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ПЕРЕВАГИ РИЗИК-МЕНЕДЖМЕНТУ ПІДПРИЄМСТВ ТА ЙОГО РОЗВИТОК У ГРУЗІЇ

Ділові компанії дедалі більше наражаються на ризики через невпинні зміни технологій, швидкість комунікацій, глобалізацію бізнесу. Складнішими, різноманітнішими та динамічними стають і самі ризики. Тому в нинішньому економічному кліматі організаціям слід бути готовими до ризиків на всіх рівнях і адекватно на них відповідати. Розглянуто труднощі знаходження спільної мови серед ділових компаній, готових ризикувати. Визначено поняття "ризик-менеджмент підприємства" (ERM) і виявлено, що його неоднаково розуміють у різних системах. Вивчені основні аспекти процесу ризик-менеджменту. Описано прямі переваги ризик-менеджменту і категоризовано чотири типи ризиків підприємств (ризики небезпеки, фінансові; експлуатаційні та стратегічні. Виділено дві групи факторів ризику відповідно до джерела останнього – мікрофактори (які впливають зсередини – фінансові, експлуатаційні та технологічні) та макрофактори (які впливають ззовні – економічні, соціальні, екологічні, правові, ринкові та політичні). Даються рекомендації щодо ідентифікації аналізу визначення та об'єднання ризиків. Розглянуто п'ять рівнів розвитку ERM: початковий, основний, визначений, експлуатаційний і просунутий. Дається короткий огляд ділового середовища Грузії, а таблиця і рисунок представляють головні економічні показники країни. У 2010 р. було ухвалено План дій, серед котрих: 1) прийняття стратегії конкурентної політики; 2) запровадження нової юридичної особи публічного права – Агентства з конкуренції; 3) ухвалення Закону про конкуренцію і відповідних поправок до законодавства. Виконання грузинською владою цих зобов'язань – попередня умова встановлення режиму вільної торгівлі між ЄС і Грузією. Названі головні фактори мотивації для поліпшення корпоративного управління в Грузії. Вказані причини, через які ERM у країні не здійснюється, і даються рекомендації з покращення ситуації. Запровадження ризик-менеджменту важливе для всіх країн, що розвиваються, з Грузією включно: це поліпшить ефективність бізнесу і збільшить його цінність для акціонерів і суспільства. А вивчення ERM є одним із першочергових завдань для науки і системи освіти.

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BENEFITS OF ENTERPRISE RISK MANAGEMENT AND ITS DEVELOPMENT IN GEORGIA

Businesses now operate in an entirely different environment, compared with 20 years ago. Companies recognize Enterprise Risk Management (ERM) as a critical issue. In this article the author lists various explanations and classifications of risks for an enterprise, as well as those of management process, given by different scientists and sources. She also presents her own approaches. To show the difference between how ERM is evolving in Georgia and what it is in the developed countries, the results of two global ERM surveys and of the survey, conducted by the author in Georgia, are reviewed in her paper.

Regretfully, in Georgia ERM is not even at the initial level of (any existing) maturity model. Financial crisis was a good lesson for many companies to learn and realize the necessity of the business continuity plans, particularly of Enterprise Risk Management, but interest towards ERM is still not high in the Georgian companies.

Risk exposure for business companies is becoming greater, more complex, diverse and dynamic. It has arisen from rapid changes in technology, speed of communication, globalization of business and the rate of change within the market and business environments. Businesses now operate in an entirely different environment compared with 20 years ago.

Implementing ERM is no longer a choice. In the current economic climate, organisations must be ready to respond to risk at all levels relating to business confidence and change. It is difficult however to consolidate in a multi-layered management structure a common risk language or inventory with the so-called 'risk appetite' amongst a group of people with variable attitudes to risk. It is clear though that the companies recognize ERM as a critical management issue.

