RISK MITIGATION STRATEGIES ADOPTED BY ERNST AND YOUNG IN KENYA

BY

NJAGI SANDRA

A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF DEGREE OF MASTERS IN BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

OCTOBER 2013

DECLARATION

I declare that this research project is my original work and has not been submitted to any other university for the award of a degree.

Signed: .... Date: ....

Njagi Sandra

D61/63681/2011

This research project has been submitted for examination with my approval as the university Supervisor.

Signed: .... Date: ....

Caren Angima

Department of Business Administration

School of Business

University of Nairobi

DEDICATION

This research project is dedicated to my wonderful husband, Daniel and our precious daughter, Kendi.

ACKNOWLEDGEMENT

To the Almighty God for the precious gift of life, good health; knowledge, faithfulness and energy that have enabled me complete this project.

I sincerely acknowledge the valuable guidance, patience and encouragement of my supervisor Caren Angima of the University of Nairobi, School of Business. Without your able guidance and patience, I would not have successfully completed this research project.

I would also like to appreciate the respondents who took part in this study by providing me with vital information in my area of study. Special appreciation goes to my family for their support, concern and encouragement not only during the Masters Programme but throughout my academic life. Your invaluable support, encouragement and prayers have seen me this far.

I also remain grateful to all the authorities whose books and publications I have used for reference. And too all who have contributed directly or indirectly to my success, it’s my sincere thanks.

ABSTRACT

The environment in which businesses operate today is made up of numerous controllable and uncontrollable factors. Businesses and specifically professional services firms have to deal with numerous risks that arise in the course of doing business. Thus, it is no wonder risk management has become a key boardroom focus area. Proper risk management, and more specifically risk mitigation, helps protect business performance thus ensuring sustainable results. The purpose of the study was to determine the risk mitigation strategies adopted by Ernst & Young in Kenya that enable it to remain a leader in its area of operation. The study made use of both primary and secondary sources of data. The primary data was collected by use of an interview guide whereas the secondary data was collected from various publications and books within and outside the organization. The results of the study were then evaluated using content analysis. The study established that the firm is faced with various risks including reputation risk, potential loss of experienced talent to competitors and the market, potential exposure of confidential client information, infrastructure gap, ensuring continuity and safe custody of firm information as well as regulation and compliance. The study further identified the various strategies adopted by Ernst & Young in Kenya to mitigate these risks including the continual and consistent communication of the firm's motto to its employees, periodic events targeted at upholding the strength of the Ernst & Young brand, recruitment and retention of highly qualified personnel, rewards and recognition programmes, tight security measures to uphold confidentiality of client information, keeping abreast with recent developments in technology, use of well thought out and researched methodologies to carry out operations and setting up of the quality and risk management department.

TABLE OF CONTENTS

ABBREVIATIONS/ ACRONYMS

AIRMIC:	Association of Insurance and Risk Managers
CMC:	Cooper Motor Corporation
CPA:	Certified Public Accountant
CPA-K:	Certified Public Accountant of Kenya
EY:	Ernst & Young
GAM:	Global Audit Methodology
GAMx:	Global Audit Methodology tool
ICPAK:	Institute of Certified Public Accountants of Kenya
IDDS:	Identify, Diagnose, Design, Deliver, Sustain
IRM:	Institute of Risk management
IT:	Information Technology
KRA:	Kenya Revenue Authority
PAYE:	Pay As You Earn
PwC:	Price Waterhouse Coopers
QRM:	Quality and Risk Management
RBA:	Retirement Benefits Authority
RRP:	Registered Risk Practitioner
SME:	Small and Medium Enterprises
VAT:	Value Added Tax
WHT:	Withholding Tax

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Kenneth and Jack (1991) notes that every service business faces loss exposures, that is, unforeseen circumstances that can impair its operational capability or financial integrity. He notes that the losses may never occur, but the firm must plan for the possibility that they might. Risk management and mitigation is concerned with the protection of a firm's assets and profits through a systematic method of utilizing a firm's resources to realize certain objectives concerning loss exposures. Strategy is likely to be concerned with the long-term direction of an organisation. There are various theories that explain strategy and specifically, mitigation strategies and these are discussed below.

