DOES LEADERSHIP AFFECT ENTERPRISE RISK MANAGEMENT? THE CASE OF TOMATO PRODUCTION VALUE CHAINS IN ETHIOPIA

Emnet Negash Debele (Asst. Prof)
Jimma University, Jimma, Ethiopia

Zerihun Ayenew Birbirsa (Ph.D)
Jimma University, Jimma, Ethiopia

Abstract
The study intends to assess whether leadership style enhances an effective enterprise risk management at tomato production value chain in Ethiopia. The target population of the study includes: Dealers, farmers and union organizers. It was stratified random sampling that was deployed to get sample respondents. Accordingly two hundred and seventy-three respondents responded the questionnaire. Qualitative data was collected to triangulate the responses of sample respondents. Finally, the study reveals that the leadership style affects enterprise risk management significantly. Hence it is advisable for tomato production firms to exercise the leadership style that fits their organizational culture.

Keywords: Leadership style, Strategic planning, Enterprise risk management, Marketing services, Value chain, Government support

1. Introduction
Business firms design various strategies in order to maintain their competitive advantages and minimize their potential risk. Hence, to fatten their competitive position, implementing the enterprise risk management is absolutely vital while setting strategy. (Yilmaz and Flouris, 2017). Enterprise risk management enable firms to undergo a sound planning, decision-making, controlling and accomplishment of organizational activities. As per Rasid et al. (2014) enterprise risk management play paramount role not only for financial performances of a firm, but also panacea for enhancing the non-financial performances. It is mainly the business of top officials of a firm that set viable strategy, long term planning and reducing substantial costs in order to up-lift organization’s profitability. To do so, they need to internalize the practices of enterprise risk management which has great impact on the firm’s strategic decisions process and other activities too (Meidell and Kaarbøe, 2017). Some literatures argue that the successful implementations of enterprise risk management enable firms to reduce their costs and maintain efficiency by tackling operational costs and would meet accounting accuracy in organization (Soin and Collier, 2013).

Overcoming clumsy challenges in organizations, top officials are expected to set strategic planning, viable business strategy and effective enterprise risk management practices (Krause and Tse, 2016). Generally speaking, maintaining competitive advantage is not a function of setting viable strategies, but also it is important to recognize implementing of a sound enterprise risk management activities if need arise to overcome the challenge of competitors (Elahi, 2013). As per Arena et al. (2010) the rationale behind implementing a sound ERM approach is linking ERM along with strategic planning, cost management, organizational policies and other organization’s key functional activities. In additions, George and Evanthia (n.d) argue that leadership plays paramount role in achieving organizational objectives. Irrespective of the type of organization, be it for profit and non-profit organization, it is a leader that can make difference in directing its followers on the track of organizational goal achievements. Of course, when there is a coordinated efforts in between management and leadership, the firm achieves what it intends to achieve.

1.1 Statement of the problem
As per McGing and Andrew (2013) ERM is a systematical analysis of potential risks through exerting of coordinated efforts across the organization in order to pave a smooth working environment that help organizations
enhance their performances and exploit opportunities in their surroundings. This approach, would make the firm to maintain its competitive advantage as it gives rise to establish a culture of managing potential risks in a fascinating fashion. In additions, the approaches of enterprise risk management help organizational leaderships to envision and make a positive impact on their followers to build their capacity of identifying and controlling risks in order to maintain the wellbeing of firms.

It is possible to conclude that, Enterprise Risk Management is an emerging trend to deal with organizational risks in a systematic fashion in such a way that managing and setting a viable strategy to monitor potential risks that may pose clumsy challenges to firms. In the long run ERM accelerates the performances of firms by minimizing their cost structure. Even though most companies adopt practices of ERM for a limited time duration, but ERM is able to scale up the value of firms in the long run. Implementations of enterprise risk management demands the commitment of top officials. That is, the top management is responsible in setting policy for risk management practices, undergo regular monitoring activities to identify and managing potential risks and adopt a sound Enterprise risk management system in the firm (Sayilir and Farhan, 2017).

