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Development of Enterprise Risk Management practice as function in
Pakistan and its effectiveness in value creation and preservation



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Abstract

Enterprise Risk Management is believed to have an impact of firm value. However empirical evidence on its impact is still considered scarce. The objective of this study is to estimate the relation between ERM and firm value in the Oil and gas companies in Pakistan. Tobin's Q is used to measure the firm value. The approach employed is to model firm value (TOBIN'S Q) as a function of Enterprise Risk Management (ERM) and other determinants: size (SIZE); leverage (LEV); profitability (ROA); sales growth (SG); dividends (DIV) and stock volatility (BETA). Secondly, we test which are the determinants of the ERM adoption. The study is based on the time period from 2011-2015 for 10 companies belonging to Oil and gas sector. The results showed that enterprise risk management had positive relationship with firm's value but was not significant which means that ERM implementation is still at its initial stage in Pakistan. Among the determinants of ERM implementation, size and earnings volatility were positively related to the adoption of ERM.

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