Although Enterprise Risk Management represents a return to the roots of risk management, in order to engage in the Enterprise Risk Management traditional risk managers need to obtain some additional skills. Since Enterprise Risk Management involves so many different aspects of an organization's operations and integrates wide variety of risks, no one person is likely to have the expertise necessary to handle this entire role. In most cases, a team approach is used, with the team drawing on the skills and expertise of a number of different fields, including traditional Risk Management, Financial Risk Management, Management of Information Systems, Auditing, Planning, Line Operations and others.

Enterprise Risk Management is a relatively new science. There is a confusion about what enterprise risk management really means in different organizations in various countries, even in the developed ones. There is no commonly used definition of Enterprise Risk Management, no classification of enterprise risks and management process steps. However, it is clear that an integrated enterprise risk management approach has many advantages and benefits.

In Georgian companies, Enterprise Risk Management is not developed because of various external and internal factors. Studying Enterprise Risk Management is vital for businesses to increase companies' value for shareholders and society. In the long term, it will have positive economic and social effects for the developing country.

Basic aspects of the Enterprise Risk Management process. There has been a significant increase of interest in Enterprise Risk Management (ERM). What has changed during the last decades is the treatment of the vast variety of risks in a holistic manner and the elevation of risk management to a senior management responsibility, although practices have not progressed uniformly through different industries and organizations. The general evolution toward ERM can be characterized by a number of driving factors: more and more complicated risks; external pressures; portfolio point of view; quantification (advances in technology and expertise have made quantification easier); boundary-less benchmarking; risk as an opportunity. Increasingly organizations have come to recognize the opportunistic side, the value-creating potential of risk. Accordingly, risk management practices become more and more sophisticated.

Risk is the chance of something happening that will have an impact on objectives. In a more general definition, it is recognized that activities involving risk can have positive as well as negative outcomes. In practice, usage of the word "risk" usually has negative connotations, and risks are regarded as something to be minimized or avoided.

Risk management is a key business process within both the private and public sector around the world. Sound and effective implementation of risk management is part of best business practice at a corporate and strategic level as well as a means of improving operational activities.

Enterprise risk management is, in essence, the latest name for a comprehensive risk management approach to business risks. Precursors to this term include corporate risk management, business risk management, holistic risk management, strategic risk management and integrated risk management. Although each of these terms has a slightly different focus, in part fostered by the risk elements that were of primary concern to organizations when each term first emerged, the general concepts are quite similar.

The first Enterprise Risk Management publication, presciently titled *Risk Management and the Business Enterprise*, was published in 1963, after six years of examination of this problem, by Robert I. Mehr and Bob Hedges. As the introduction to this publication points out, the objective of risk management is "to maximize the productive efficiency of the enterprise." The basic premise of this text was that risks should be managed in a comprehensive manner and not simply insured [1, p. 4].

Casualty Actuarial Society (CAS) has adopted the definition of enterprise risk management as of the discipline by which organization in any industry assesses, controls, exploits, finances and monitors risks from all sources with the purpose of increasing the organization's short- and long-term value to its stakeholders [2, p. 8].

COSO (Committee of Sponsoring Organizations) defines enterprise risk management as a process, carried out 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 enterprise. It means managing the risk so that it remains within the company's 'risk appetite', providing reasonable assurance with regard to the achievement of its objectives. The definition reflects certain fundamental concepts. Thus, Enterprise Risk Management is a process. It is ongoing and engages all the entity, is effected by people at every level of an organization, applied in strategy setting, applied across the enterprise, at every level and unit. It includes taking an entity level 'portfolio view' of risk. It is designed to identify potential events that, if happen, will affect the entity. It should provide reasonable assurance to an entity's management and board of directors; geared to achievement of objectives in one or more separate but overlapping categories [3, p. 7].

In Handbook that is based on the Joint Australian/New Zealand Standard (AS/NZS 4360:2004) Risk Management is described as a holistic management process applicable in all kinds of organizations at all levels and to individuals. This Standard provides a generic guide for managing risk.

Scientists define Enterprise Risk Management and classify the enterprise risks differently, but it is clear that a new field of Risk Management is evolving, requiring new and specialized expertise.