Lam (2003) illustrates that leadership of a firm is keen to establish a sound risk management system by mobilizing firm’s resources to respective departments where resources are needed and then establishing a smooth relationship among each departments/ functional units in order to make all organizational stakeholders fulfill their obligations by developing a sound organizational culture. In other words, Schein (1992) further depicted that if a leader is not in a position to conjugate actions and words the organization would fall short to establish a sound risk culture. Also, when there is a trust in between employees and their leadership, therefore, employees could able to take calculated risks. Hence, it is possible to infer that a leadership can make difference in building reliable risk management system in organizations. Finally, maintaining a sound risk management process is a function of having a committed leadership, setting of viable strategy, reinforcement and accountability, well facilitated infrastructure, having conscious and vigilant people along with appropriate communication system (Rossiter, 2001)

The local government performance could affect the local community and respective businesses at large. Evaluating their performances would enable to get potential feedback as to how they have been rendering the social and other services to their stakeholders (Haynes, 2003:99). Evaluating the performance of local governments is a function of dealing with different parameters which include: legislative conformance, fiscal health, responsiveness, efficiency, and accountability – are the crucial parameters that let performance evaluation in terms of process and outcomes of operations of local governments (Shah A., 2005: 63-64). Therefore, the local governments’ efficiency could have direct relationship with the efficiency of business organizations which are operating in the region. As per some researches, accountability of local governments would embrace the level of transparency and the degree in which they make use of their power in an effective manner. That is, if accountability is maintained, there would be less mal-management practices that hinder businesses’ smooth operations (Kishore Raga and Derek Taylor, n.d). Hence, this study assesses the effect of leadership on enhancing enterprise risk management at Tomato production value chains in Ethiopia.

2. Literature Review

2.1 Enterprise Risk Management

Nowadays organizations advocate the philosophy of enterprise risk management in order to carry out the process of managing risks efficiently. Accordingly, every working units is given roles to play pertaining to managing risks so that the integrated efforts exerted from those units make a firm to establish a sound structure of enterprise risk management that make it add its value through enhancing its performances. Enterprise risk management gives clues for management bodies as to make a maximum return by scaling up organizational capabilities to its maximum degree of executing organizational activities. Here it is important to understand that the activities of ERM are not a one shot game or an overnight drama, rather they are continuous processes of dealing with evolving opportunities and potential threats (COSO and WBCSD, 2018)

It is argued that ERM is a philosophy that firms undergo through integrated approach to identify and tackle major risks that a firm encounters in order to make organizational operations smooth sailing. Successful Implementation of ERM is a function of committed top management bodies and employees, setting a sound strategic planning, regular
monitoring potential risks and exerting efforts to achieve organizational objectives (Moeller, 2011 cited in Sayilir and Farhan, 2017, p. 3)

Most literatures argue that strategic management is a panacea for organizational bottlenecks. That is, when managers are familiar with issues of strategic management, they would be in a position to undergo sound decision-making, get to understand both internal and external environment to the firm which in turn let them to predict future courses of the firm. Also, it is a means to cope-up the ever changing world. Simply, it is worth saying that dealing with strategic management would make firms to overcome the keen competition of the day, meeting their objectives, realizing efficiency and effectiveness and meeting the requirements of their customers through analyzing the business environment (Ataş and Kasımoğlu, 2018)

As in contrary to traditional risk management, ERM deals with an integrated risk management method. That means, the former deals with the management of risks that may encounter in different functional units or sections in isolated fashion by deploying specialties in each functional wings, whereas the latter (ERM) deals with an integrated approaches. As per some literatures, when a firm deals with management of risks in specific or individual functional parts, there would be fragmentations of resources which might lead to overlook of prioritizing resources. Whereas, ERM let an entire firm to prioritize resources to tackle potential risks that it encounters. In other words, ERM monitor risks and apply a portfolio thinking and gives due considerations for strategic risks that could be overlooked by lower level sections (Barton, Shenkir, and Walker, 2002). Therefore, ERM advocates risk awareness scenarios to each managers and subordinates in the organizations. It pays attentions to every information which comes from the members of organizations pertaining to possible risks (COSO, 2004).

2.2. Decentralizations and local governments

It is worth functioning to recognize the role that local government plays in rendering services to stakeholders and enhancing local developments in order to make businesses maintain smooth sailing of operations (Shah A., 2005). Accordingly, business firms are becoming successful whenever they work hand and glove along with local governments in order to meet their objectives. That means, the local government has to pave the environments to business in order to attract more investments to their localities which give rise employment opportunities to their community. Here it shouldn’t be denial the support of central governments in supporting the local governments in all walks of life that enhances the prosperity of the nation as a whole.

In order to make local governments more responsive to demand of the stakeholders, there should be capacity building programs by the central government and also exerting efforts to decentralizing of activities. It goes without saying that the more the capacity of local government is up graded the more social services are highly rendered to the stakeholders. That means, the level of awareness of local governors could affect the development of the local community at large and the businesses in that surrounding too (UN-HABITAT, 2002).

