

The Effect of Applying Enterprise Risk Management on Firm Performance: An Applied Study on Commercial Banks in Egypt

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Abstract

Nowadays the business environment is becoming more hostile and turbulent; therefore risk management is becoming an evitable and critical step for every organization in all sectors. Nevertheless not much is still known about how effective enterprise risk management is and even few research studies have drawn their attention on the analysis of relationship between ERM and firm performance in banks, specifically during the period of political instability. This research studies the effect of the implementation of ERM on the bank's performance in Egypt prior, during and after the Egyptian Revolution. The hypotheses assumed ERM implementation would lead to better performance, during both periods of political stability – prior and after revolution- and instability – period of Revolution-. The sample in this study includes only the commercial banks; as they showed the most direct impact during the Egyptian revolution. Therefore, after including only commercial banks, the final count for the sample was 38 banks; studied from the period of 2009-2013. Mixed results were found from the analysis made on the same stated, the ERM index showed contradicting results on the different methods used to measure bank performance, hence the effect was ambiguous. This indicated that ERM implementation does not significantly lead to better firm performance. This puts the research in the same ambiguous states as previous studies, still there was no conformity liking ERM implementation to better firm performance. It was argued in prior studies that ERM affected performance positively, however the results from this research matched the research done by Aebi et al. (2011); the reason might be because the same index was used in both researches. Hence, the question of whether applying ERM leads to better performance remains yet unsolved and it is not fully guaranteed that with more regulations on risk management, the banks will better perform during an upcoming period of instability.