Advantages of an integrated enterprise risk management approach include: the alignment of risk at all levels to strategic objectives; accountability for and ownership of risk management; ability to foresee and predict risk occurrence. It assumes taking preventive action and minimizing waste of costly time. It also assumes the optimization of risk-taking by the organization, its capability to aggregate and correlate information about the current state of risk exposure at the strategic, operating and process levels.

Direct Benefits of Risk Management include: (1) No Surprises – Early Warning Systems (identify, assess and prioritize risks; introduce appropriate control and information processes; promote organizational learning and knowledge transfer). (2) Effective Responses – Good Reactions (integrate risks into the planning and decision-making; strategically reduce exposure levels to acceptable levels; rapidly respond to issues and reduce negative impacts). (3) Greater Chance of Success – Better Outcomes (maximize chances of achieving objectives; improve ability to anticipate and prepare for change).

A useful way to conceptualize ERM is along two dimensions: one spanning the types of the risks included and the other spanning the various risk management process steps.

The organizations working on enterprise risk management frameworks classify enterprise risks in different categories according to various risk characteristics.

The CAS categorized enterprise risks into four types: *Hazard Risks* (fire and other property damage, windstorm and other natural perils, theft and other crime, personal injury, business interruption, disease and disability, liability claims); *Financial Risks* (price, liquidity, credit, inflation/purchasing power and hedging/basis risk); *Operational Risks* (business operations, empowerment, information technology and information/business reporting); *Strategic Risks* (reputational damage, competition, customers' requirements and wants, demographic and social/cultural trends, technological innovation, capital availability and regulatory and political trends) [2, p. 10].

According to the PROVITI Business model, these three broad categories – environment, process and information for decision-making – provide the basis for understanding the sources of uncertainty in any business. *Environment risks* are uncertainties arising in the external environment that affect the viability of the enterprise's business model. *Process risks* (financial, empowerment, information technology, governance, regulation, integrity and operations) are uncertainties affecting the execution of the business model, and therefore often arise internally within the organization's business processes. Because inadequate knowledge and information breeds more uncertainty, *information for decision-making risks* (strategic, public reporting and operational) are uncertainties affecting the relevance and reliability of information supporting management's decisions to protect and enhance enterprise value [4, p.12–23].

Chapman distinguishes two groups of risk factors according to the sources of the risk: (1) internal influences – micro factors and (2) external influences – macro factors.

Micro risk factors are to a large degree generated internally and hence within the sphere of influence of any one business, whereas macro factors are predominantly outside the control of individual businesses. Micro risk factors include financial, operational and technological factors and macro risk factors include economic, social, environmental, legal, market and political risks [5, p. 201].

We suggest that for the purposes of the effective ERM the enterprise risks be classified into the macro and micro risks factors. We therefore share Chapman's approach, although consider it necessary to attribute strategic risks to the micro risks group.

The steps of enterprise risk management are quite familiar to traditional risk management, but scientists also define them differently. Shawna Ackerman, a consultant at MHL/Paratus Consulting, lists these steps as: Identify the question(s); Identify risks; Apply risk measurements; Formulate strategies to limit risk; Implement strategies; Monitor results and repeat. Another consulting firm lists the steps as: Identify risk on an enterprise basis; Measure it; Formulate strategies and tactics to limit or leverage it; Execute those strategies and tactics; Monitor process.

The following steps of the risk management process are described in the Australian/New Zealand Standard in Risk Management [6, p. 57].

Establish Context – This step includes external, internal and risk management contexts. The external context starts with a definition of the relationship of the enterprise with its environment, including identification of the enterprise's strengths, weaknesses, opportunities, and threats ("SWOT analysis"). This context setting also identifies the various stakeholders (shareholders, employees, customers, community), as well as the communication policies with these stakeholders. The internal context starts with an understanding of the overall objectives of the enterprise, its strategies to achieve those objectives and its key performance indicators. It also includes the organization's oversight and governance structure. The risk management context identifies the risk categories of relevance to the enterprise and the degree of coordination throughout the organization, including the adoption of common risk metrics.