2.3. Strategic Planning

Whenever organizations undergo a participatory management approach, they are making a lower – management bodies influence the strategic choice in which firms shape their operations. This influence can be seen from two perspectives. These include: operational managers present their views in a vivid manner pertaining to the type of strategy to be chosen and then engage themselves in the strategic decision-making. The other influence would be exercising decision-making authority by the operational managers whom are delegated by top level managers. Here, while the lower level managers are undergoing decisions, they will be authorized to amend some changes in the organizations in order to cope up the dynamicity of the day. Therefore, participatory decision-making enhance the firm’s caliber which result in achievement of increased organizational performances. (Wooldridge, Schimid, and Floyd, 2008). Hence, it is difficult to generalize that strategy is always designed at top- level management, rather there are ample occasions in which lower level managers initiates and modify strategic options in which the firm follows to carry out its operations irrespective of the knowledge of top level managers (Mintzberg, 1994).
3. Objectives
The general objective of this research is to examine whether leadership style enhance an effective enterprise risk management in tomato production value chain at east Shewa administrative zone, Ethiopia. Specifically the study attempts;
- examine the relationship between Leadership styles and ERM (Enterprise Risk Management)
- find out the relationship between local government support and ERM
- describe the relationship between output marketing services and ERM
- reveal the relationship between Strategic Management planning and ERM

To meet the above objectives, the following hypotheses were formulated.

H1: Strategic planning of firms positively and significantly affect Enterprise risk management

H2: Leadership style of firms positively and significantly affect Enterprise risk management

H3: Local government support positively and significantly affects Enterprise risk management

H4: Output marketing services to firms positively and significantly affect Enterprise risk management

3.1. Study Methodology
The population of this research include: dealers farmers and union organizers. It was stratified random sampling that was deployed to get sample respondents. It was cross-sectional survey design that was deployed to undergo the study. The study data was consolidated by means of structured questionnaire and structured interview. Therefore, three hundred eighty five sample respondents were sampled. But it was two hundred and seventy-three respondents who responded the questionnaire. The strata was formed based on the activities of each actors in the value chain of tomato production. Accordingly, dealers, farmers, and union organizers were chosen. Therefore, it was based on the population survey that sample size was determined (Kothary, 2004, p. 180). It is advisable to make use of the following formula for study to be conducted in survey design and that would employ simple random sampling technique to determine sample respondents.

\[ n = \frac{Z^2 \times p \times q}{e^2} \]

Where:
- \( n \) = Adequate sample size within a given amount of confidence level
- \( Z \) = table value of the confidence level from normal distribution
- \( e \) = tolerable amount of error the researcher accepts
- \( p \) = the probability of success (proportion of the study unit who may give adequate information)
- \( q \) = the probability of failure

As tracing the proportion of success and failure is difficult due to the fact that no prior figure is there, hence, it is advisable to take 50-50 approach which is conservative. The researcher intends to pursue for 95% confidence level with 5% level of tolerance.

\[ n = \frac{(1.96)^2 \times 0.5 \times 0.5}{(0.05)^2} \]
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The total sample size of respondents = 385. Despite this, it is two hundred seventy three (273) respondents who responded the the questionnaire. Both descriptive and inferential data analysis were deployed to meet the objective of the study. Therefore, based on these respondents’ responses that analysis of data and possible inferences were made.

4. Result and Discussions

4.1. Enterprise Risk Management

Table – 1 Monitoring and identifying emerging risks

<table>
<thead>
<tr>
<th>Responses</th>
<th>The firm has policy for monitoring major risks</th>
<th>The firm has standard procedure for identifying emerging risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>46.9</td>
<td>30.0</td>
</tr>
<tr>
<td>No</td>
<td>39.6</td>
<td>51.3</td>
</tr>
<tr>
<td>Indifferent</td>
<td>13.6</td>
<td>18.7</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

As per the above table, majority of respondents 46.9%, responded that the firm has policy for monitoring major risks whereas 39.6% responded negatively. Furthermore, 51.3% of responded that there is no any room for identifying emerging risks while, 30% of respondents responded positively, Hence, it is possible to conclude that the firm is expected to do more in setting means to monitor major risks in order to keep the momentum of operations.

4.2. Strategic Planning

The following table depicts the impact of strategic planning on reductions of risks.

