the public sector, organisations seek to conform to general expectations by implementing ERM systems that are relatively sophisticated from a technical point of view, even though the generic ERM concepts, tools, and techniques are less effective in a public sector context (Paape & Spekle, 2012). This suggests that there may be considerable value in developing an ERM approach that is more tailored to the specific needs and circumstances of the public sector.

Overall the results and findings from the literature show that the practical value of implementing an ERM process can be seen in both enhanced management and improved performance. However, the implementation of the ERM programme could be very costly which is seen as a destruction of value rather than value creation. Therefore the value side of ERM implementation is that it makes management and the board better understand the risk exposures on an enterprise wide level which leads to greater management consensus, more informed decision making and increased accountability. Better management translates into the increased ability to meet strategic goals, reduced earnings volatility, increased profitability and therefore value creation and improved performance.
2.7. Conclusion

This section concludes the literature review, highlighting its key outcomes and elaborating on the linkage between the research title, the research problem and the research questions developed as well as the gaps identified in the literature.

The overall objective of this research study is to investigate the how ERM is implemented in SOEs and the effect of ERM on performance in South African SOEs. In order to conduct this research study it was necessary to perform a comprehensive review of existing literature. The existing literature reviewed was structured around five themes which will form the basis and framework to investigate the effect of ERM on value creation and performance in South African SOEs as well as address the specific research questions which will be addressed in the results and findings to follow.

The figure below illustrates the key themes explored in the literature as well as the key sources that were reviewed:

![Figure 4: Illustration of literature review structure](image-url)
Although there has been an increase in the amount of research and studies focused on the effect and impact of ERM on corporate performance, these studies have been particularly in the financial services industry (Nocco & Stulz, 2006; Pagach and Warr, 2010; Hoyt and Liebenberg, 2011; McShane et al., 2011; Gates et al., 2012). Research examining the effect of ERM on performance and value creation particularly in SOEs presents a clear gap in the literature.
3. RESEARCH METHODOLOGY

3.1. Research approach

The thrust of the research is explorative in nature and intends to investigate the management phenomenon of the relationship between ERM maturity and the effect it has on performance in South African SOEs. The researcher utilised an inductive research approach combined with a qualitative research strategy based around exploring the five themes discussed in detail in the literature review. The data collected addressed the five themes and research questions, and were gathered predominantly through conducting structured and semi-structured interviews with various senior manager and executives within the South African SOEs as well as review of their annual reports. The research focused specifically on the SOEs under administration of the Department of Public Enterprises (DPE) due to the public availability of information. The other SOEs which do not fall under the administration of the DPE, report into various government departments representing the specific sectors under which the specific SOE is focused on. For example, the SABC reports into the Department of Communication and the Development Bank of Southern Africa reports into the Department of Finance. Therefore, the SOEs under the administration of the DPE provide a diverse set of organisations representing various sectors as discussed in the literature review.

The interview questionnaire comprised of structured and semi-structured questions. The structured questions were designed to ensure that the SOE’s responses were comparable for analysis purposes, whereas the semi-structured items were conducted by using open-ended questions therefore giving interviewees the scope to fully articulate their response beyond the confines of responses required for a more structured interview approach (Aberbach & Rockman, 2002). As a result of the nature of the data that was collected through the interviews, this approach is most suitable due to the level of insight that it provides the researcher with understanding the decisions of those interviewed (Gordon, 2011). Additionally, qualitative research aids the researcher in deriving meaning from the expression of words gathered during the interview process (Saunders, Philip, & Thornhill, 2009). This will provide the researcher with more insight on the ERM practices and performance measures of the SOEs and allow the researcher to explore more details from the interviewee. Open-ended questions associated with semi-
structured interviews allow the researcher to “take advantage of emergent themes and unique case features that arise during the course of the interview and examine them further with the interviewee” (Eisenhardt, 1989, p. 533).

Aberbach & Rockman (2002) posit that by allowing the interviewees the opportunity to organise their answers within their own framework, facilitated through a semi-structured approach, will increase the validity of their answers. Therefore these observations support the adopted research approach and strategy.

### 3.2. Research design

The aim of this research study is to investigate the effect of ERM on performance in South African SOEs. The research study was based on a sample of SOEs under the administration of the DPE. The SOEs under the administration of the DPE were purposively selected to perform a document review of the latest available annual reports as well as a qualitative review based on an interview questionnaire as indicated in the table below:

<table>
<thead>
<tr>
<th>SOE</th>
<th>Sector</th>
<th>Annual Report Review</th>
<th>Qualitative Review</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alexkor SOC Limited</td>
<td>Mining</td>
<td>X</td>
<td>-</td>
</tr>
<tr>
<td>Broadband Infracom SOC Limited</td>
<td>Communications</td>
<td>X</td>
<td>-</td>
</tr>
<tr>
<td>Denel SOC Limited</td>
<td>Manufacturing</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Eskom Holdings SOC Limited</td>
<td>Energy</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>South African Airways SOC Limited</td>
<td>Transportation</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>South African Forestry Company SOC Limited</td>
<td>Manufacturing</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Transnet SOC Limited</td>
<td>Transportation</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>South African Express SOC Limited</td>
<td>Transportation</td>
<td>X</td>
<td>-</td>
</tr>
</tbody>
</table>

**Table 3:** List of SOEs selected for documentation and qualitative review
The annual reports of these SOEs were assessed to obtain data and information relating to ERM and performance measures. Based on the information analysed, SOEs that had sufficient information on ERM and performance measures were selected for interviews.

Concise research questions were developed to provide focus to what the researcher intended to explore during the course of the study. A well-defined research question helps gives direction to the researcher regarding which prospective interviewees to approach and what specific data needs to be gathered. Additionally it also assists in providing the researcher with a solid base from which to identify the related constructs that require investigation (Eisenhardt, 1989). The constructs or themes identified by the researcher stemming from the literature review prior to empirical investigation included:

- Evolution of ERM,
- ERM Maturity,
- ERM and Strategic Planning Alignment,
- Value Creation and Performance Measures in SOE’s, and
- Effect of ERM on Value Creation and Performance

Specific questions have been developed based on the themes identified and discussed in the literature review. This formed part of the interview questionnaire that was used for conducting the interviews. The purpose of the interview questionnaire was to obtain information from the interviewees relating to the themes identified in the literature review.

3.3. Population and Sampling

According to the Presidential Review Committee on SOEs (2011), there are an estimated 300 SOEs in South Africa across the 3 spheres of government, which forms the population for this research study. This estimation excludes SOE subsidiaries and other forms of state owned establishments. Due to limitations of this study, the research will focus on purposive sample - a subset of the South African SOEs that are under the administration of the DPE due to the public availability of information.

A “purposive” sample (Gorman & Clayton, 2005) is one chosen by the researcher to include representatives from within the population being studies who have a range of
characteristics relevant to the research project (Gorman & Clayton, 2005, p. 128). The objective is to obtain a diverse set of data in the relative limited time available, however the sample is by no means representative of the entire population. The respondents to the questionnaire will typically be Chief Risk Officers or Senior Risk Management Officials in the respective SOEs in order to gain insight from a risk practitioners view whether ERM has an effect on the achievement of strategic objectives in South African SOEs.

3.4. Data collection

According to Yin (2009) the ability to ensure that the right questions are asked is imperative to the success of a case study approach. This requires the researcher to have an enquiring mind, not just during the initial theory gathering process, but during the actual data gathering exercise as well. The researcher has developed an interview questionnaire, attached in Appendix A, which was used during the interview process. The questions were developed in such a way as to obtain responses that meet the line of enquiry required for the overall research question, “while also putting forth a friendly and nonthreatening tone through their open-ended nature” (Yin, 2009, p. 107).

Primary data was collected directly by the researcher through interviews, guided by the interview questionnaire discussed above. Secondary data was obtained from sources such as annual reports and additional information that were made available to the researcher by the various interviewees.

3.5. Data analysis

The SOEs investigated formed the basis of the data analysis. The researcher familiarised himself with each individual case through the review of secondary data such as the annual reports of the sample of SOEs. This ensured that the researcher appreciates the individual aspects relevant to each case, before trying to generalise any theory across all cases reviewed. Each SOE was examined and analysed to determine similarities and conflicts based on the literature reviewed.

This research study is open to subject bias, in which the sample of SOEs may provide unreliable information to avoid being shown in a bad light. There was no risk of observer error, as there was only one researcher in this study. Reliability refers to the
degree readers can depend on the outcome of the study through demonstration that the research approach and methodology selected “can be repeated, with the same results” (Yin, 2009, p. 41). The use of interviews based on a set of semi-structured open ended questions will assist in the standardisation of responses to be obtained. The researcher placed special emphasis on limiting the invalidity of research findings. The researcher is a neutral risk practitioner independent of SOEs and not biased towards SOE performance.

3.6. Research Limitations

A limitation of this research is that the research was only conducted on a sample of SOEs under the administration of the Department of Public Enterprises (DPE). Only six participants from five SOEs under the administration of the DPE were interviewed due to the limited availability of participants and the time constraints regarding the research study. As noted in the literature review, there are an estimated 300 SOEs in South Africa across the 3 spheres of government (Presidential Review Committee on SOEs Progress Report, 2011). The findings of this research may however be applicable to the other South African SOEs in certain respects.

A further limitation of this research is that the sample of SOEs were selected on a non-random, purposive basis and therefore this approach may be biased due to the fact that the sample of SOEs that participated in this research may not actually represent the views of all South African SOEs.

Additionally, the majority of the respondents who were interviewed were risk practitioners and therefore the research may possible be biased in terms of their views from a risk perspective. The researcher is also a risk practitioner and may have biased views to some of the responses and analysis of data. The data analysis performed by the researcher was based purely on the researcher’s interpretation of the interview responses and therefore may have some researcher bias.

Lastly, a limitation to this research was gaining timely access to interviewees at the SOEs selected in the sample. The researcher was faced with a few challenges in securing the interviews timely in order to allow for sufficient time for the analysis of data and report writing.
4. RESEARCH FINDINGS

4.1. Introduction

The objective of this study as discussed in Chapter 1 is to investigate the effect of ERM on the achievement of strategic objectives in South African SOEs. The research is explorative in nature and a qualitative and inductive research approach was used to explore the five themes discussed in detail in the literature review in Chapter 2. The research design and methodology were discussed in the previous chapter.

The purpose of Chapter 4 is to present the sample of SOEs selected for the research as well as the respondents that participated in the qualitative interviews and discuss the research findings. This chapter will focus on the results of the research based on the following three sections:

- Document analysis that was performed on the annual reports of the sample of SOEs
- Semi-structured interview questionnaire
- Structured interview questionnaire

The data obtained from the document analysis and interviews have been presented below.

4.2. Profile of Interview Respondents

As mentioned in chapter 3 in the sampling and population section, there are an estimated 300 SOEs in South Africa across the 3 spheres of government (Presidential Review Committee on SOEs, 2011) which forms the population for this research study. Due to limitations of this study, the research will focus on purposive sample - a subset of the South African SOEs that are under the administration of the DPE. One reason for this sample selection is due to the public availability of information.

There are currently 8 SOEs representing various sectors that under the administration of the DPE. A document analysis was performed on all 8 SOEs to gain a broad understanding of their strategic objectives and ERM practices. Additionally, the 8 SOEs were targeted for qualitative interviews based on a structured and semi-
A structured interview questionnaire. From the sample of 8 SOEs selected, 5 SOEs (62%) participated in the qualitative interviews. The 5 SOEs interviewed all had adopted a formal ERM approach based on the document analysis performed which provided the researcher with further comfort.

The details of the interview respondents are presented in Table 4 below. The names of the interviewees and their firms have not been disclosed due to the confidentiality agreements, however job titles and sectors have been provided for analysis and comparative purposes. Two interview respondents from the energy sector represented the same organisation. One respondent was the Head of ERM and the other the Head of Strategy. This provided an insightful comparison between the two respective views within the same organisation. Therefore a total of 6 interviews were conducted.