Identify Risks – This step involves documenting the conditions and events (including "extreme events") that represent material threats to the enterprise's achievement of its objectives or represent areas to exploit for competitive advantage.

Analyze/Quantify Risks – This step involves calibrating and, wherever possible, creating probability distributions of outcomes for each material risk. This step provides necessary input for subsequent steps, such as integrating and prioritizing risks.

Integrate Risks – This step involves aggregating all risk distributions, reflecting correlations and portfolio effects, and expressing the results in terms of the impact on the enterprise's key performance indicators (i.e. the "aggregate risk profile").

Assess/Prioritize Risks – This step involves determining the contribution of each risk to the aggregate risk profile, and prioritizing accordingly, so that decisions can be made as to the appropriate treatment.

Treat/Exploit Risks – This step encompasses a number of different strategies, including a decision to avoid, retain (and finance), reduce, transfer, or exploit risk.

Monitor & Review – This step involves continual gauging of the risk environment and the performance of the risk management strategies. It also provides a context for considering risk that is scalable over a period of time (one quarter, one year, five years). The results of the ongoing reviews are fed back into the context-setting step and the cycle repeats.

The steps of Enterprise Risk Management are the same, except for minor changes in wording, as those first enumerated by Mehr and Hedges in 1963.

Chapman has similar risk management phases in his process map: (1) analyses; (2) risk identification; (3) risk assessment; (4) risk evaluation; (5) risk planning; (6) risk management. In his process map, phases are presented with IDEFO (Integration Definition for Function Modeling) techniques. The rules of the IDEFO process map include syntax rules for graphics (boxes and arrows, where boxes are processes and arrows are data flows) and data connectivity (Input, Control, Output and Mechanism) codes. Controls can be considered as constraints and mechanisms can be considered as enablers. These modes of data connectivity are used to describe how the risk management stages are implemented and how the output of one process forms the input to the subsequent process [5, p. 107]. *That way of explaining the Risk Management process is simple and very effective at the same time. It helps to understand what kind of information you need to start any stage of risk management process and what will be the result of the implementation of the certain stage that becomes an input for the next step at the same time.*

Enterprise Risk Management in different countries. In developed countries, in an increasing number of industries the boards of directors are required to review and report on the adequacy of risk-management processes in their organizations; researches and seminars are conducted to explain the process, provide examples of its applications and discuss advances in the field; universities start offering courses titled Enterprise Risk Management.

There has been a significant increase of interest in Enterprise Risk Management in the last years. In 2008, Deloitte conducted ERM Benchmark Survey with a goal to capture and report feedback on the current state of ERM implementation for a cross-section of companies and industries (excluding Financial Services). In the survey, there were 151 company responses mostly from North and South America, and Europe representing consumer business, energy, manufacturing, process industries, and telecom and media. Most of these companies are midsize companies with annual revenues between $1 and $20 billion [7, p. 2–3]. Some key themes about ERM that emerged in the survey are:

- Interest in ERM is growing, but 56% of respondents have had ERM programs in place for less than two years;
- Regulation and regulatory compliance appear to be key drivers of ERM;
- There is a confusion about what ERM really means;
- The primary goals of current ERM programs emphasize process and structure over outcomes;

• Risk has not yet been fully incorporated into core business decision-making processes, such as strategic planning, capital allocation, and performance management;

• The combination of lack of understanding of the benefits of ERM and difficulty in proving the business case is the biggest challenge facing ERM proponents;

• The majority of respondents are not confident in the level of their organization's preparedness for mission critical risks;

• Organizations that report that they are better able to manage risk have a more structured approach that has been in place for two years or more;

• Current ERM programmes are typically focused on risks to existing assets and miss the connection to future growth.