Table – 2 Strategic planning reduces risks

<table>
<thead>
<tr>
<th>Reduction of risks</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>219</td>
<td>80.2</td>
<td>80.2</td>
<td>80.2</td>
</tr>
</tbody>
</table>
has no effect on company  |  42  |  15.4  |  15.4  |  95.6
risk                     |      |        |        |      
enhancing risk           |  3   |  1.1   |  1.1   |  96.7
I don't have an idea     |  8   |  2.9   |  2.9   |  99.6
Missing                  |  1   |  0.4   |  0.4   |  100.0
Total                    | 273  | 100.0  | 100.0  |

Accordingly, majority of the respondents, 80.2% responded that long term planning reduces risks. Hence, it is consistent with other literatures which reveals that decentralized strategy making results in a sound decision which may lead to excellent performances as a pool of idea is tabled from different stakeholders. As the ideas that are going to be raised by these stakeholders typically centers around the market dynamics of the day, there would an ample room to undergo a sound decision that may enhance the caliber of the organization (Floyd and Wooldridge, 1997).

The following table depicts the role of evaluating strategic goals and strategic planning in accelerating firm’s competitive positions.

### 4.3. Leadership Style

<table>
<thead>
<tr>
<th>Table – 3 Mutual understanding between top officials and employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responses</td>
</tr>
<tr>
<td>Yes</td>
</tr>
<tr>
<td>No</td>
</tr>
<tr>
<td>Indifferent</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

The above table reveals the existence of mutual understanding in between top officials and employees. Hence, majority of the respondents, 40.7% responded that there is a mutual understanding in between top officials pertaining to critical firm’s strategy. Whereas, 54.6% of respondents responded that the top management of the firm encourages employees to comment on strategic issues. Therefore, it is possible to conclude that the existence of mutual understanding in between the management and the board help managers to get feedback of strategic issues from employees as the top management undergoes participatory management system.

### Table - 4 Leadership style and risk management
The leadership style of this firm? | Percentages | How often the leadership of the firm undergo participatory leadership style in the process of risk management? | Percentage
---|---|---|---
Supportive | 35.2 | Always | 11.8
Reluctant | 25.3 | some times | 61.4
has no information | 23.4 | Often | 22.1
I have no idea | 16.1 | not at all | 4.8
Total | 100 | Total | 100

The above table depicts leadership style and process of risk management. As per the majority of respondents, 35.2% responded that the leadership style of the firm is supportive in the due process of risk reduction activities, also regarding to the frequency of participation majority of the respondents 61.4% responded that sometimes or on average basis the leadership of the firm undergoes participatory leadership style in the due process of risk management. Of course, this is justified by the interview held along with the officials.

### 4.4. Local Government Support

Table – 5 The discussions with local government

| Do you discuss on regular basis with local government officials about the potential risks of your firm? | Percentages | If your answer is yes, how many times do you discuss with them? | Percentage
---|---|---|---
Yes | 72.1 | once in a week | 5.3
No | 27.9 | once semi-annually | 11.6
| | once in a month | 42.5
| | once in a year | 18.8
| | once in a quarter | 2.9
| | Others | 18.8
Total | 100 | Total | 100
Table 13- Illustrates the support of local government in reducing risks. Accordingly, majority of the respondents, 72.1% responded that they discuss on a regular basis with local government officials about the potential risks of the firm. Pertaining to the frequency of discussions, 42.5% of respondents responded that there is a possibility of discussing along with officials on a monthly basis. This was justified by the interview discussions held along the managers of the firm.

4.5 Marketing Services for the Output

Table- 6 scanning the environment and government marketing agencies

<table>
<thead>
<tr>
<th>Do the top officials scan opportunities in the environment to reduce risks?</th>
<th>Percentages</th>
<th>Do you get agricultural output marketing services frequently by government marketing agents?</th>
</tr>
</thead>
<tbody>
<tr>
<td>very unlikely</td>
<td>12.8</td>
<td>yes always</td>
</tr>
<tr>
<td>rarely likely</td>
<td>40.3</td>
<td>yes some times</td>
</tr>
<tr>
<td>somewhat likely</td>
<td>26.4</td>
<td>not at all</td>
</tr>
<tr>
<td>quite likely</td>
<td>11.0</td>
<td></td>
</tr>
<tr>
<td>very likely</td>
<td>9.5</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>Total</td>
</tr>
<tr>
<td></td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

The table reveals about scanning the environment and government marketing agencies. Hence, majority of respondents, 53% responded negatively implying that the top officials exert less effort to scan opportunities in the environment to reduce risks. Regarding to whether firms get agricultural output marketing service frequently by government marketing agents, 50.7% of responded that they sometimes get the marketing services by government marketing agents. Therefore, it is possible to conclude that the government marketing agents are rendering the marketing services to the firms though their services were not reliable. This was justified by the interview discussions held along with the officials.