<table>
<thead>
<tr>
<th>Interviewee</th>
<th>Sector</th>
<th>Interview Date</th>
<th>Duration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Head of ERM</td>
<td>Energy</td>
<td>22/10/2013</td>
<td>60 minutes</td>
</tr>
<tr>
<td>Head of Strategy</td>
<td>Energy</td>
<td>24/10/2013</td>
<td>45 minutes</td>
</tr>
<tr>
<td>Head of Risk and Compliance</td>
<td>Manufacturing</td>
<td>04/11/2013</td>
<td>45 minutes</td>
</tr>
<tr>
<td>Chief Risk Officer</td>
<td>Manufacturing</td>
<td>05/11/2013</td>
<td>30 minutes</td>
</tr>
<tr>
<td>Executive Manager – Risk</td>
<td>Transportation</td>
<td>14/11/2013</td>
<td>60 minutes</td>
</tr>
<tr>
<td>Head of ERM</td>
<td>Transportation</td>
<td>15/11/2013</td>
<td>45 minutes</td>
</tr>
</tbody>
</table>

Table 4: Profile of interviews conducted

4.3. Observations from the Document Analysis (Annual Reports)

The latest annual reports of the sample of 8 SOEs under the administration of the DPE as published on their respective websites were analysed. Corbin and Strauss (2008) posit that document analysis entails examining and interpreting data in order to gain understanding, elicit meaning and develop empirical knowledge. The objective of analysing these documents was firstly to gain an understanding of the various SOE’s businesses and their strategic objectives. Furthermore the document analysis provided data relevant to determining the following key aspects of each SOE in the sample:
- Whether it has adopted a formal ERM approach and the extent to which it is being applied in their business,
- What governance structures are in place for the monitoring and oversight of the ERM processes,
- Whether there is a senior risk resource at executive management level to “set the tone at the top”, and
- What the key elements of the ERM processes entail.

The data gathered was used as a starting point to investigate the SOEs current ERM practices which are elaborated on in the following sub sections.

4.3.1. Formal ERM Approach adopted

![Figure 5: Percentage of SOEs that have adopted a formal ERM approach](image)

The following observations were made from the document analysis performed:

- 2 of the 8 (25%) SOEs did not make explicit mention of adopting a formal ERM approach. However, there was evidence of a risk management process albeit not an enterprise-wide approach.
- An SOE in the Energy sector stated that it follows an “integrated risk management” approach which it believes describes the processes of embedding risk management into the business better than the terminology of ERM does. It was interesting to note that risk management was fully integrated into the strategic objectives as indicated in their 2013 annual report.
The key observation here is that not all of the SOEs under the administration have explicitly stated in their annual reports that they have adopted a formal ERM approach. This is quite interesting as the PFMA (1999), requires all SOEs to have and maintain an effective, efficient and transparent system of ERM.

4.3.2. ERM Governance Structures

The following observations were made from the document analysis performed:

- 6 of the 8 SOEs (75%) have an “Audit and Risk Committee”, which is a subcommittee of the board, in place for the governance, monitoring and oversight of risk processes and exposures.
- One SOE has only an “Audit Committee” in place which oversees the risk management process and only one SOE, in the transportation sector, has a dedicated “Board Risk Committee” that is responsible for the governance, monitoring and oversight of risk processes and exposures.

The key observation here is that all of the SOEs have some form of governance structure in place for the monitoring and oversight of risk. The majority of the SOEs have a combined Audit and Risk committee in place however the disadvantage of having a joint committee is that risk issues are normally last on the agenda and there is not enough time spent on discussing the key risk issues. The benefit of having a
dedicated Board Risk Committee is that there is sufficient focus and attention on the risk issues.

4.3.3. Senior Risk Resource at Executive Management Level

Figure 7: Senior risk resource at executive level within the sample SOEs

The following observations were made from the document analysis performed:

- 7 of the 8 SOEs (87.5%) have a senior resource at executive management level (C-level / EXCO) that sits on the Executive Committee and is accountable for the risk management process.
- However, only 2 of the 8 (25%) have a dedicated Chief Risk Officer (CRO) that sits on the Executive Committee and is accountable for the risk management process.

According to ERM best practice as outlined in the literature review, it is very important to ensure that buy-in is obtained from senior management and the board. The CRO can act as a conduit for this. It was also interesting to note the different roles accountable for the risk management process, other than a CRO that exist at senior executive level. Eskom, for example have Group Executive: Sustainability who is responsible for both ERM and Strategy in the organisation. This could be a very useful way of ensuring that ERM is fully integrated into the strategy of the organisation. There is however a concern with the organisations that do not have a senior executive or CRO that is
responsible for the risk management function and processes as the requisite buy-in and support from the top may not be obtained.

4.3.4. Key Elements of the ERM processes

The document analysis revealed that the SOEs have various degrees of maturity in terms of their ERM processes. Furthermore, it was ascertained that the SOEs are adopting an ERM approach because they believe that it is good business practice to do so and that it will improve and enhance business performance and decision making as evidenced in the various SOE annual reports (Broadband Infraco, 2013; Denel, 2013; Eskom, 2013; SAA, 2012; SAFCOL, 2013; Transnet, 2013). Additionally, the SOEs adopt an ERM approach to ensure compliance with the relevant regulations and legislation.

The table below provides a detailed overview of the key elements identified in terms of the SOE’s ERM processes:
<table>
<thead>
<tr>
<th>SOE</th>
<th>Mandate/ Objectives</th>
<th>Is the SOE Profitable?</th>
<th>Follows a formalised ERM Approach?</th>
<th>Board Risk Committee</th>
<th>Senior Risk Resource at EXCO level?</th>
<th>Summary of Key Elements of ERM Processes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alexkor SOC Limited</td>
<td>The primary mandate of Alexkor is the exploitation of diamond resources on a commercially viable basis and to contribute towards the socio-economic upliftment of the regions in which it operates</td>
<td>Yes</td>
<td>No</td>
<td>Audit and Risk Committee</td>
<td>No</td>
<td>There is no mention of a formal ERM approach in the 2013 annual report. A risk assessment is performed by the senior management team, and a detailed risk matrix is developed and presented to the board on a quarterly basis where all the material risks in the entity are identified and documented. These risks are then reviewed and rated on their impact and likelihood along with the necessary mitigating factors to address these risks. (Alexkor, 2013).</td>
</tr>
<tr>
<td>Broadband Infraco SOC Limited</td>
<td>Provides affordable access to long-distance telecommunications network infrastructure and broadband telecommunications</td>
<td>No</td>
<td>Yes</td>
<td>Audit and Risk Committee</td>
<td>Yes - Executive: Governance is responsible for ERM</td>
<td>The Company’s risk management efforts are underpinned by management’s appreciation of the value proposition risk management. The Company’s systems of managing risk are also driven by the observance of sound corporate governance practices, together with the obligation to comply with relevant legislated provisions for risk. The overall system of risk management has been formalised and put into action through the approved Enterprise Risk Management (ERM) Policy and the ERM Framework (Broadband Infraco, 2013).</td>
</tr>
<tr>
<td>SOE</td>
<td>Mandate/ Objectives</td>
<td>Is the SOE Profitable?</td>
<td>Follows a formalised ERM Approach?</td>
<td>Board Risk Committee</td>
<td>Senior Risk Resource at EXCO level?</td>
<td>Summary of Key Elements of ERM Processes</td>
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</tr>
<tr>
<td>Denel SOC Limited</td>
<td>Denel’s Key role is to supply strategic defence capabilities and technology to the SANDF on a commercially viable basis, act as a catalyst for advanced manufacturing in the broader economy, and export products to improve revenue</td>
<td>Yes</td>
<td>Yes</td>
<td>Audit and Risk Committee</td>
<td>Yes - Group Risk and Compliance Manager</td>
<td>Denel has infused risk management in the business culture and embedded it in the strategic and operational planning processes. Denel’s ERM process is based on the COSO framework and ensures a coordinated risk management approach throughout the group. The process entails continuous identification, evaluation, mitigation and monitoring of risk, using robust intelligence gathering processes and structures (Denel, 2013).</td>
</tr>
<tr>
<td>Eskom Holdings SOC Limited</td>
<td>Generates, transmits and distributes electricity to industrial, mining, commercial, agricultural and residential customers and redistributors</td>
<td>Yes</td>
<td>Yes</td>
<td>Audit and Risk Committee</td>
<td>Yes - Group Executive Sustainability</td>
<td>Eskom’s key risks are identified by its integrated risk management process (Eskom, 2013). Eskom uses the term integrated risk management rather than enterprise risk management as it believes it describes the processes of embedding risk management into the business much better. From the review of the 2013 integrated report it is evident that Eskom has, in fact, adopted a fully integrated ERM approach as would be defined by a framework such as ISO 31000.</td>
</tr>
<tr>
<td>South African Airways SOC Limited</td>
<td>The national airline carrier delivering sustainable profits and growth through world class service to customers internally and externally</td>
<td>No</td>
<td>Yes</td>
<td>Audit Committee</td>
<td>Yes - General Manager: Legal, Risk and Compliance</td>
<td>The Executive Management Committee and the Board approved the ERM Policy and associated guidelines. All operational risk assessments were completed and the final approved Strategic Risk Management Plan was included in the 2012-15 Corporate Plan, with the key risks identified relating to SAA’s very challenging competitive environment and market dynamics. The embedding of the ERM process within the organisation is ongoing (SAA, 2012).</td>
</tr>
<tr>
<td>SOE</td>
<td>Mandate/ Objectives</td>
<td>Is the SOE Profitable?</td>
<td>Follows a formalised ERM Approach?</td>
<td>Board Risk Committee</td>
<td>Senior Risk Resource at EXCO level?</td>
<td>Summary of Key Elements of ERM Processes</td>
</tr>
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</tr>
<tr>
<td>South African Forestry Company SOC Limited</td>
<td>Dedicated to growing South African business in the forestry and forest products industry</td>
<td>Yes</td>
<td>Yes</td>
<td>Audit and Risk Committee</td>
<td>Yes - Chief Risk Officer</td>
<td>SAFCOL is committed to the implementation of Enterprise Risk Management (ERM). Currently, an enterprise-wide approach to risk management has been adopted by the Group, which means that every denied material risk will be included in a structured and systematic process of risk management. These risks will then be managed within a unitary framework that is aligned to the company’s corporate governance responsibilities (SAFCOL, 2013).</td>
</tr>
<tr>
<td>Transnet SOC Limited</td>
<td>A focused freight transport company, delivering integrated efficient, safe, reliable and cost-effective services to promote economic growth in South Africa</td>
<td>Yes</td>
<td>Yes</td>
<td>Board Risk Committee</td>
<td>Yes - Chief Risk Officer</td>
<td>The Board continued to demonstrate its support and commitment to the enterprise risk management (ERM) framework and recognise the importance of a strong control environment in managing risks, improving performance, enhancing governance, instilling stakeholder confidence and strengthening the reputation of the Company. The Company’s strategic risk profile arises from Transnet’s Enterprise Risk Management Strategy and Framework, based on ISO 31000: 2009 (Transnet, 2013)</td>
</tr>
<tr>
<td>South African Express SOC Limited</td>
<td>A regional airline which operates predominantly on routes that are secondary in South Africa and the region</td>
<td>No</td>
<td>No</td>
<td>Audit and Risk Committee</td>
<td>Yes - General Manager: Risk and Compliance</td>
<td>There is no mention of a formal ERM approach in the 2013 annual report. The company has implemented a risk management programme with risk committee meetings with management to ensure that risks are reviewed and mitigated; risks are further reported at the Audit and Risks committee for compliance and oversight (SA Express, 2013)</td>
</tr>
</tbody>
</table>

Table 5: SOE Document Analysis - Annual Reports
4.4. Observations from the Semi-structured Interview Questions

A total of six semi-structured interviews were conducted from the sample of SOEs selected. The interview respondents were mainly senior risk executives or managers with the exception of one respondent from the energy sector who came from the strategy function, but has had prior experience in risk management.