Mintzberg's (1998) perspective of strategy is that strategy formation entails judgment, intuition, visioning, and emergent learning; it is about transformation as well as perpetuation and must involve individual cognition and social interaction, cooperation as well as conflict. It has to include analyzing before and programming after as well as negotiating during the process in response to what can be a demanding environment. He thus summarizes strategy as a plan, a ploy, a pattern, a position and a perspective to achieving organizational goals.

According to Porter (2005) strategy has to do with a firm's ability to influence the competitive forces in the industry depending on the five forces; entry barriers, threat of substitutes, bargaining power of buyers and suppliers and the rivalry amongst firms. He further propagated for three main strategies to address these forces entrant; cost leadership, differentiation strategy and focus strategies.

Robertson and Swan (2005) noted that there has been an increasing interest in the management of knowledge-based firms as society shifts form industrial age to a fully fledged information-based age era. These firms engage highly skilled individuals as a source of competitive advantage since their service offering is time resource based. Strategic management in professional service firms therefore has a specific emphasis on human capital. Kenneth and Jack (1991) noted that strategic management of professional services firms can be described through three major activities; the strategy or domain choice prioritizing customers and projects; service delivery and management of the resource base. The owners of these firms have very little power because the most critical resource is individual expertise, performance is not only measured in terms of profits, but also in terms of projects, processes, people (and their competences) and profile (persuasiveness and credibility)(the five Ps).

1.1.1 Concept of Strategy

"Strategy is the direction and scope of an organization over the long-term: which achieves advantage for the organization through its configuration of resources within a challenging environment, to meet the needs of markets and to fulfill stakeholder expectations". (Johnson Scholes & Whittington, 2005). Strategy is concerned with attaining a strategic fit for an organization by matching its capabilities and resources and its external environment. Strategy is about winning.

Strategic management has been defined as the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a company's objectives. (John & Richard, 2011). From the foregoing discussion, it is clear that strategy and strategic management process are of significant importance to organizations as they are specific actions intended to achieve the overall goals of the organizations.

1.1.2 Concept of Risk

Doherty (2000) termed risk as the quantifiable likelihood of loss or less-than-expected returns. Examples: currency risk, inflation risk, principal risk, country risk, economic risk, mortgage risk, liquidity risk, market risk, opportunity risk, income risk, interest rate risk, prepayment risk, credit risk, unsystematic risk, call risk, business risk, counterparty risk, purchasing power risk, event risk. Risk is “the threat or probability that an action or event will adversely or beneficially affect an organization's ability to achieve its objectives”. In simple terms risk is ‘Uncertainty of Outcome’, either from pursuing a future positive opportunity, or an existing negative threat in trying to achieve a current objective (Deloitte, 2004).

Risk management is defined as the identification, assessment and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor and control the probability and/or impact of unfortunate events (MCNamee et al. 1998). Merna and Smith (1996) further defined risk management as any set of actions taken by individuals or corporations in an effort to alter the risk arising from their business. From the above definitions, two things are clear; that risk management entails the identification assessment and prioritization of risks and that this is of significance to organizations in attaining their goals and objectives. It is clear from the foregoing discussion the importance of strategic management as it helps firms anticipate future problems and opportunities by providing a clear vision, mission, objectives, and strategies that lead organization into the secured future. It has to do with continually scanning both the internal and external environments so as to gain an understanding of the various factors that they are exposed to. The world that businesses operate in is a constantly changing and dynamic one. As such, firms have to take specific actions in an effort to alter the risks arising. These actions are what constitute risk management. Risk management cannot operate in a vacuum. It has to be guided by the overall strategic direction that a firm is taking. It actually informs the strategic management process. The entire strategic management process continually considers risk and incorporates this so as to strategically position itself in the competitive business environment.