Another broad international ERM Survey was conducted by Aon's Global Enterprise Risk Management with support of Aon analysts and survey research specialist. The survey was based on 201 responses (40% of business companies are from North and Latin America, 38% from Europe and the rest from the Middle East, Africa, Asia and Australia) and was organized during the third quarter of 2009 as a follow up to Aon's inaugural survey conducted in 2007 [8, p. 3–6, p. 42].

Uncertainty surrounding the global economy has significantly increased since the previous 2007 survey, and the awareness of the need to manage and leverage risk has never been higher. The study was designed to show the extent to which ERM has been successfully implemented across organizations globally; the effect ERM has had on harmonizing organizational needs, culture and stakeholder requirements; and how ERM is being used proactively to balance risk, opportunity and value.

According to the Aon Enterprise Risk Management Maturity Model, there are five levels of the ERM development: Initial, Basic, Defined, Operational and Advanced. Advanced ERM means that company has well-developed ability to identify, measure, manage and monitor risks across the organization; process is dynamic and able to adapt to changing risks and varying business cycles; consideration of risk and risk management in management decisions being explicit. Survey respondents were asked to identify their rankings among the model definitions, and the resulting data uncovers nine top hallmarks of forming enterprise risk management programs.

Many of that year's respondents were now past the basic stages of ERM program development, and overall ERM maturity has improved since the 2007 survey. Fifty-five percent of that year's respondents described themselves as being at the "Defined" or "Operational" level, meaning that they had policies and techniques in place to identify, measure, monitor and manage some risk components, which represented a healthy 20 point increase over the 2007 level. The number of respondents who had matured to the ‚Advanced' level since 2007 had more than doubled from 3% to 7%, and respondents in this stage of maturity report now have dynamic ERM processes that allow adaptation to changing risks and opportunities.

Respondents indicate that the primary drivers for investment in ERM are improving governance and transparency, adopting best practices and improving performance and decision making. The number of organizations seeking improved performance and decision making with ERM has risen dramatically since the 2007 survey. Of course it is not surprising that survey respondents continue to focus on deriving value from their ERM investment. It is therefore encouraging that organizations in the more mature stages of ERM report that they are able to drive significant value through ERM in areas such as enhancing shareholder value, optimizing/reducing total cost of risk, strengthening business resiliency and increasing operational efficiency. This is promising in light of the financial challenges that many of the organizations have faced since the last survey. The primary drivers for maturity in ERM programs include improved performance, enhanced risk governance and the integration of known risk management best practices – which all link directly to enhancing shareholder value. Survey respondents report that the impact of ERM on an organization's value increases significantly as ERM programs mature.

Finding ways to demonstrate the value of ERM helps build understanding and momentum for further investment in this approach. Immediate value can result from improved efficiency as existing risk-related activities are aligned into a coherent ERM framework, or from short-term improvements in how risk management resources are allocated against high-priority risks. Longer term value can be found in the year-on-year improvement in risk understanding and "readiness", including alignment of 'risk appetite' with the resources used to manage risk across the organization. In the big picture, ERM will help manage and improve cost (of debt, credit, insurance, and the like) and opportunity (through enhanced governance, reputation and decision making).

This year's responses also reveal the best practices of an advanced ERM program and the work that is required to progress successfully through the five-stage maturity process. It is clear from the survey findings that the ERM journey is organic in nature and unique for each organization; it cannot be completed with a cookie-cutter approach. The objective is to have ERM rooted in an organization's individual culture, management processes and strategic vision, leading to enhanced risk-based decision making. Advanced practitioners have honed this capability and are better positioned to capitalize on emerging opportunities.

If we compare the two surveys described above, we may conclude that there are improvements in many directions towards ERM in the companies, although we should take in consideration that in Aon's case most of the respondents are Aon's clients (as a consulting company) and that can be the reason that respondent companies have more opportunities to develop their ERM systems and programmes.

Enterprise Risk Management in Georgia. Every business organisation has to interact and transact with its business environment. Hence, the business environment has direct relation with a business organisation. Obviously then, the effectiveness of interaction of an enterprise with its environment primarily determines the success or failure of a business. That is why before a discussion of the development towards ERM in Georgia is commenced, it is worth to make brief overview of the business environment in Georgia.