The respondents were asked a set of ten semi-structured open ended questions as per the interview questionnaire (attached as Appendix C). The data from the interviews were transcribed into interview notes (attached as Appendix D) and similarities, conflicting responses and unique insights gleaned from the data have been noted and grouped according to the themes identified in the literature review.

4.4.1. Value Creation and Performance Measures in SOEs

<table>
<thead>
<tr>
<th>Respondent</th>
<th>Key Responses</th>
<th>Commentary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Head of ERM - Energy</td>
<td>“The important thing to note is that the organisation is extremely externally</td>
<td>There was a general consensus from all the respondents which supported this view relating to the strategic objectives of the SOEs were being externally driven by the Government and various other external stakeholders.</td>
</tr>
<tr>
<td></td>
<td>driven when it comes to what we (are) going to achieve – it’s not derived from</td>
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</tr>
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<td></td>
<td>its own base so the point is that the voters influence the government that is</td>
<td></td>
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<tr>
<td></td>
<td>appointed and the DPE”</td>
<td></td>
</tr>
<tr>
<td>Executive Manager: Risk -</td>
<td>“In general the strategic objectives are being met, however targets set by the</td>
<td>Most of the respondents noted that in some of the strategic objectives are being met. There was concern from some of the SOEs that the setting of targets by the DPE was not realistic and was also not adequately benchmarked against industry standards.</td>
</tr>
<tr>
<td>Transportation</td>
<td>DPE have not been benchmarked to ensure that they are realistic. This is as a</td>
<td></td>
</tr>
<tr>
<td></td>
<td>result of the DPE expecting an improvement year on year, however there has to</td>
<td></td>
</tr>
<tr>
<td></td>
<td>be a stage where the targets reach a plateau otherwise they become unrealistic”</td>
<td></td>
</tr>
<tr>
<td>Head of Strategy - Energy</td>
<td>“A number of these strategic objectives are also affected by things outside of</td>
<td>A number of SOEs concurred with this statement and noted that various external factors outside of the control of the SOE prevent them from achieving the strategic objectives.</td>
</tr>
<tr>
<td></td>
<td>our control such as the pricing, as the organisation is a regulated entity and</td>
<td>Additionally, numerous risk issues were highlighted as a key challenge to achieving the strategic objectives.</td>
</tr>
<tr>
<td></td>
<td>the price increases are determined by the regulator. For example we only got 8%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>of the required 16% price increase. This has significant implications on the</td>
<td></td>
</tr>
<tr>
<td></td>
<td>organisation from a cost, resource and revenue perspective”</td>
<td></td>
</tr>
</tbody>
</table>

Table 6: Key Responses relating to the Value Creation and Performance Measures
SOEs have a pivotal role to play in addressing the societal and economic challenges of the country, as well as ensuring quality service delivery. Measuring performance in SOEs is challenging as outlined in the literature review. SOEs have a broad mandate and are faced with a conflicting role in terms of creating development impact and remaining financially sustainable. Furthermore, SOEs are required to play a role in addressing market failure where the private sector generally would not get involved in due to the high associated risks and uncertainty. It is therefore not a simple task to measure performance in SOEs compared to that of the private sector where there are many established measures and tools to measure value creation and corporate performance. SOEs need to create value from both a financial perspective as well as a social perspective based on their respective mandates in terms of job creation and service delivery.

A common theme that was established in terms of how the SOEs determine and measure their strategic objectives was that the SOE’s strategic objectives are determined in consultation with the shareholder, which is the DPE, and governed in the form of a shareholder compact. One of the respondents believes that these strategic objectives are externally driven by various stakeholders, “The important thing to note is that the organisation is extremely externally driven when it comes to what we (are) going to achieve – it’s not derived from its own base so the point is that the voters influence the government that is appointed and the DPE”  (Head of ERM - Energy Sector).

The strategic objectives entail a combination of business and social objectives which are generally measured on a balanced scorecard (BSC) basis. As highlighted in the literature review, the BSC is one of the most widespread frameworks which strike a balance between multiple performance dimensions and objectives (Kaplan & Norton 1996). The SOEs have social objectives which are intended to assist the state with its developmental objectives in terms of job creation and the provision of basic and essential services. Additionally the SOEs have financial objectives in terms of remaining financially sustainable.

There was a general consensus that the SOEs were achieving the some of the strategic objectives set however not all the strategic objectives were being achieved successfully.
The strategic objectives that were not being achieved were mainly due to unrealistic targets that have been set. A respondent from the Transportation sector confirmed the unrealistic targets with the following statement:

“In general the strategic objectives are being met, however targets set by the DPE have not been benchmarked to ensure that they are realistic. This is as a result of the DPE expecting an improvement year on year, however there has to be a stage where the targets reach a plateau otherwise they become unrealistic” (Executive Manager: Risk – Transportation Sector).

Additionally, factors outside of the control of the SOEs prevent them from achieving the strategic objectives. A respondent from the Energy sector mentioned that:

“A number of these strategic objectives are also affected by things outside of our control such as the pricing, as the organisation is a regulated entity and the price increases are determined by the regulator. For example we only got 8% of the required 16% price increase. This has significant implications on the organisation from a cost, resource and revenue perspective” (Head of Strategy - Energy Sector).

The common challenges identified in achieving the strategic objectives were acknowledged as the following:

- the current challenging macro-economic environment,
- the availability and cost of capital,
- lack of critical and technical skills and resources,
- conflicting requirements in terms of the dual role that SOEs are required to play by delivering both business and societal objectives, and
- changes in regulations and compliance thereto.

A key observation from the semi-structured interviews was that most of the interview respondents highlighted the risk issues above as the main challenges in successfully achieving the organisations strategic objectives and therefore risk and the management thereof is a key factor in the achievement of the SOE’s strategic objectives. As
discussed in the literature review, Hoyt and Liebenberg (2011) state that organisations that engage in ERM should be able to better understand the aggregate risk inherent in different business activities which should provide them with a more objective basis for resource allocation, thus improving performance. South African SOEs therefore need to gain a better understanding of the risk exposures through robust ERM processes in order to ensure that the strategic objectives are successfully achieved and create value for the stakeholders.

4.4.2. Evolution of ERM and ERM Maturity

<table>
<thead>
<tr>
<th>Respondent</th>
<th>Key Responses</th>
<th>Commentary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Manager: Risk – Transportation</td>
<td>“It comes with the state of maturity, previously our organisation was very compliance based, it then moved onto a very operational based process focusing primarily on the “pure” risks and insurance and now has moved to and evolved into an ERM approach as it not just best practices but also makes sense from a business point of view”</td>
<td>Although compliance with the relevant legislation and regulations is a key driver for the SOEs undertaking a formalised ERM process, most of the respondents appear to be undertaking a formal ERM approach in order to improve business performance and decision making.</td>
</tr>
<tr>
<td>Executive Manager: Risk – Transportation</td>
<td>“With the tone at the top being set that risk is the responsibility of every single employee and with it being demonstrated where people start talking the risk language and start showing how it is applicable went a long way to start showing the people on the ground to take ownership for risks.”</td>
<td>Many of the SOEs implementing a formal ERM process believe that buy-in and culture is one of the biggest challenges. It is very important for the SOEs to establish the correct accountability from the Board and filter this down throughout the organisation in order to successfully embed ERM.</td>
</tr>
<tr>
<td>Head of ERM - Transportation</td>
<td>“In terms of risk maturity we are currently at an evolving level moving towards an established level. Our aim is to be at an advanced level in the next 2 to 3 years.”</td>
<td>The SOEs had varying levels of risk maturity in terms of the implementation of their ERM processes, however the majority of the respondents stated that they were making progress towards their desired level of maturity.</td>
</tr>
</tbody>
</table>

Table 7: Key Responses relating to the Evolution of ERM and ERM Maturity

As outlined in the literature review, there have been many different variants of risk management processes that have evolved over the years from the traditional silo based approach to an enterprise-wide risk management (ERM) approach. It is important for organisations to establish their desired level of risk maturity in order to determine the quality and effectiveness of their risk management processes and activities and some of the findings regarding ERM maturity in the SOEs are outlined below.
Reasons for undertaking a formalised ERM Process

The majority of the respondents appear to be undertaking a formal ERM approach in order to improve business performance and decision making throughout their organisation as evidenced by the review of the annual reports of the SOEs (Broadband Infraco, 2013; Denel, 2013; Eskom, 2013; SAA, 2012; SAFCOL, 2013; Transnet, 2013). However, compliance with the relevant legislation and regulations is also a key driver for the SOEs undertaking a formalised ERM process. A respondent from the Transportation sector substantiated this by stating that:

“It comes with the state of maturity, previously our organisation was very compliance based, it then moved onto a very operational based process focusing primarily on the “pure” risks and insurance and now has moved to and evolved into an ERM approach as it not just best practices but also makes sense from a business point of view” (Executive Manager: Risk – Transportation Sector).

One of the respondents from the manufacturing sector believes that the SOE is adopting an ERM approach in order to create confidence in its stakeholders:

“(We) apply best practice methodologies in managing risks, in order to create confidence in stakeholders in the ability of the organisation to meet its objectives and to ensure competitiveness in the market” (Chief Risk Officer – Manufacturing). A respondent from the Energy sector confirmed that their organisation has adopted a formal ERM approach because they would like to “better understand uncertainty its impact on objectives; not just achieving the objectives but on the setting of those objectives as well” (Head of ERM - Energy Sector).

The general consensus appears to be that, although compliance with legislation and regulation is a key driver for the adoption of a formalised ERM approach, the SOEs appear to be advancing in ERM maturity and believe that a main reason is to manage risk and uncertainty and therefore improve business performance and enhance decision making in order to successfully achieve its strategic objectives.
**Distribution of risk ownership**

The majority of the SOEs follow a decentralised risk approach. Although the Board is ultimately accountable for the risk management process within the SOEs, Executives and line management are accountable and responsible for the management of risk exposures within their respective areas.

Generally, the risk management function in the SOEs is responsible for the development of risk frameworks, policies and guidelines as well as the monitoring and oversight of risk. In addition, either a dedicated decentralised risk management team or trained risk champions assist line management and executives with the identification and management of risk exposures. A respondent from the Transportation sector mentioned that the organisation has a policy statement stating that risk management needs to be embedded in the DNA of each and every employee and that this went a long way to ensure that employees took ownership of risk exposures.

“With the tone at the top being set that risk is the responsibility of every single employee and with it being demonstrated where people start talking the risk language and start showing how it is applicable went a long way to start showing the people on the ground to take ownership for risks. So there is a general ownership and accountability for risk management in the organisation however it’s not 100% there yet. It is however moving in the right direction with people starting to take ownership of their risks” (Executive Manager: Risk – Transportation Sector).

**ERM Implementation**

The SOEs that were interviewed had varying levels of risk maturity in terms of the implementation of their ERM processes. The maturity of the ERM processes of the SOEs ranged from basic (Level 2) to operational (Level 4) on a 5-point maturity index scale as discussed in detail in the literature review section. The maturity index scales utilised by the SOEs were based on various risk maturity models - either standardised risk maturity models developed by consultants or internally developed models.

The majority of the respondents stated that they were moving up the scale towards their desired level of maturity. One of the respondents confirmed this by stating that, “In
terms of risk maturity we are currently at an evolving level moving towards an established level. Our aim is to be at an advanced level in the next two to three years. We have recently revised our ERM policy which was approved by the board and strategic and operational risk registers have been completed for all subsidiaries and divisions” (Head of ERM - Transportation Sector).