1.1.3 Risk Mitigation Strategies

Risk mitigation refers to the systematic reduction of the extent of exposure to a risk and/or the likelihood of its occurrence. Risk mitigation planning is the process of developing options and actions to enhance opportunities to reduce the threat of failure to achieve project objectives whereas risk mitigation implementation refers to the process of executing risk mitigation actions. Risk mitigation strategies are those specific action plans intended to reduce the impact or extent of exposure to the specified risks while still managing to maintain the optimum output and delivery of labour, goods, services. They are basically action plans specifically designed to reduce the impact of loss should the identified risk actualize. They are of significant importance to organizations and organizational members aiming at achieving organizational objectives. Organizations are now continually restructuring to set out a specific department or unit to deal with risk matters; commonly referred to as risk department, risk and compliance department or risk management department. Other strategies commonly used by organizations include the design and implementation of business continuity plans and disaster recovery plans so as to ensure there are no interruptions to business operations, thorough scrutiny of legally binding agreements and contracts to ensure minimization of risks and exposures, aggressive marketing activities to ensure maintenance of strong brands in the market so as to beat competition as well as design and implementation of policies and procedures that address various risk issues.

1.1.4 Ernst and Young in Kenya

There are a wide variety of professional services firms in Kenya offering services ranging from accounting, financial consultancy and auditing, engineering to general business advisory services. In an ever changing business environment, these professional services firms have to continually reengineer their service offerings to gain a competitive edge in an increasingly competitive operating environment. Additionally, the legal and regulatory environment is such that these firms have to continually scan the environment for changes in the legal framework that would affect their business.

Ernst and Young is a global leader in assurance, tax, transaction and advisory services. It is one of the most integrated global professional services firms in the world. Ernst and Young in Kenya is controlled from Nairobi, which also forms the nucleus of the eastern Africa Practice and ensures prompt and adequate delivery of services throughout the region. It has the highest number of staff in the region as compared to the other countries in which it is located. This had been done to facilitate the creation, at short notice, of multidisciplinary teams that can provide services to any part of the region. Ernst and Young in Kenya has three offices in Nairobi, Nakuru and Mombasa, and a total of fourteen partners and two hundred and twenty staff. Ernst and Young recently rebranded globally into EY; and is now simply referred to as EY. This study therefore sought to investigate the risk mitigation strategies that Ernst and Young in Kenya has adopted so as to remain a global leader.

1.2 Research Problem

The environment in which businesses operate today is made up of numerous controllable and uncontrollable factors. Businesses and specifically professional services firms have to deal with numerous risks that arise in the course of doing business. Thus, it is no wonder risk management has become a key boardroom focus area. This has been driven by the changing business requirements, greater complexity in the business environment, and increasing stakeholder obligations. Proper risk management, and more specifically risk mitigation, helps protect business performance thus ensuring sustainable results.

Professional services firms are faced with a myriad of challenges and risks that necessitate them to come up with risk mitigation strategies that would ensure they are covered from major business risks such as reputational risk. Moreover, there has been an increase in litigation relating to the work of professional services firms. Such has been the case of Price Waterhouse Coopers in the forensic audit of CMC Motors. Wambugu (2012) noted that the case would open up the accounting profession to public scrutiny and to define the boundaries of their liability for damages suffered by the subjects of their investigations. Shareholders and clients are driving performance expectations, management has greater conformance requirements and stakeholders require greater transparency and disclosure. Directors and senior management have the responsibility to identify and manage the risks that face the business, to implement a sound control environment, and demonstrate to stakeholders that responsible and sustainable business practices have been implemented. Employees expect that organizations will manage their risks effectively to ensure the future of the organizations thus the sustainability of their employment.

Many studies have been carried out in this area and have mainly focused on various industries such as the banking sector, public sector, state corporations and the insurance sector. Specifically, Salesio (2006) conducted a study of the risk mitigation strategies adopted by insurers in Kenya whereas Charles (2007) undertook a survey of the internal audit's risk management practices in the banking industry in Kenya. On the other hand, Abuya (2008) studied the strategic risk management practices among state corporations in Kenya and Ongechi (2009) investigated the risk management strategies used by Fina Bank Limited in lending to SMEs. None of the studies mentioned above looked at the risks and risks mitigation strategies that have been adopted by professional services firms in Kenya. This is the gap that this study sought to fill by answering the following research question; what risk mitigation strategies has Ernst & Young in Kenya adopted so as to remain a global leader in assurance, tax, transaction and advisory services?