After the so-called 'Rose Revolution' in Georgia deregulation has become the key trend for economic reforms since 2004. Several state agencies were abolished in 2004, including the Service for Food Expertise and Monitoring, the Service for Plant

Protection, the State Employment Service, Office of Standards, Food Safety Inspection, Sanitary Control and the Transport Regulatory Commission, amongst others. The list of activities which required licensing also decreased significantly from 900 activities to only 114. Simultaneously, construction procedures were also significantly simplified [9, p. 61–76].

Analyses of the structural changes carried out in Georgia during last seven years show that the goal of these changes has been full economic deregulation. The Labour Code of Georgia, which recognises the supremacy of employers' rights and practically minimises employees' interests, can be cited as the best example of this reality.

Following the 'Rose Revolution', the Anti-Monopoly Office and relevant legislation were abolished and the Law on Free Trade and Competition and the relevant agency were created instead. In relation to antimonopoly regulations, the radical difference between the approaches of the Government of Georgia and that of the EU has become a serious problem. Georgian authorities base their economic reforms on ultra-liberal approaches, implying minimal mechanisms of control by the State. Georgian authorities view antimonopoly regulations by the State as promoting corruption, rather than bringing about the real solution of the problem. In the framework of antimonopoly regulations the authorities consider it acceptable to control the activities of only the public sector institutions, ignoring at the same time a possibility of abuse by the representatives of private sector, thus fostering monopolistic and oligopolistic conditions on the market. The restriction of such abuse is one of the important directions of European antimonopoly regulation. Georgian authorities, on the one hand, want to conclude a Free Trade Agreement with EU; on the other hand they do not want to concede ultra-liberal approaches in antimonopoly regulation.

In 2010 the Government of Georgia took the following commitments within the framework of antimonopoly activities under the European Neighborhood Policy Action Plan: 1. Adoption of the strategy of competition policy. 2. Adoption of action plan in competition field. 3. Establishment of a new regulatory agency to uphold public law – competition agency. 4. Development and adoption of a competition law. 5. Introduction of relevant amendments to competition legislation to reflect the reforms. 6. Training of the staff of the new competition agency and of the relevant state institutions [10, p. 24–25].

Accomplishment of these obligations by Georgian authorities is a precondition for establishing Free Trade regime between European Union and Georgia. This issue has become topical since August 2008 war and this was one of the components of support of Georgia from the EU side. For this reason Georgia was charged with certain obligations.

Of the aforementioned obligations the Government of Georgia has fully accomplished the obligation to establish a juridical entity for observing public law. Functions of the new agency are defined by relevant legislation, important changes to which have not yet been made. As far as the adoption of competition strategy is concerned, the Georgian authorities have been supported by the Georgian-European Economic Policy and Legal Advice Centre. This document has not been reviewed by any independent experts and its contents remain unknown to the society.

The rate of economic growth decreased in 1998-2002 to an average 2 percent per year. In 2003, however, despite the most difficult economic situation, the economic growth rate exceeded 10 percent. In the following years, with the exception of 2008-2009, the economic growth rates have been extremely high. As a result of the war in 2008, the country's economy increased by only 1.9 percent, whilst economic decline was observed in the country in 2009 for the first time since 1995. According to the official data, the rate of decline was 3.9 percent. It should be noted that state and private donors pledged USD 4.5 billion to help Georgia in the post-war recovery, which significantly reduced the amplitude of economic recession. Key economic indicators of Georgia are presented in Table and Chart.