An interesting observation was that many of the SOEs believed that they were advanced or world class in some areas, however in other areas they were lagging behind. This was confirmed by a respondent from the Energy sector who mentioned that, “The organisation has set itself a goal to be risk intelligent (based on the Ernst & Young Maturity Model) by 2015 Risk intelligent is the highest maturity level which means that risk management is embedded, integrated and applied in decision making Currently we are anywhere between a 3.5 and a 4.2 on our model due to the fact that in some areas we perform better than in others” (Head of ERM - Energy Sector).

A respondent from the Energy sector mentioned that, “Risk is no longer a line item, it is something that we do, so for me its entrenched in the management layer across the organisation. Whether it is always practiced that way is a different story” (Head of Strategy - Energy Sector). This statement emphasises that although the foundations have been established in terms of the development of ERM processes and embedding the processes in the organisation there still is work to be done in order to ensure that ERM influences decision making.

**ERM implementation challenges**

The interview respondent’s main challenges in implementing and embedding a formal ERM process in the organisation related to the following:

- Buy-in throughout the organisation from executive and senior management to all employees
- Embedding a culture of risk throughout the organisation
- Availability of specialist skills and resources
- Cost of implementation
- Change management
- Quantification of risk
A respondent from the Energy sector mentioned that the major challenge is “*simple, its buy-in. If people don’t understand what and why you are doing things then they are not going to do it*” (Head of Strategy - Energy Sector).

Another respondent from the transportation sector stated the following:

> “*Generally speaking the tone at the top is a big challenge; once you get the tone at the top it will create the impotence to drive risk management throughout the organisation. This was an initial challenge for us, however it is not a challenge for us any longer as we have developed an appropriate tone at the top. Getting the culture right; the issue is first embedding the culture and then sustaining the culture*” (Executive Manager: Risk – Transportation Sector).

The statement above confirms that buy-in at the top and getting the culture right in the organisation is a significant challenge and critical in the successful implementation and embedding of a formal ERM process.

A respondent from the Manufacturing sector noted that, “*skills and resources is also a major challenge in embedding ERM in the organisation and therefore we are also embarking on an organisation wide training and awareness campaign*” (Group Risk and Compliance Manager - Manufacturing Sector).

The quantification of risk was also noted as a key challenge with the implementation of ERM. A respondent noted, “*many people want a more scientific approach to risk management which is good because they are interrogating and applying their minds however they move towards a set figure for a risk rating*” (Executive Manager: Risk – Transportation Sector). This poses a challenge as people tend to get caught up in the detail and science rather than focusing on prioritising the issues.

An interesting comment was made by a respondent from the Manufacturing sector who mentioned, “*once you start establishing strong functional structures like a centralised risk management function then the responsibility for risk tends to move away from line management to the risk management function, so that’s the balance that we are trying to achieve*” (Group Risk and Compliance Manager – Manufacturing). This statement
highlights the importance of creating an appropriate balance in terms of resourcing a centralised risk function whilst preventing line management from shifting the responsibility for ownership and management of risk to that centralised function, as in a best practice ERM framework, ownership of risks must clearly lie with those resources ultimately most effected by the risk.

4.4.3. ERM and strategic planning alignment

| Respondent                     | Key Responses                                                                                                                                                                                                                                                                                                                                 | Commentary                                                                                                                                                                                                                     |
|-------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Head of ERM - Transportation  | “I don’t think that we do this very well. Essentially risk management should be part of the strategic planning process and although I think risks are definitely considered as part of the planning process, it is not done in a formal and robust manner.”                                                                                                                                                  | Some of the respondents do not believe that ERM and strategic planning is effectively aligned. This poses a significant challenge for these SOEs as risks are only considered after the strategy has been set and therefore they cannot effectively mitigate the risks. |
| Executive Manager: Risk – Transportation | “Throughout the process risk management is involved so for example when the strategy team sits down to determine the strategy the risk person would sit with them to identify potential risks”                                                                                                                                                       | In this instance the respondent believes that risk is fully integrated into the strategic planning process and therefore risks are identified upfront and mitigation plans put in place to manage the risk exposures.                                      |
| Head of ERM - Energy          | “…so part of the strategy setting process is a risk management process, and subsequent to that risk management is embedded into the business plan; risk management is embedded out of strategic objectives into operational objectives and then into the day to day operating activities”                                                                                                               | This would be the ideal process where ERM is fully embedded into the business plan of the SOE and filtered down into the day to day operating activities.                                                                          |

Table 8: Key Responses relating to the ERM and strategic planning alignment

In order for ERM to be effective and create value in an organisation, it is integral that ERM must be aligned to the strategic planning process. The SOEs interviewed were asked how their organisations ensure that the ERM process is aligned to the strategic planning process. There were a variety of responses to this question, with two of the SOEs indicating ERM fully aligned to and integrated into the strategic planning process; one SOE respondent believed that they were partially aligned and the remaining two confirmed that ERM is not aligned to the strategic planning process,

A respondent from the Energy Sector where the ERM process was fully aligned to the strategic planning process noted that, “If you look at the corporate value chain, risk is incorporated into strategy and business planning. So before strategy setting there is a risk discussion which is integrated, so part of the strategy setting process is a risk
management process, and subsequent to that risk management is embedded into the business plan; risk management is embedded out of strategic objectives into operational objectives and then into the day to day operating activities” (Head of ERM - Energy Sector).

The comments of a respondent from the Transportation sector concurred with the view above and noted that, “as part of the annual planning process it is done sequentially with the strategy team determining the assumptions and current economic circumstances and the marketing team doing their analysis. Throughout the process risk management is involved so for example when the strategy team sits down to determine the strategy the risk person would sit with them to identify potential risks” (Executive Manager: Risk – Transportation Sector).

Another respondent from the Transportation sector, however, gave a conflicting perspective where ERM was not aligned to the strategic planning process at all. He mentioned that, “I don’t think that we do this very well. Essentially risk management should be part of the strategic planning process and although I think risks are definitely considered as part of the planning process, it is not done in a formal and robust manner. We complete the strategic risk assessment process after the strategy and planning is complete; therefore post the fact” (Head of ERM – Transportation Sector).

Therefore, in some instances, it appears that some South African SOEs demonstrate an ERM process which is fully aligned to the strategic planning process and in others it is not.

4.4.4. Effect of ERM on value creation and performance

<table>
<thead>
<tr>
<th>Respondent</th>
<th>Key Responses</th>
<th>Commentary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Head of ERM - Transportation</td>
<td>“I don’t think it does influence decision making very well. We definitely need to do a lot more work in this area to ensure that risk is considered in every strategic decision that is made. It’s a mindset change that needs to occur throughout the organisation”</td>
<td>This respondent believed that ERM does not influence decision making in the SOE and therefore risks are not taken into account for every strategic decision. This could result in risks materialising which impact on performance and the achievement of strategic objectives.</td>
</tr>
<tr>
<td>Head of Strategy - Energy</td>
<td>&quot;So it’s a different level of decision making that gets influenced; at a strategic level less, but passed the strategic level or objective contained in the shareholder compact, risk management plays a huge</td>
<td>This was an interesting observation in that the respondent believes that although ERM does not impact on decisions made at a strategic level in order to exploit opportunities, it does play a part in the</td>
</tr>
</tbody>
</table>
role in terms of prevention rather than exploiting opportunities outside of mandate”.

Executive Manager: Risk - Transportation

“We measure the success of ERM by the risk maturity index in terms of the embedment of risk processes in the organisation.”

Prevention of risks and therefore protecting value, rather than creating value.

Many of the SOEs use a risk maturity measure to determine the success of their ERM processes. This however does not measure the effectiveness of ERM and its influence on performance and value creation.

**Table 9:** Key Responses relating to the effect of ERM on value creation and performance

Based on the literature review, the value side of ERM implementation is that it makes management and the board better understand the risk exposures on an enterprise wide level which leads to greater management consensus, more informed decision making and increased accountability. Therefore better management translates into the increased ability to meet strategic goals, reduced earnings volatility, increased profitability and therefore value creation and improved performance.

The interview respondents were asked two questions relating to the effect of ERM on value creation and performance. The first question was how the ERM process influences decision making in the organisation and the second question related to how the organisation measures the success of ERM.

Again, there were varying responses to the question on how does ERM influence decision making with some respondents stating that ERM does not effectively influence decision making, and others believing that ERM does influence decision making.

A respondent from the Transportation sector mentioned that, “I don’t think it does influence decision making very well. We definitely need to do a lot more work in this area to ensure that risk is considered in every strategic decision that is made. It’s a mindset change that needs to occur throughout the organisation” (Head of ERM – Transportation Sector).

Another respondent from the Energy sector concurred with the statement above and indicated that, “I’m not sure it does, because if we cannot choose the objectives the decisions after that become irrelevant. So it’s a different level of decision making that gets influenced; at a strategic level less, but passed the strategic level or objective
contained in the shareholder compact, risk management plays a huge role in terms of prevention rather than exploiting opportunities outside of mandate” (Head of Strategy - Energy Sector).

The respondents who believed that ERM does influence decision making in their SOE, attributed this mainly to having a senior risk representative at Executive Committee level who would raise the relevant risk questions in terms of any strategic decision that is made. A respondent from the Transportation sector stated that, “We have a GM for risk management who sits on EXCO which helps because when strategic decisions are being made the GM Risk would ask the questions from a risk perspective and if they have considered the impact of this decision on the business. We also have a presence of risk in other governance structures such as the Investment Committee. So risk management definitely does influence decision making in the organisation” (Executive Manager: Risk – Transportation Sector).

In terms of measuring the success of ERM in the organisation, the majority of the respondents believed that this was very challenging. The SOEs that did measure the success of ERM used a qualitative measure in terms of the risk maturity of the organisation. A respondent from the Transportation sector noted, “We measure the success of ERM by the risk maturity index in terms of the embedment of risk processes in the organisation. I would also like to see an effectiveness rating to determine how effective the risk management processes have been in mitigating and preventing risk exposures as well as improving decision making – eg. lower incidents, reduction in the cost of risk, improved efficiencies” (Executive Manager: Risk – Transportation Sector).

Overall, the responses from the semi-structured interview questionnaire provided relevant and direct information as well as a refined level of understanding of ERM practices from senior risk personnel within the respective SOEs.
4.5. Observations from the Structured Interview Questions

The six interview respondents from the semi-structured interviews also participated in the structured interview questions. The structured questions were designed to ensure that SOEs responses can be analysed across a common framework. Additionally, the structured questions aim to test the validity of and confirm the data collected from the semi-structured questions.

The respondents were asked a set of eight structured questions as per the structured interview questionnaire (attached as Appendix C). The structured questionnaire was developed based on a five point Likert scale with respondents having to indicate the level of agreement with the statements from strongly disagree to strongly agree.

Figure 8: Results from Structured Interview Questions

Figure 8 above illustrates the results from the eight structured interview questions with the respondents. The majority of the respondents strongly agreed (67%) or agreed (33%) with Question 1 relating to whether the organisation has clearly defined strategic objectives. This observation corresponds with the responses from the semi-structured questions where the majority of respondents mentioned that the SOE’s strategic objectives are determined in consultation with the shareholder, which is the DPE, and governed in the form of a shareholder compact.
However, only 50% of the respondents strongly agreed and 33% agreed with Question 2 which indicated that everyone in the organisation is aware of the strategic objectives. One respondent (17%) disagreed with the statement as he believes that the strategic objectives were not filtered down throughout the organisation especially to general staff.

The majority of the respondents (67%) agreed with Question 3 which stated that ERM is aligned to the strategic planning process. However, two of the respondents (33%) did not agree with this statement. This corresponded with the semi-structured questions where two of the SOEs mentioned that ERM is fully aligned to and integrated into the strategic planning process, one SOE respondent believed that they were partially aligned and the remaining two confirmed that ERM is not aligned to the strategic planning process.