1.3 Research Objective

The objective of this study was to determine the risk mitigation strategies adopted by Ernst and Young in Kenya.

1.4 Value of the Study

The study is significant to policy makers who will benefit from this study as they will be informed of the various risks that are faced by professional services firms and the strategies that they have formulated to mitigate these risks. This research will be instrumental to the policy makers as they draft various regulations and guidelines that govern the operations of professional services firms.

The study findings will be of significance to professional services firms in Kenya and the East Africa Region in formulating strategies that ensure that they remain competitive. To the rest of the economy, the study will be an eye opener on the strategies that professional services firms may undertake to mitigate the various risks that they face. The study is thus beneficial to risk managers and internal auditors as it will inform their risk assessment practices and audit planning thereof.

In addition to this, academicians and students will be educated on the various risks that professional services firms are exposed to in the course of their operations and the mitigation strategies that they've adopted to mitigate these risks. This will be useful as a point of reference in their studies and will act as a basis of further research in this area.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of the literature on the topic of strategies adopted by organizations in mitigating risks as carried out by some previous researchers. The chapter covers the theoretical foundations that inform the study, operational risks in service organizations and risk mitigation strategies adopted by these organizations.

2.2 Theoretical Foundations

Kenneth an Jack (1991) notes that every service business faces loss exposures, that is, unforeseen circumstances that can impair its operational capability or financial integrity. He notes that the losses may never occur, but the firm must plan for the possibility that they might. Garlick (2007) defines risk as the chance of something happening that will have an impact on objectives. He notes that a risk is often specified in terms of an event or circumstance and the consequence which may flow from it. He goes |further to outline that risk management is the culture, process and structures that are directed towards realizing potential opportunities whilst managing adverse effects. Risk management process is the systematic application of management policies, procedures and practices to the tasks of communicating, establishing the context for, identifying, analyzing, evaluating, treating, monitoring and reviewing risk. Risk management and mitigation is concerned with the protection of a firm's assets and profits through a systematic method of utilizing a firm's resources to realize certain objectives concerning loss exposures. Strategy is likely to be concerned with the long-term direction of an organisation. There are various theories that explain strategy and specifically, mitigation strategies and these are discussed below.

Mintzberg's (1998) perspective of strategy is that strategy formation entails judgment, intuition, visioning, and emergent learning; it is about transformation as well as perpetuation and must involve individual cognition and social interaction, cooperation as well as conflict. It has to include analyzing before and programming after as well as negotiating during the process in response to what can be a demanding environment. He thus summarizes strategy as a plan, a ploy, a pattern, a position and a perspective to achieving organizational goals. According to Porter (2005), strategy has to do with a firm's ability to influence the competitive forces in the industry depending on the five forces; entry barriers, threat of substitutes, bargaining power of buyers and suppliers and the rivalry amongst firms. He further propagated for three main strategies to address these forces entrant; cost leadership, differentiation strategy and focus strategies.

Robertson and Swan (2004) noted that there has been an increasing interest in the management of knowledge-based firms as society shifts form industrial age to a fully fledged information-based age era. These firms engage highly skilled individuals as a source of competitive advantage since their service offering is time resource based. This clearly outlines that strategic management in professional service firms therefore has a specific emphasis on human capital. Gemmel (2006) noted Strategic management of professional services firms can be described through three major activities; the strategy or domain choice prioritizing customers and projects; service delivery and management of the resource base. The owners of these firms have very little power because the most critical resource is individual expertise, performance is not only measured in terms of profits, but also in terms of projects, processes, people (and their competences) and profile (persuasiveness and credibility)(the five Ps).

It is on this basis that this study has been conducted; on the premise that the environment in which businesses operate is constantly changing and thus there's need to continually scan it for risks and threats arising from within the organization as well as from the external environment and thus imperative that specific strategies are formulated to specifically mitigate the identified risks. The identified risks would then be evaluated to check on their effectiveness in mitigating the identified risks and in ensuring that the firms remain competitive in an ever changing competitive environment.