Table

Key Economic Indicators of Georgia

Indicators	2003	2004	2005	2006	2007	2008	2009	2010
GDP in national currency, (*GEL*) *million*	8,564.10	9,824.30	11,620.90	13,789.90	16,993.80	19,074.90	17,948.60	20,791.30
GDP per capita, *USD*	919	1,187.60	1,483.50	1,763.50	2,314.60	2,921.10	2,450.10	2,629.00
Exchange rate (*USD-GEL*)	2.1459	1.917	1.8127	1.7767	1.6707	1.4902	1.6705	1.7826
GDP growth rate *%*	111.1	105.9	109.6	109.4	112.3	102.3	96.1	106.4
Inflation *%*	7	7.5	6.2	8.8	11	9.7	3	11.2
External trade turnover, *million USD*	1,602.60	2,492.50	3,355.50	4,613.90	6,447.30	7,800.60	5,513.00	6,678.5
External trade balance, *million USD*	-679.8	-1,198.70	-1,624.50	-2,741.50	-3,982.50	-4,808.40	-3,243.20	-3,511.7
Direct foreign investments, *million USD*	340.1	499.1	449.8	1,190.40	2,014.80	1,564.00	759.1	553.1
Unemployment rate *%*	11.5	12.6	13.8	13.6	13.3	16.5	16.9	-

Source: National Statistics Office of Georgia, official web site: http://geostat.ge/.

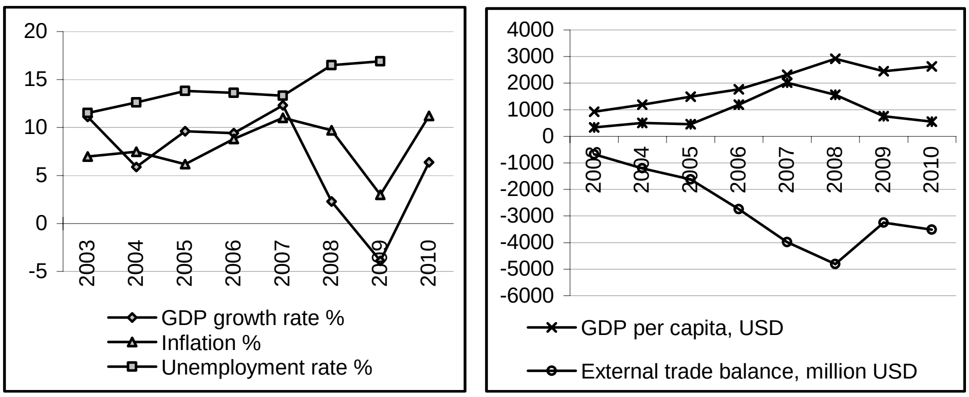

***Chart.* Key Economic Indicators of Georgia**

According to Ease of Doing of Business Report, in 2011 Georgia's rank is 12. This has been an important improvement since 2007, when its rank was 35. During the last years Georgia has improved access to credit by implementing central collateral registry with an electronic database accessible online. Georgia strengthened investor protections by allowing greater access to corporate information during the court trials. Georgia made the enforcement of contracts easier by streamlining the procedures for public auctions, introducing private enforcement officers and modernizing its dispute resolution system. Georgia improved insolvency procedures by streamlining the regulation of auction sales.

Although, if we study all the indicators of Ease of Doing Business (Starting a Business – 8; Dealing with Construction Permits – 7; Registering Property – 2; Getting Credit -15; Protecting Investors – 20; Paying Taxes – 61; Trading Across Borders – 35; Enforcing Contracts – 41; Closing a Business – 105) it is clear that Georgia needs to improve the level of protection of the taxpayers' and investors' rights and simplify procedures for the closing of businesses [11, p. 2–4].

In Georgia, ERM is not developed. Companies do not use various types of risk minimization methods that are adopted in developed countries. That limits their development opportunity. No surveys in ERM have been made yet. As far as risk management is a sub-discipline of internal control and internal control itself is a sub-discipline of corporate governance, it is useful to discuss in the country's companies the Corporate Governance Survey that was conducted under the International Finance Corporation's 'Georgia Corporate Governance Project' in 2004 and in 2008 [12, p. 4–10].