The majority of the respondents agreed (50%) or strongly agreed (17%) with Question 4 relating to whether ERM enhances the organisation’s decision making. However, two (33%) of the respondents answered neutral to this statement. This observation is similar to the responses from the semi-structured questions where there were varying responses to the question on how does ERM influence decision making with some respondents stating that ERM does not effectively influence decision making and others believing that ERM does in fact influence decision making.

A similar mixed response was received from Question 5 relating to whether ERM enables the organisation to pro-actively realise and seize opportunities. The majority of the respondents agreed (50%) or strongly agreed (17%) with the statement, however one respondent remained neutral and the other remaining respondent disagreed.

All of the respondents either strongly agreed (50%) or agreed (50%) with Question 6 which stated that ERM assists the organisation with compliance to the applicable laws and regulations. This concurred with the responses from the semi-structured questions where the majority of respondents mentioned that compliance with the relevant legislation and regulations is also a key driver for the SOEs undertaking a formalised ERM process.
The majority of the respondents disagreed (67%) with Question 7 relating to whether organisation has achieved its desired level of ERM Maturity. One respondent (17%) was neutral and only one respondent agreed that their organisation has achieved their desired level of ERM maturity. This corresponds with the semi-structured questions where the SOEs that were interviewed had varying levels of risk maturity in terms of the implementation of their ERM processes and a number of respondents mentioned that they were moving up the scale towards their desired level of maturity.

The majority of the respondents (67%) strongly agreed with Question 8 stating that ERM contributes to the overall achievement of strategic objectives. Two of the respondents (33%) remained neutral. This was an interesting observation as most of the SOEs mentioned in the semi-structured interview that the success of ERM was very challenging, however they believe that if ERM is effectively implemented throughout the organisation and aligned to the strategic planning process then ERM should contribute to the overall achievement of strategic objectives.

Overall, the responses from the structured interview questionnaire corresponded with the information obtained from the semi-structured interview questions. Furthermore, the structured questions provided a useful comparative analysis of the state of the various SOE’s ERM practices.

5. RESEARCH ANALYSIS AND DISCUSSION

The purpose of this chapter is to analyse and discuss the results from the research findings and elaborate on these results based on the specific research questions and literature reviewed for this study.

The participants that were interviewed provided valuable insight into the primary and secondary research questions relating to the effect of ERM on the achievement of strategic objectives in South African SOEs. The specific research questions have been derived from the themes in the literature review which are discussed in the sections below.
5.1. How do South African SOEs determine and measure their strategic objectives?

As discussed previously, a study commissioned by the Presidential Review Committee on SOEs (2013) noted that the performance of SOEs in Developmental States is measured differently from those of private companies. SOEs are created by Government to support strategies for economic development and to promote public interests. However, such entities are often challenged with trying to strike a balance between the interests of the public and the revenue and profitability targets (Presidential Review Committee on SOEs Executive Summary, 2013).

This notion was confirmed by findings of this current study where the majority of interview respondents stated that the strategic objectives are determined in consultation with the shareholder, which is the DPE as the representative of Government, and governed in the form of a shareholder compact, which is generally measured on a balanced scorecard basis.

Additionally, the results from the research findings confirmed that there are various stakeholders, including various Government departments, the National Treasury and the general voting public who all have a role in determining the respective SOE’s strategic objectives. Therefore the SOE’s strategic objectives are aligned to outputs from stakeholder theory as highlighted in the literature review.

The findings from the results of the structured interview questions confirmed that the organisations have clearly defined strategic objectives, with the majority of interview respondents strongly agreeing or agreeing with the statement. There was a concern from one SOE respondent who noted that although the strategic objectives are clearly defined and measured regularly, they were not communicated throughout the organisation especially to the general staff.
5.2. How well are the South African SOEs performing in relation to these performance measures?

The document analysis findings revealed that 5 out of the 8 SOEs (62.5%) under the administration of the DPE are financially profitable. However, this is not the only measure for performance as the SOEs are measured on a balanced scorecard basis which includes both financial and social performance measures. According to Frigo (2012), the balanced scorecard is a robust and innovative framework that represents a disciplined approach for managing strategy execution and performance measurement, which can help organisations drive superior performance.

Based on the findings from the qualitative interviews, there was a general consensus that the SOEs were achieving the some of the strategic objectives set however not all the strategic objectives were being achieved successfully. A common theme that came out of the interview responses was that the targets set were unrealistic and that there were various factors outside of the control of the SOEs prevent them from achieving the strategic objectives.

An interesting observation from the semi-structured interviews was that most of the interview respondents highlighted risk issues as the main challenges in successfully achieving the organisations strategic objectives. Therefore risk exposures and the management thereof is a key factor in the achievement of the SOE’s strategic objectives.

Therefore the research findings highlight that the SOEs are achieving strategic objectives set to a certain extent, albeit at varying levels of success.

5.3. What are the main reasons for SOEs undertaking a formalised ERM process?

The document analysis findings highlighted the majority of the SOEs are currently undertaking a formalised ERM process. The findings from the semi-structured interviews established that the main reasons for SOEs undertaking a formalised ERM process is to improve business performance and to enhance decision making, however compliance was also noted as a key driver.
An interesting observation was that none of the respondents mentioned that they were undertaking a formal ERM process in order to enhance and preserve the value of the organisation which Beasly et al. (2006) proclaim as one of the key driver for the implementation of ERM. This is probably due to the fact the SOEs have a different performance measure to that of private companies. Furthermore, an observation was made where one of the SOEs believes that adopting an ERM approach creates confidence in their stakeholders.

Another interesting observation from the research findings was that the SOE’s risk management practices have evolved over time from a compliance based approach to an operational based process which focused on the “pure” risks and insurance and now to an enterprise-wide risk management approach, which indicates growing ERM maturity.

A research study performed by Beasly et al. (2006) supports the point above, and found that successful adopters of ERM recognised that changes in technology, globalisation, corporate financing, and numerous other risk drivers were increasing the complexity and volume of risks and that traditional risk management approaches were no longer an effective way to identify, assess, and respond to the growing array of risks across a complex enterprise.

Therefore, although compliance with regulation and legislation in terms of the PFMA plays an important role for SOEs adopting a formal ERM process, the main reason for SOEs adopting a formal ERM approach appears to be to improve business performance and enhance decision making.

5.4. How is ERM implemented and what is the maturity level of ERM implementation in South African SOEs?

The research findings confirmed that the majority of the SOEs follow a decentralised ERM approach with dedicated risk personnel and/or risk champions deployed into the business units to assist line management with the identification and management of key risk exposures. Additionally, a small centralised risk management function is
responsible for the development of risk frameworks, policies and guidelines as well as the monitoring and oversight of risk and providing assurance to the Board and Stakeholders that the risk management process is adequate and effective. This is in line with best practice frameworks such as the COSO ERM framework and ISO 31000 standard which is discussed in the literature review.

Additionally, the findings confirmed that it is very important to obtain the right level of ownership and buy-in from the board and senior management at the top to ensure that the ownership is filtered down throughout the organisation. One of the challenges, however, with the distribution of risk ownership, is when there are risks that have an impact on various areas in the organisation. This was confirmed by one of respondents from the energy sector. It becomes difficult to assign ownership for such risks, and generally organisations assign ownership to the Executive Committee (EXCO). However, accountability then becomes an issue because the entire EXCO cannot be accountable for a particular risk.

AIRMIC, Alarm & IRM (2010) suggest that that ERM cannot be implemented overnight and that ERM is a journey. Furthermore, Chapman (2009), notes that the assessment of risk maturity provides organisations with a tool to assess how advanced their risk management framework is in order for them to communicate this information to senior management and the board.

The findings of this research study revealed that the SOEs have various degrees of risk maturity in terms of the implementation of their ERM processes. The risk maturity index scales utilised by the SOEs were based on various risk maturity models either standardised risk maturity models developed by consultants or internally developed models. An interesting observation was that many of the SOEs believed that they were advanced or world class in some areas, however in other areas they were lagging behind. The results show that most of the SOE’s risk maturity range between basic (level 2) to operational (level 4) on a 5 point maturity index scale as outlined in the literature review. As indicated by their responses to both the structured and semi-structured questions, the majority of the SOEs interviewed believed that they have not yet reached their desired level of risk maturity.
As discussed in the literature review, it is important for organisations to establish their risk maturity in order to determine the quality and effectiveness of the risk management processes and activities as well as to monitor the progress towards their desired level of risk maturity. Moving towards an advanced risk maturity could be very costly in terms of both financial and human resources, and therefore it’s important for SOEs to determine what level of risk maturity they would like to achieve that will best fit their risk strategy and available resources.

5.5. Is there an alignment of the ERM processes with strategic planning in South African SOEs?

Beasley and Frigo (2007) found in their study that successful deployment of ERM practices in strategic planning seeks to maximise value when setting strategic goals by finding an optimal balance between performance goals and targets and related risks. Furthermore, Frigo and Anderson (2011) argue that in order for ERM to be value-creating, it must be embedded in and connected directly to the organisation’s strategy and in order to be effective, ERM must be part of the strategic planning process and the execution of strategy.

This research study found that there was a variety of responses in terms of the ERM process being aligned to the strategic planning process. In some instances ERM is fully aligned within the SOE to the strategic planning process and in others it is not. Two of the SOEs have ERM fully aligned to and integrated into the strategic planning process, one SOE respondent believed that it was partially aligned and the remaining two confirmed that ERM is not aligned to the strategic planning process.

Research performed by Frigo (2008) found that when strategists do not take into account all risks in the strategy development stage, risks may be unintentionally omitted or misinterpreted, and therefore may affect business performance. The SOEs which stated that ERM is not aligned to the strategic planning process believed that ERM and strategy setting operate in isolation with little connection and ERM is usually only considered after the strategic planning process has been performed. However, the SOEs which had ERM fully integrated into the strategic planning process believed that
this added valued and enhanced the organisations ability to achieve its business performance and strategic objectives.

From the results of the findings, it was clear that there are SOEs which had ERM fully integrated and embedded into the strategic planning process believed that they were generally more successful in achieving their strategic objectives through the reduction of uncertainty and effective management of risk exposures right from the beginning. Whereas, the SOEs which did not have ERM aligned to the strategic planning process, felt that they were playing more of a preventative role and therefore not able to exploit opportunities in order to create value and enhance performance. Therefore in order for ERM to be effective and create value in an organisation, it is integral that ERM must be aligned to and fully incorporated the strategic planning process.

5.6. What is the relationship between ERM and performance in South African SOEs

Paape and Spekle (2012), found that public sector organisations may experience unique problems in ERM implementation due to the complex political environment in which they operate and their dominant culture and management style. The findings of this research study directly relate to the observations of Paape and Spekle (2012), in that South African SOEs have a broad mandate and are faced with a conflicting role in terms of creating development impact and remaining financially sustainable. Furthermore, the strategic objectives are determined based on multiple stakeholders needs and therefore the implementation of ERM is very challenging as where private sector organisation can choose not to pursue a specific strategy due to the associated risks, South African SOEs have no choice.

Hoyt and Liebenberg (2011) found in their study that organisations which engage in ERM should be able to better understand the aggregate risk inherent in the different business activities which should result in an overall improvement in business performance. However, Pagach and Warr (2010) found that there is very little impact of ERM adoption on value creation and organisational performance.
The results from this study are more in line with Hoyt and Liebenberg’s (2011) findings and confirm that South African SOEs do see value in the relationship between ERM and performance in terms of achieving their strategic objectives. Additionally, the SOEs believe that if ERM is effectively implemented throughout the organisation and aligned to the strategic planning process then ERM should contribute to the overall achievement of strategic objectives.

