Applicability of ERM 2017 framework in the Definition of Family businesses strategies and Risk Assessment

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ABSTRACT

“In Peru, market conditions and government politics are key factors to determine quality performance in family businesses. Competition and interest rates are also considered important” (Family Business Survey 2016, PwC)

“The most important challenges that family businesses will have to face in the next 5 years are: innovation, competition and market instability. The latter is a bigger concern for Peruvian family businesses than for international family businesses.” ((Family Business Survey 2016, PwC)

Family Businesses go through major concerns and difficulties in order to secure their survival. Even so, they have to go through the ordeal of managing the business while also trying to achieve family goals. As PwC has expressed in its 2016 survey results, many of the problems that family businesses go through are related to facing these changing variables surrounding the organization. This makes it primordial for family businesses to develop strategies in order to surpass these challenges and increase the company value while assessing the risks that come along with those strategies.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) is a worldwide-known organization that has established itself as a guide for implementing Internal Control and, in current years, Enterprise Risk Management. The new proposal from COSO is Enterprise Risk Management - Integrating with Strategy and Performance (published in 2017). The objective of this proposal is to relate the organization’s performance with strategy and risk management. Hence, an efficient development of strategies and a conscious analysis of the inherent risks related to those strategies will be crucial to determine which ones will be chosen.

The present study will, first of all, determine what constitutes a family business and evaluate if COSO’s new proposal is useful for this type of companies. It will review the different
frameworks published by COSO, as a theoretical review and explain the need to stay current with the demands of different organization. The hypothesis is that indeed the latest framework can be applied to family businesses, considering all its issues and be a source of guidance.

To verify this hypothesis, qualitative research will be done. In this case, two interviews with ERM specialist and internal auditor that has experience in family business. The objective of the interviews is to determine whether this framework is considered as a good option for family businesses.

In case the hypothesis is proven wrong, a new proposal will be done, considering family characteristics and dynamics.