In Measuring the Benefits of Enterprise Risk Management in Insurance: An Integration of Economic Value Added and Balanced Score Card Approaches

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Abstract

Risk is inherent to all functions of a business. Enterprise risk management (ERM) is for the measurement and the management of all significant risks of the business holistically irrespective of types and sources. Consequently, the portfolio of enterprise risk includes both objective and subjective elements. Two key benefits of ERM—i.e., shareholder value creation and securing competitive advantage—have been derived from the empirical study. The traditional financial approach, e.g., Economic Value Added, was found inadequate to measure the performance of ERM. The Balanced Score Card is adopted to identify the other value drivers of the firm and framing appropriate communication strategies. Finally, a conceptual framework of measuring the benefits of ERM has been proposed. The study offers significant advances in the current debate on the performance of enterprise risk management, in particular, minimizing the existing gap between the academic understanding and practitioners' experience on the topic.