6. RESEARCH CONCLUSIONS

The main purpose of the study was to investigate the effect of ERM on the achievement of strategic objectives in South African SOEs. South African SOEs have an important role to play in addressing the State’s service delivery, as well as develop and grow the economy, enhancing the livelihoods of its people. Based on the literature reviewed, the service delivery and performance of SOEs was found to be mixed. Some SOEs exhibit sound financial results and provide high quality services, whereas other SOEs demonstrate significant deficiencies characterised by failure to deliver on strategic objectives over several years, resulting in poor service delivery as well as bailouts from the national Government.

Furthermore, the literature review highlighted the unique role that SOEs have in terms of promoting economic growth, undertaking infrastructure development and addressing market failure. At the same time, the SOEs are required to remain financially sustainable, which poses a significant challenge in terms of risk and uncertainty relating to these key objectives, as there can be an inherent conflict between the commercial interests of SOEs and the State’s developmental interests. This was confirmed in the findings where the majority of the SOEs interviewed noted that they needed to find a balance between remaining financially sustainable and pursuing the developmental objectives of the State.

The research found that the South African SOEs under the administration of the DPE demonstrate varying degrees of maturity in terms of their ERM processes. An interesting observation from the findings was that many of the SOEs believed that they
were advanced in some areas, however in other areas they were lagging behind. The results show that most of the SOE’s risk maturity range between basic (level 2) to operational (level 4) on a 5 point maturity index scale and that the SOEs were moving up the scale towards their desired level of risk maturity.

Furthermore, it was ascertained that the SOEs are adopting an ERM approach because they believe that it is good business practice to do so, and that it will improve and enhance business performance and decision making, which in turn would ultimately lead to the successful achievement of strategic objectives. However, the key challenge with ERM implementation was found to be obtaining the right level of ownership and buy-in from the board and senior management at the top as well as ownership throughout the rest of the organisation. Getting the culture right as well as embedding and sustaining a culture of risk was also found to be a key implementation challenge.

Additionally, the research study found that risk related issues were identified as the main challenges in successfully achieving the organisations strategic objectives. The challenges noted in the findings included the current challenging macro-economic environment, the availability and cost of capital, lack of critical and technical skills and resources, conflicting requirements in terms of the dual role that SOEs are required to play by delivering both business and societal objectives, and changes in regulations and compliance thereto. Therefore risk and the management thereof is a key factor in the achievement of the SOE’s strategic objectives.

However, in several instances, the ERM process was found not to be consistently aligned to the strategic planning process of the SOE. This emerged as a key issue, as the SOEs that did fully integrate ERM processes into the strategic planning appeared to perform better and were more successful at achieving their strategic objectives than the SOEs which did not have ERM integrated or aligned to the strategic planning process as evidenced by the interview responses. As highlighted in the findings section, SOE’s which had ERM fully integrated into the strategic planning process believed that this added valued and enhanced the organisations ability to achieve its business performance and strategic objectives.
Overall, the research established that ERM plays an important role with regards to managing uncertainty and the risks associated with the achievement of SOE’s mandate and strategic objectives, and therefore contributing to the overall performance of the SOE’s. However, due to the fact that the SOEs have a dual mandate with regards to financial performance and development impact, there are a number of external factors outside of the control of the SOEs which may prevent them from achieving certain strategic objectives.

Regardless of the limitations identified in Chapter 3, this research has provided valuable insight to South African SOEs with regards to ERM practices as well as contributed to the growing literature and debate on ERM. Additionally, this research has provided opportunities for further research on performance in South African SOEs specific to the domain of ERM.

7. **FURTHER RESEARCH RECOMMENDATIONS**

This research study focused specifically on South African SOEs under the administration of the Department of Public Enterprises (DPE). Due the limitations of the research study a sample of only 8 SOEs was selected and only 6 respondents were interviewed, representing 5 SOEs. The majority of the respondents were Senior Risk Professionals and therefore this study could be extended to include Senior Executives outside of the risk function and well as operational or line management or alternatively another round. The interesting findings gleaned from the responses of one executive outside of the risk function, strategy, support investigating contrasting views of risk in the executive as a future research direction.

Additionally, this study could certainly be extended to other SOEs that are not under the administration of the DPE. Researchers could also approach the DPE for funding for additional in-depth or specific topic studies related to this research.

A key finding from this research was that the majority of the SOEs stated that they have not yet achieved their desired level of risk maturity, however strongly believe that ERM
contributes to the overall achievement of strategic objectives. It would therefore be valuable to explore the extent to which the role risk maturity specifically has on the achievement of strategic objectives. Furthermore, a quantitative study could be undertaken specific to performance and ERM maturity of SOEs under the administration of the DPE.

Lastly, this research study can be extended to focus on the effect of ERM on the achievement of strategic objectives in Government departments and municipalities and these organisations are faced with similar challenges to the SOEs in terms of their dual role of creating development impact and remaining financially sustainable at the same time.
8. REFERENCES


APPENDICES

APPENDIX A: REQUEST LETTER TO CONDUCT INTERVIEWS

Dear Sir/ Madam

As part of my MBA studies at the University of Cape Town’s Graduate School of Business, I am undertaking a research project towards the degree. I am hoping you would be willing to be interviewed, at a time and place convenient to you, as part of this research project. The interview should take no longer than 45 minutes. The title of my research project is: “An investigation into the effect of Enterprise Risk Management on the achievement of strategic objectives by South African State Owned Entities”

This research project seeks to primarily answer the question: What effect does ERM have on performance in South African SOEs? The research will investigate the role that ERM programmes and processes play in the performance of South African SOEs

Before you agree to the interview I can confirm that:

- The University has given permission for this research to be carried out.
- Your anonymity and confidentiality will be maintained at all times and no comments will be ascribed to you by name in any written document or verbal presentation.
- You will be free to withdraw from the research at anytime and/or request that your transcript not be used.
- I will write to you on completion of the research and a copy of my final research report will be made available to you upon request.

I sincerely hope that you will be able to assist with my research. If you have any queries concerning the nature of the research or are unclear about the extent of your involvement in it please contact email me at plthi023@gsb.uct.ac.za

Thank you for taking the time to consider my request and I look forward to your reply.

Yours sincerely,
Thiren
APPENDIX B: INFORMED CONSENT FORM

Principal Researcher/s: Thiren Pillay

Project Title: An investigation into the effect of Enterprise Risk Management on the achievement of strategic objectives by South African State Owned Entities

Brief overview of the project and its purpose, and what is expected from the respondent:
The research problem is structured around the effect of ERM on the strategic planning process in order to enable value creation as well as enhance performance. The primary purpose is to investigate the effect of ERM on performance with a specific focus on South African SOEs. The research will be exploratory in nature, and will focus on a qualitative and inductive approach. This research should also be of particular interest to South African SOEs as well as to government in general and other government departments that have implemented or are looking to implement an ERM process with the view value creation and enhancing performance. Additionally, the research will provide an opportunity for SOEs to identify the key elements required from ERM that will drive performance. The research will also contribute to the growing literature and debate on ERM as well as provide opportunities for further research on performance in SOEs in South Africa linked specifically to ERM.

There are no known risks or dangers to you associated with this study. Unless you provide an explicit approval, the researchers will not attempt to identify you with the responses to the questionnaire, or to name you as a participant in the study, nor will they facilitate anyone else's doing so.

I acknowledge that I am participating in this study of my own free will. I understand that I may refuse to participate or stop participating at any time without penalty. If I wish, I will be given a copy of this consent form.

Subject's signature:_______________________ Date:____________________
APPENDIX C: THE RESEARCH INSTRUMENT

Interview Questionnaire

Main Research Problem: What effect does ERM have on performance in South African SOEs?

Semi-Structured Questions

<table>
<thead>
<tr>
<th>No</th>
<th>Interview Question</th>
<th>Research Theme</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>How does the organisation determine and measure its strategic objectives?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Do you believe that these strategic objectives are being achieved by the organisation?</td>
<td>Value creation and performance measures in SOEs</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>What do you believe are the main challenges in achieving the organisations strategic objectives?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>What are the main reasons the organisation is undertaking a formalised ERM process?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>How is risk ownership distributed throughout the organisation?</td>
<td>Evolution of ERM and ERM Maturity</td>
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<td>6</td>
<td>Where is the organisation in the ERM implementation process?</td>
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<td>7</td>
<td>What do you believe are the main challenges in implementing and embedding ERM in the organisation?</td>
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<td>8</td>
<td>How does the organisation ensure that the risk management process is aligned to the strategic</td>
<td>ERM and strategic planning alignment</td>
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<td>Strongly Disagree</td>
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<td>ERM contributes to the overall achievement of strategic objectives</td>
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9. How does the risk management process influence decision making in the organisation?

10. How is the success of ERM measured in the organisation?

Effect of ERM on value creation and performance
APPENDIX D: INTERVIEW TRANSCRIPTIONS

Energy Sector: Head of ERM

Main Research Problem: What effect does ERM have on performance in South African SOEs?

Semi-Structured Questions

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</table>
| 1. | How does the organisation determine and measure its strategic objectives? | - The important thing to note is that the organisation is extremely externally driven when it comes to what we going to achieve – it’s not derived from its own base so the point is that the voters influence the government that is appointed and the DPE which basically puts the shareholder compact together so objectives are very clearly stated.  
- They are not Eskom objectives per say, when it comes to a strategic level  
- Operationally we obviously put objectives in place to service those strategic objectives but most of the strategic objectives are governed by the Shareholder (DPE)  
- If you take a look at the 8 that we have, the first one is financial sustainability; we the only energy supplier of note, not of choice but of note, so we put in 43000 megawatts of electricity into the network, which basically services the entire country.  
- So that determines the objectives; keeping the lights on, road to rail for example. Those are all objectives that are set in consultation with government.  
- Predominately governed by the DPE.  
- Huge influence by the National Development Plan (NDP)  
- Department of Energy also plays a big role and to a large degree the National Treasury because of our loans.  
- In summary, the organisation determines its strategic objectives in consultation with government and other key stakeholders  
- Measured through the shareholder compact which is a very structured measurement tool and talks to each of the 8 strategic imperatives that have been agreed and signed off in the corporate plan and is fully aligned to the shareholder compact  
- Base on triple bottom line and therefore the BSC approach |
| 2. | Do you believe that these strategic objectives are being achieved by the organisation? | - I think predominately 3 of the 8 strategic objectives are being achieved to the extent that they are exceptionally well achieved. (Financial Sustainability, Keeping the Lights On and the Business Productivity Programme)  
- The balance of these are being achieved in various degrees of successfulness.  
- The reason for this is predominately to do with the NYPD 3 price allocation (created a gap of R225 bn)  
- So the funding of our business has been severely impacted by the pricing that we were allowed and for that reason 5 of the 8 objectives are now being positioned over a longer term and therefore will not be fully achieved in the year that it has been stated for. |
3. What do you believe are the main challenges in achieving the organisation’s strategic objectives?

- We have been downgraded again. Our credit rating has been downgraded to B- so this is the last port of call before we go into junk bond status. Our biggest risk for that would be where you get to a point where your conditions of our funding contracts get called up. So for example we might be asked to settle our debt sooner. There maybe even issues around the insurance contracts that we have because you find that companies would insure us based on our credit ratings. Major impact of a country downgrade on Eskom
  - Financial sustainability is the biggest challenge
  - Technical performance of our existing assets (power plants)
  - New build programme – delivering the extra megawatts on time
  - Increased costs base due to significant escalations
  - Changes in regulation – any changes that government make in regulation would increase pressure on the ability to meet the strategic objectives; the NERSA determinations, pricing, environmental compliance and free basic electricity; basically anything that would change the demand pattern

4. What are the main reasons the organisation is undertaking a formalised ERM process?

- In our policy it is to make better decisions; to have people see the potential future from a risk perspective in pursuing objectives
- Our definition of risk in this organisation and why we are doing it is because we want to better understand uncertainty its impact of objectives; not just achieving the objectives but on the setting as well as the achievement of those objectives.
- So that’s why Eskom wants risk management; they want to set the right objectives and then worry about the risks of achieving those objectives. This is textbook stuff
- And then coupled onto to that because that would inform decision making; that would lead us to better decision making and that’s what it is all about.
- We find in this organisation that the risk management process adds substantial value to objectives that from the word go are onerous and where normal organisations would have walked away from those objectives; we can’t and for that reason the application of risk management process to the achievement of those objectives are extremely valuable and we have seen it in that there was no load shedding in the winter of 2013 because of the risk practitioners so closely with the project teams that continuously the risk profile assisted in influencing changing of direction and so on. That’s just one example.
- So the three elements to be less uncertain about our objectives; then to make sure that we actually prevent in those cases where we can’t influence an objective that prevention is very strong which then assists in achieving our objectives
- Compliance does play a big role as well. The organisation would like to be seen as a good corporate citizen and therefore compliance is important.