5. Correlation Analysis

Table 7 Correlations

<table>
<thead>
<tr>
<th>ERM</th>
<th>STR1</th>
<th>LEAD1</th>
<th>GVT1</th>
<th>MKT1</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>**</td>
<td>**</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ERM</td>
<td>Pearson Correlation</td>
<td>1</td>
<td>.396**</td>
<td>.445**</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td></td>
<td>.000</td>
<td>.000</td>
<td>.014</td>
</tr>
<tr>
<td>N</td>
<td>273</td>
<td>273</td>
<td>273</td>
<td>273</td>
</tr>
<tr>
<td>STR1</td>
<td>Pearson Correlation</td>
<td>.396**</td>
<td>1</td>
<td>.617**</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td>.000</td>
<td>.924</td>
<td>.916</td>
</tr>
</tbody>
</table>
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The above table revealed out, there is a positive and significant relationship between strategic planning and enterprise risk management ($r = .396, N= 273, p <0.01$); there is a positive and significant relationship between leadership style and enterprise risk management ($r = .445, N= 273, p <0.01$); also there is a negative and significant relationship between government support and enterprise risk management ($r = -.149, N= 273, p <0.05$); and finally there is a positive and significant relationship between output marketing services and enterprise risk management ($r = .257, N= 273, p <0.01$).

### Table – 8 Summary of Hypothesis Testing

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Finding</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Strategic planning of firms positively and significantly affect Enterprise risk management</td>
<td>supported</td>
</tr>
<tr>
<td>2. Leadership style of firms positively and significantly affect Enterprise risk management</td>
<td>supported</td>
</tr>
<tr>
<td>3. Local government support positively and significantly affects Enterprise risk management</td>
<td>Not Supported</td>
</tr>
</tbody>
</table>
4. Output marketing services to firms positively and significantly affect Enterprise risk management

Supported

As it is illustrated on the above table, strategic planning, leadership style, and output marketing services affect enterprise risk management, whereas, local government support does not affect enterprise risk management.

6. Discussions

As it was described earlier, the study found out that strategic planning could reduce risks and then helps enterprise risk management more reliable. Hence, the finding is consistent with other literatures which reveal that decentralized strategy making results in a sound decision which may lead to excellent performances as a pool of idea is tabled from different stakeholders. Pertaining to local government support, the study found out that there is no correlation between support of local government and enterprise risk management. Despite this, It is worth functioning to recognize the role that local government play in rendering services to stakeholders and enhancing local developments in order to make businesses maintain smooth sailing of operations (Shah A., 2005). It is argued that the major role of any government is protecting its citizen from broader range risks that stemming from various services rendered to citizens. Of course, government should play a role that realizes the well-being of business firms and all citizens of the nation. In additions, municipalities and local governments should design risk management frameworks which help a smooth sailing of operations for business firms (Thomas, 2010)

Output marketing services to firms positively and significantly affect Enterprise risk management As per Champman(2006) market risks can be defined as: circumstances of a potential loss which emanates from declining of sales or profits that arise from changes in market situations. Potential sources of market risk encompass: stages of product life cycle, market structure, choices of business strategy, pricing, promotion, placement, product features, demand and supply conditions and other input related factors etc. Many researchers found out that leadership play significant role in implementing a sound enterprise risk management in organizations. Accordingly, Lam (2003) illustrates leadership of a firm is keen to establish a sound risk management system by mobilizing firm’s resources for the right activity at the right time and then establishing a smooth relationship among each departments/ functional units in order to make all organizational stakeholders fulfill their obligations by developing a sound organizational culture. In other words, Schein (1992) further depicted that if a leader is not in a position to conjugate actions and words the organization would fall short to establish a sound risk culture. Also, when there is a trust in between employees and their leadership, therefore, employees could able to take calculated risks (Bozeman and Kingsley, 1998). Hence, it is possible to infer that a leadership can make difference in building reliable risk management system in organizations. Finally, maintaining a sound risk management process is a function of having a committed leadership, setting of viable strategy, reinforcement and accountability, well facilitated infrastructure, having conscious and vigilant people along with appropriate communication system (Rossiter, 2001).

7. Conclusion

Strategic planning, leadership style, and output marketing services affect enterprise risk management. Specific leadership style could have an influence on the risk management performance of an organization. It is possible to infer that a leadership can make difference in building reliable risk management system in organizations That is, it is a leader that can make difference in directing its followers on the track of organizational goal achievements. Of course, when there is a coordinated effort in between management and leadership, the firm achieves what it intends to achieve. Therefore, it is advisable to business firms to exercise appropriate leadership style that can fit the organizational culture in order to have effective enterprise risk management.

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