In the survey mentioned, one hundred and fifty companies (medium and large joint stock companies) representing various industries of Georgian economy were interviewed. The results of the survey show that awareness of corporate governance increased in the four years that passed between them. Seventy-seven percent of the companies interviewed in 2008 compared to 43 percent interviewed in 2004 stated that they understood the meaning of the term "corporate governance". The number of companies acknowledging the importance of corporate governance had also increased since 2004. About 31 percent of companies stated that their corporate governance had significantly improved in the previous three years. Thirty-six percent said that their corporate governance had improved but not significantly, and 27 percent said that their corporate governance had not improved.

The following factors were named among the top motivators to improve corporate governance: the desire to improve financial performance; desire to improve competitiveness and desire to attract foreign investments.

Georgian legislation does not have provisions for internal audit. However, the internal audit function plays a significant role in ensuring control of a company. Since 2004, the number of companies with no internal audit unit has declined from 59.2 percent to 26.7 percent. At the same time, in the joint stock companies where an internal audit unit was present, it was often appointed by the management board and was not functionally independent. Independence of internal audit has significantly improved though. In 2004 internal audit was appointed by the management board in 45.2 percent of companies. According to the 2008 Survey, management appoints internal audit in only 26.6 percent of companies. Although an internal audit unit had been introduced in more companies since 2004, companies' responses to the question about their last internal audit were mixed, which suggests that the internal audit function was inefficient or did not function properly.

According to the abovementioned survey, companies paid more attention to the corporate governance and internal control in the last years. Of course, that is an important improvement, but it signifies a crucial gap in the Enterprise Risk Management development.

In the frame of the PhD programme, in February 2011, we started ERM survey (in non-financial sector) to assess what risks certain companies are facing and what methods they use to measure, evaluate and diminish them. We can summarize the situation by saying that ERM is not even at the initial level of (any existing) maturity model. It means that ERM components and associated activities are very limited, and in many cases they do not exist at all. There are many barriers to the ERM implementation and most important are the following:

(1) Owners of the businesses cannot see tangible benefits and they do not realize the importance of ERM;

(2) Lack of the CEOs' and senior managers' support (We should take in consideration that in most of the Georgian companies the owners and CEOs are the same persons);

(3) Companies' positions on the market and their business environment do not call for ERM (low level of competitiveness in the market);

(4) Financial organisations do not pay much attention to the ERM in the process of evaluating business plans of the businesses they give credits to;

(5) Except certain industries, regulatory requirements related to corporate governance are not in place;

(6) Lack of the risk management specialists on the labor market of Georgia and their lack of access to the key leaders;

(7) Lack of financial sources makes it difficult to form new departments of risk management as sub-systems in the companies' management systems;

(8) Financial instruments of risk management are not developed in the country;

(9) Lack of books and materials on risk management in Georgian language; No think tanks working in this field;

(10) Models and methods used for risk measurement and assessment are quite complicated and require special skills and relevant education.

For successful implementation of the Enterprise Risk Management it is important for the businesses to have statistical data. For effective risk minimization risk management policy is to be integrated with business strategy, and risk management plan should be included in business continuity plan.

According to the survey results, most of the Georgian companies did not have business continuity plans before financial crisis and they were making decisions immediately based on the situation. Most of them used defensive strategies (decrease number of employees, delay the salaries and other) to cut their expenses in short-term.

Since the global nature of the economic crisis was conditioned by strong interrelation of the world financial markets and Georgia's financial market is still underdeveloped, its exposure to the global financial crisis was not so significant. However, economic implications of the crisis were considerable for such a small open economy as Georgia's; the damage incurred by the country's exports of goods, the crisis also harmed such important economic sectors as transport, construction, trade and tourism [13, p. 9–10].

Financial crisis was a good lesson for companies to learn and realize the necessity of the business continuity plans and particularly Enterprise Risk Management, but interest towards ERM is still not high in Georgian companies.

It is clear that development of the Enterprise Risk Management is important for all developing countries including Georgia, if they want to improve their companies' business performance and increase their value for shareholders and society. Studying Enterprise Risk Management is important for science and education system in Georgia. In that way, it is possible to train a specialist in this field, develop ERM models that can be used by Georgian companies.

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