5. How is risk ownership distributed throughout the organisation?

- We focus on risk on three different pillars that we base risk management on: We start off with shaping, safeguarding and servicing
- Shaping is the design framework, policy, standards and guidelines – center led function – that ensures we do the right thing and that
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<td>6.</td>
<td>Where is the organisation in the ERM implementation process?</td>
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<td></td>
<td>The organisation has set itself a goal to be risk intelligent (EY Maturity Model) by 2015.</td>
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<td>Risk intelligent is the highest maturity level which means that risk management is embedded, integrated and applied in decision making.</td>
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<td>Currently we are anywhere between a 3.5 and a 4.2 on our model.</td>
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<td>There is a strong compliant element to the 3 block.</td>
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<td></td>
<td>Risk taxonomy in place, embedded ERM framework and strong risk software</td>
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<td></td>
<td>Involvement of the Organisation’s governance model in terms of risk and reporting.</td>
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<td>Our quality is still a bit of an issue as well as the change in the operating model</td>
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<td>7.</td>
<td>What do you believe are the main challenges in implementing and embedding ERM in the organisation?</td>
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<td></td>
<td>Cost - 16% budget vs. 6% actual increase which impacts on achieving the objective of being risk intelligent</td>
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<td>Embedding a culture of risk throughout the organisation</td>
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<td>Keeping up with all the changes in the organisation for example the change in the operating model</td>
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<td>8.</td>
<td>How does the organisation ensure that the risk management process is aligned to the strategic planning process?</td>
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<td>In the structure, governance model makes provision for risk management as agenda items</td>
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<td>If you look at the corporate value chain, risk is incorporated into strategy and business planning.</td>
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<td>So before strategy setting there is a risk discussion which is integrated, so part of the strategy setting process is a risk management process, and subsequent to that risk management is embedded into the business plan; risk management is embedded out of strategic objectives into operational objectives and then into the day to day operating activities</td>
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<td>9.</td>
<td>How does the risk management process influence decision making in the organisation?</td>
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<td></td>
<td>I’m not sure it does, because if we cannot chose the objectives the decision after that become irrelevant</td>
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<td>So it’s a different level of decision making that gets influenced; at a strategic level less, but passed the strategic level or objective contained in the shareholder compact, risk management place a huge role (e.g. KLO) in terms of prevention rather than exploiting opportunities outside of mandate.</td>
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<td>10.</td>
<td>How is the success of ERM measured in the organisation?</td>
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<td>Reflective measurement criteria based on compliance which is qualitative and quantitatively</td>
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<td>Qualitatively we test the governance oversight and self-assessments by Board and EXCO.</td>
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<td>Quantitatively which is mainly a compliance measure for example did we comply with King 3 and did we do all the quarterly reporting and based on the maturity model reviewed</td>
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- Subjective measure where we say how did our risk profile improved. Tracking of risks that deteriorate, risks that improve and risk that actually materialise as well as missing of deadlines in terms of action plans.
- Therefore it’s a 3 dimensional measurement criteria.
Energy Sector: Head of Strategy

Main Research Problem: What effect does ERM have on performance in South African SOEs?

Semi-Structured Questions

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| 1. | How does the organisation determine and measure its strategic objectives?          | • The current strategic objectives were set through a process where a whole lot of senior managers were put in an area for roughly around 2 to 3 months and had them work through different areas that were driving Eskom’s business and based upon that the objectives were formulated based on the outcome of that work so it was an informed set of objectives; informed based upon focused working groups working in different areas of the business looking at different things.  
• Essentially it was a project managed oriented type of process where we had focus groups looking at different areas, they all came together and the cumulative inputs that were provided then determined the objectives.  
• Measured using the BSC                                                                 |
| 2. | Do you believe that these strategic objectives are being achieved by the organisation? | • No far from it, the reason the strategic objectives aren’t being realised is because people have unrealistic expectations and nobody has actually gone and assessed the organisations ability to actually deliver on all of those things before they were set; it’s one thing setting stretched targets/objectives but it’s another thing setting stretched-stretched objectives.  
• A number of these strategic objectives are also affected by things outside of our control such as the pricing as the organisation is a regulated entity and the price increases are determined by the regulator. For example we only got 8% of the required 16% price increase.  
• This has significant implications on the organisation from a cost, resource and revenue perspective. |
| 3. | What do you believe are the main challenges in achieving the organisations strategic objectives? | • Unrealistic expectations and objectives from both the shareholder and the board.  
• Conflicting requirements – if you look at the utility you’ll see its got a number of government departments that license and regulate different components but the government departments don’t speak to each other so you land up with contradictory compliance needs; so a good example would be on the one side they would say your emissions need to be at a certain level whereas on the other side they say that you have got to reduce your water. The problem is that in order to reduce your emissions you have to put in technology that’s very water intensive. Two different departments in government not sitting together and having conflicting requirements  
• If someone gives you a mandate and they want you to fulfil that mandate, then they need to back it up with the relevant decision making to enable you to do it and support to do it; for example how do you expect a utility to meet all of the strategic objectives when the revenue requirement and the tariff is less than half of what was requested; how you going to create jobs?  
• The other question is that a lot of the times the shareholder has |
expectations but the general public is not prepared to pay for those things; so here’s a thought, you want to go and create 20 000 jobs but that has a significant cost implication on the organisation which then adds to the overall cost base which the end consumer has to pay for; so these things are all related.

- The issue here is the failure to understand the impact of these things.

### 4. What are the main reasons the organisation is undertaking a formalised ERM process?

- If you going to succeed in any environment, risk needs to be part and parcel of what you doing. So really it’s about ingraining risk management into the day to day operation and thinking of the business.
- Actually strategy is managing risk; part of strategy is managing risk because strategy has a number of components where we look at leveraging our strengths and opportunities but then we must also treat the risks that come with the threats and the weaknesses.
- We don’t do a strategy development or review without incorporating risk. These two processes run together.

### 5. How is risk ownership distributed throughout the organisation?

- Risk ownership is defined pretty well in terms of accountability sitting with the Executives and line managers.
- The challenge however comes in where you have risks that impact multiple areas; who then takes accountability for those risks.
- This has always been a challenge because how does a person take accountability for risk beyond their area of control.

### 6. Where is the organisation in the ERM implementation process?

- We reasonably mature and moving up the maturity scale.
- We have been utilising CURA (risk software) and the integrated risk management approach for over 5 years now.
- Risk is no longer a line item, it is something that we do so for me its entrenched in the management layer across the organisation. Whether it is always practiced that way is a different story.

### 7. What do you believe are the main challenges in implementing and embedding ERM in the organisation?

- Simple, its buy-in. If people don’t understand what and why you are doing things then they are not going to do it.

### 8. How does the organisation ensure that the risk management process is aligned to the strategic planning process?

- It is incorporated in the strategic planning process. We do strategy development and risk together.

### 9. How does the risk management process influence decision making in the organisation?

- Apart from the Executives reviewing the risks on a regular basis, I’m not sure how much of emphasis is placed on the use of the tool in terms of decision making.

### 10. How is the success of ERM measured in the organisation?

- For me it’s when we have brought a change in the way people think in this organisation which I think we are very far off.
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**Transportation: Executive Manager – Risk**

**Main Research Problem:** What effect does ERM have on performance in South African SOEs?

**Semi-Structured Questions**

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| 1. | How does the organisation determine and measure its strategic objectives? | • Governed by the Shareholder Compact with DPE which gives a broad overview of what the strategic objectives should be  
• A combination of business and social objectives vs. economic growth objectives  
• Measured monthly against specific targets which have been set  
• Specific internal targets are set by Transnet based on the shareholder compact which are measured on a BSC basis |
| 2. | Do you believe that these strategic objectives are being achieved by the organisation? | • In general the strategic objectives are being met, however targets set by the DPE have not been benchmarked to ensure that they are realistic  
• 50% of the targets are being met however the 50% of target that are not being met are due to the unrealistic targets that have been set.  
• This is as a result of the DPE expecting an improvement year on year, however there has to be a stage where the targets reach a plateau otherwise they become unrealistic |
| 3. | What do you believe are the main challenges in achieving the organisations strategic objectives? | • Dual role of being driven by business principles however the organisation also has societal objectives that it needs to achieve (financial sustainability vs. development impact)  
• Price increases are capped by the DPE to CPI +2 and therefore there is an increased pressure on revenues in order to remain financially sustainable and to fund capital investment projects  
• Satisfying customers and replacing and investing in infrastructure at the same time  
• Improving efficiencies in order to generate revenue  
• Having the right skills and resources to meet the Market Demand Strategy (MDS)  
• Ensuring the safety of employees and customers  
• Dependency on Eskom for power generation and transmission and distribution.  
• Interdependency on other SOEs and sharing of information and communication is a big challenge  
• Risk in the supply chain |
| 4. | What are the main reasons the organisation is undertaking a formalised ERM process? | • It comes with the state of maturity, previously Transnet was very compliance based, it then moved onto a very operational based process focusing primarily on the “pure” risks and insurance; now moved to and evolved into an ERM approach as it not just best practices but also makes sense from a business point of view.  
• Evolved over a period of time but we needed to have gone through those building blocks in order to get where we are now.  
• From an ERM point of view we have embedded the processes and are now looking to improve the culture around these ERM processes. |
| 5. | How is risk ownership distributed throughout the organisation? | • We have a policy statement which states that risk management needs to be embedded in the DNA of each and every employee.  
• So this went a long way to ensure that employees take ownership for risk issues  
• Previously they would think that it’s the responsibility of risk management to manage their risks |
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<td><strong>With the tone at the top being set that risk is the responsibility of every single employee and with it being demonstrated where people start talking the risk language and start showing how it is applicable went a long way to start showing the people on the ground to take ownership for risks</strong></td>
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<td><strong>So there is a general ownership and accountability for risk management in the organisation however it’s not 100% there yet. It is however moving in the right direction with people starting to take ownership of their risks.</strong></td>
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<td><strong>Risk Committee meetings where managers attend and discuss their risks as well as the risk mitigation measures</strong></td>
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<td>6.</td>
<td>Where is the organisation in the ERM implementation process?</td>
<td><strong>Our maturity index is measured from basic to mature to advanced and on a scale of 100%.</strong></td>
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<td><strong>We are currently sitting on 83% so we are oscillating from the mature to the advanced stage.</strong></td>
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<td><strong>The maturity model is based on risk processes that have been embedded in the organisation.</strong></td>
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<td>7.</td>
<td>What do you believe are the main challenges in implementing and embedding ERM in the organisation?</td>
<td><strong>Generally speaking the tone at the top is a big challenge – once you get the tone at the top it will create the impotence to drive risk management throughout the organisation. This was an initial challenge for us, however it is not a challenge for us any longer as we have developed an appropriate tone at the top.</strong></td>
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<td><strong>Getting the culture right - the issue is first embedding the culture and then sustaining the culture.</strong></td>
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<td><strong>People that have been training on risk management that leave the organisation which requires new people to be trained.</strong></td>
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<td><strong>The need for quantification – many people want a more scientific approach to risk management which is good because they are interrogating and applying their minds however they move towards a set figure for a risk rating.</strong></td>
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<td>8.</td>
<td>How does the organisation ensure that the risk management process is aligned to the strategic planning process?</td>
<td><strong>We have embarked on this market demand strategy which is entirely risk based.</strong></td>
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<td><strong>Risks and mitigating actions were identified as part of the strategy setting and drafting process.</strong></td>
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<td><strong>As part of the annual planning process it is done sequentially with the strategy team determining the assumptions and current economic circumstances and the marketing team doing their analysis. Throughout the process risk management is involved so for example when the strategy team sits down to determine the strategy the risk person would sit with them to identify potential risks.</strong></td>
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<td><strong>Once this is all consolidated then we would do a risk assessment which would form part of the strategic risk assessment process.</strong></td>
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<td><strong>Risk sections are discussed at all management meetings and displayed in the annual reports.</strong></td>
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<td>9.</td>
<td>How does the risk management process influence decision making in the organisation?</td>
<td><strong>We have a GM for risk management who sits on EXCO which helps because when strategic decisions are being made the GM Risk would ask the questions from a risk perspective and if they have considered the impact of this decision on the business.</strong></td>
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<td><strong>We also have a presence of risk in other governance structures such as the Investment Committee.</strong></td>
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<td><strong>So risk management definitely does influence decision making in the organisation.</strong></td>
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<td><strong>Even at a sourcing stage for tenders.</strong></td>
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<td>10.</td>
<td>How is the success of ERM measured in the organisation?</td>
<td><strong>Measured by the risk maturity index in terms of the embedding of risk processes in the organisation</strong></td>
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<td><strong>I would also like to see an effectiveness rating to determine how...</strong></td>
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effective the risk management processes have been in mitigating and preventing risk exposures as well as improving decision making – eg. lower incidents, reduction in the cost of risk, improved efficiencies.

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**Transportation: Head of ERM**

**Main Research Problem:** What effect does ERM have on performance in South African SOEs?

**Semi-Structured Questions**

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| 1.  | How does the organisation determine and measure its strategic objectives?          | • The mandate of the organisation is derived from its own Act; which guides the strategic direction of the organisation.  
• Together with the shareholder which is the DPE, we will then develop a set of strategic objectives for the organisation based on the mandate which is included in the shareholder compact.  
• These objectives are informed by the State policy objectives and therefore has both economic and social measures. This is then translated into the corporate plan which sets out specific initiatives on how we are going to meet these strategic objectives.  
• The objectives are measured using a balanced scorecard approach and is monitored on a quarterly basis and reported on in the corporate plan. |
| 2.  | Do you believe that these strategic objectives are being achieved by the organisation? | • To a certain extent yes, however not all the strategic objectives are being met; an example would be the financial sustainability objective. There are major challenges for the organisation to remain financially sustainable due to us operating in a global competitive environment and the capital intensive nature of our business. |
| 3.  | What do you believe are the main challenges in achieving the organisations strategic objectives? | • The availability and the cost of capital of capital is a major challenge for our organisation as we operate in an environment with a highly intensive capital nature.  
• Also because we operate in a global space the volatility of the currency as well as the oil price has a major impact on our revenue streams as well as our cost base.  
• Another challenge that we are faced with in achieving these objectives is becoming an environmentally sustainable organisation. |
| 4.  | What are the main reasons the organisation is undertaking a formalised ERM process? | • Well firstly from a compliance perspective the PFMA requires all public entities to adopt an ERM approach; however we believe that this is imperative to enhance and improve our business as well as to adhere to our high safety standards.  
• Ultimately we would like to see ERM contribute to the overall improvement of business decisions. |
| 5.  | How is risk ownership distributed throughout the organisation?                      | • Risk is the responsibility of the Board and they acknowledge this responsibility. A Risk and Compliance committee which is a subcommittee of the board reviews all significant risk exposures on a quarterly basis.  
• Each EXCO member is accountable for the risks in their respective area.  
• We have a small centralised enterprise risk management team responsible for the development of risk frameworks, policies and guidelines as well as the monitoring and oversight of risk.  
• Each division has dedicated risk officers who are responsible for assisting line management with the identification and management of risk.  
• Risk champions have also been identified in the various divisions. |
| 6.  | Where is the organisation in the ERM implementation process?                        | • In terms of risk maturity we are currently at an evolving level moving towards an established level. Our aim is to be at an advanced level in the next 2 to 3 years. |
We have recently revised our ERM policy which was approved by the board and strategic and operational risk registers have been completed for all subsidiaries and divisions. We are now focusing our efforts on embedding the ERM processes into the day to day activities of the business.

| 7. | What do you believe are the main challenges in implementing and embedding ERM in the organisation? | I think that getting the buy-in and support from all areas in the organisation is one of the biggest challenges. Skills and resources is also a major challenge in embedding ERM in the organisation and therefore we are also embarking on an organisation wide training and awareness campaign. |
| 8. | How does the organisation ensure that the risk management process is aligned to the strategic planning process? | I don’t think that we do this very well. Essentially risk management should be part of the strategic planning process and although I think risks are definitely considered as part of the planning process, it is not done in a formal and robust manner. We complete the strategic risk assessment process after the strategy and planning is complete; therefore post the fact. |
| 9. | How does the risk management process influence decision making in the organisation? | I don’t think it does influence decision making very well. We definitely need to do a lot more work in this area to ensure that risk is considered in every strategic decision that is made. It’s a mindset change that needs to occur throughout the organisation. |
| 10. | How is the success of ERM measured in the organisation? | At this stage we do not measure the effectiveness of risk management. We have a very subjective qualitative measure in terms of rolling out the various ERM processes and the completion of risk registers. |

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### Manufacturing: Group Risk and Compliance Manager

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| 1. | How does the organisation determine and measure its strategic objectives?         | • Firstly, the organisation as an SOE has a mandate that is given by the Shareholder (DPE) which relates to why the organisation exists first of all.  
• That mandate talks to the business part of the organisation; it also talks to the various aspects of adding to or contributing to economic development.  
• As far as the key mandate is concerned, the critical mandate of this organisation is to support the National Defence Force (NDF) in terms of capabilities and so on.  
• So our objectives are key to meeting the mandate of the organisation  
• So when the organisation does corporate planning, it does corporate planning in order to meet that mandate  
• The drivers of the strategic objectives are the mandate set by the shareholder and below that is specific objectives set to achieve the mandate  
• A good example is for instance in support of the NDF there are specific programs that we are executing on behalf of the NDF and therefore there are specific capabilities that we must maintain as an organisation in order to ensure that NDF meets its own objectives |
| 2. | Do you believe that these strategic objectives are being achieved by the organisation? | • Yes I do, because they are tangible and measurable objectives.  
• They are measurable not only by the Board but also by the Shareholder  
• For example our objectives are linked to the shareholder compact that we sign with the DPE and our performance is measured quarterly; at the end of the year external auditors would independently validate the performance measurement  
• We use a BSC approach in line with the priorities of the organisation  
• For example if you look at the shareholder compact, it considers all the aspects of the BSC, including financial performance, skills development in the organisation and industry wide and also a number of other social issues. |
| 3. | What do you believe are the main challenges in achieving the organisation's strategic objectives? | • The biggest challenge we have and I think it’s generally throughout the defence industry is that the defence budget are flat; they are not growing and that has become more prominent during the credit crunch period. There are areas where it has substantially reduced and it is very flat locally which makes it a bit of a challenge to achieve the organisations objectives.  
• Skills generally because of the nature of our industry, in particular critical high technical skills are unfortunately not only key to us so there is a high competition for this talent out there and that has various implications in terms of us achieving employment equity objectives. It also has major implication in terms of the organisations capability going forward because where are a highly technical IP driven organisation |
| 4. | What are the main reasons the organisation is                                         | • Risk management is not a compliance issue, it is a business imperative.  
• The organisation is very interdependent and therefore it makes |
undertaking a formalised ERM process?

| 5. | How is risk ownership distributed throughout the organisation? | • At Group level after following the strategic review process the will be cross cutting risks where EXCO takes ownership for the risks and within EXCO where there are specific risks relating to an Executives area that Executive will take accountability for that specific risk.  
• For example an risk that relates to the execution of contracts will be owned by the Group Chief Operating Officer  
• At Divisional level they have a similar structure where divisional management will take ownership of specific risks identified in their area.  
• At Board level there is no ownership of specific risks, however they are ultimately accountable for the risk management process  
• Reliance is placed on internal audit to provide assurance on the risk management process  
• Each division has a risk management who reports to the CFO of that division so they run their own day to day risk activities.  
• Risk is filtered from the top down. |
|---|---|---|
| 6. | Where is the organisation in the ERM implementation process? | • We are moving towards a 4 level.  
• We aim for 4 however the organisation has been going through a lot of restructuring which destabilizes the process and maturity. |
| 7. | What do you believe are the main challenges in implementing and embedding ERM in the organisation? | • The cost of risk implementation is one of the biggest challenges  
• One of these is obviously the cost and secondly the embedding of risk management in the day to day functions of business.  
• So once you start establishing strong functional structures like a centralised risk management function then the responsibility tend to move away from line management to the risk management function; so that’s the balance that we are trying to achieve |
| 8. | How does the organisation ensure that the risk management process is aligned to the strategic planning process? | • The key thing is that risk management is part of corporate planning. When we do environmental scanning, risk management is part of the process.  
• At EXCO, the discussions pertaining to specific strategic issues, whether it’s a major transaction like getting a new big contract or entering a new market, the risks are considered throughout.  
• So risk is factored into the strategic planning process as well as the day to day execution of the strategy |
| 9. | How does the risk management process influence decision making in the organisation? | • There are decisions for instance that will be made or we will make a decision to go ahead and do something which will be based on the risks. |
| 10. | How is the success of ERM measured in the organisation? | • This is a very difficult one but for us we measure it in terms of the ability of the organisation to recognise risk in its activities and the ability of the organisation to achieve its objectives despite the risks that have been identified. |
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- So that’s the effectiveness of risk management.
Manufacturing – Chief Risk Officer

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<td>• The Objectives are measured through the developed KPA, Key Risk Indicators on a quarterly basis, which allows the organization to put improvement measures where necessary.</td>
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| 3. | What do you believe are the main challenges in achieving the organisation's strategic objectives? | • Management of Risk  
• Inadequate change management  
• Inadequate communication and feedback mechanisms |
| 4. | What are the main reasons the organisation is undertaking a formalized ERM process? | • To apply best practice methodologies in managing risks, in order to create confidence in stakeholders in the ability of the organisation to meet its objectives.  
• To ensure competitiveness in the market. |
| 5. | How is risk ownership distributed throughout the organisation? | • Different Executives of Business Units are held accountable for their risk and management thereof. We have implemented the Risk Champion philosophy where an operational person in Business Unit is allocated the facilitation of Risk Management in their different Business Units.  
• Lots of training and awareness being conducted. |
| 6. | Where is the organisation in the ERM implementation process? | • Level 2-3 of the maturity cycle |
| 7. | What do you believe are the main challenges in implementing and embedding ERM in the organisation? | • It’s new, and it’s more a culture change than that of the principles of Risk Management.  
• A lot of communication and Change Management has to be done. |
| 8. | How does the organisation ensure that the risk management process is aligned to the strategic planning process? | • Risk Assessment is done as part of planning where risks are identified per objective set |
| 9. | How does the risk management process influence decision making in the organisation? | • Risk Assessments are conducted for any strategy project that gets implemented.  
• Risks are evaluated regularly and emerging risks identified as and when applicable |
| 10. | How is the success of ERM measured in the organisation? | • We have not measured formally yet. |
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