2.3 Operational Risks in Service Organizations

Kenneth and Jack (1991) noted that losses may never occur but firms must plan for the possibility that they might occur. They found out that effective functioning of a service firm requires that loss exposures be discovered, analyzed, measured and treated. They further noted that risk management is the application of general management concepts such as planning, organizing, leading and coordinating and controlling to a highly specialized area. They emphasized on importance of risk management in service organizations considering the magnitude of pure risk exposures facing most service businesses. They further observed that that a firm needs to protect its profit and assets by systematically using its resources (physical, financial and human capital) to realize certain objectives concerning pure loss exposures.

Ernst & Young (2012) noted that today's leading organisations recognise that half of risk management challenges focus on how risk management and an effective control environment enables the performance of the organisation, and how the management of risk is directly integrated into the execution of the organisation's strategy. They added that these facts mean that risk management should become an integral part of the strategic planning cycle. They noted that strategic risks are related to customer, competitors and investors and they include global market risk, political uncertainty, successful growth strategy, and infrastructure gap. Compliance risks identified originate from politics, law, regulation or corporate governance and they include regulations, compliance and corruption. Financial risks stem from volatility in markets and the real economy these are generally increased competition while operational risks identified affect processes, systems and people and value chain, these included management of mobile talent, low cost of operation and social acceptance. The sections below presents a discussion of various risks that organizations are exposed to:-

2.3.1 The Infrastructure Gap

Ernst & Young (2012) noted that poor infrastructure is an inhibitor of growth and a key risk to doing business successfully across Africa. The gap is particularly noticeable in terms of power generation capacity, the density of paved roads, and, to some extent, in communications technology. Manufacturing and distributing goods to where they are sold is a greater challenge in Africa than in other parts of the world. This makes supply chain efficiency more challenging and has the potential to increase the costs of doing business. The lack of infrastructure is magnified by the vast geographical distances that separate different markets in Africa. These factors add significant cost to doing business across the continent and, for some companies, give new meaning to business continuity risk.

2.3.2 Regulation & Compliance

A critical challenge to businesses growing operations across Africa is the sheer complexity of managing regulatory compliance across multiple sovereign states, with sometimes very different frameworks existing at varying levels of maturity. There exists a gap between sophisticated frameworks and actual interpretation and implementation. Companies must also anticipate that regulations will inevitably become more comprehensive and complex, and this should be factored into the risk planning process. Merna & Al-Thani (2008) note that it's only by keeping abreast of potential changes in the environment that a business would expect to manage regulatory risks. organizations need to develop a core competence to manage regulatory compliance at a relatively low cost coupled with the ability to influence the development of regulatory maturity in each country in which they operate (and to do so in a mature and ethical manner that is evidently for their own good, but also clearly for the good of the country and its citizens).

2.3.3 Developing a successful growth strategy

There is significant risk for organisations developing growth strategies in Africa. The data to support decisions is not always available and the implications of decisions may not be clear until the organisation is already down the path of implementation. Ernst & Young

(2012) conducted a study that observed that the risk of getting strategy incorrect and entering the wrong markets or committing the wrong investments to products or services can be critical to long term success. Market analysis, valuation and due diligence can be fraught with risk, often due to a lack of reliable information on the market or on the acquisition target. This can make finding the right partners an extremely difficult task and thus the need for a robust due diligence process.

2.3.4 Information Technology (IT) Risk

Merna & Al-Thani (2008) observed that the IT industry is one of the fastest growing industries at present and that huge amounts of money continue to be invested in the IT industry. This has been necessitated by the pressures to maintain a competitive edge in a dynamic environment. This is a common risk across organizations since many organizations today are reliant on systems to operate which mean that they are constantly exposed to these kinds of risks. Merna & Al-Thani (2008) further note that commonly identified IT risks include the inadequate skills and knowledge as well as lack of experience in using systems. Organizations have to keep abreast with changes occurring in the environment so as to adapt to these changes in a competitive way. Advances in technology have meant that these organizations are continually exposed to potential system frauds and hackings. Failure to mitigate these risks could result in the stalling of operations and potential loss of revenue for these organizations. This would then lead to financial losses and thus failure of the organizations to meet their goals and objectives.

2.3.5 Political Uncertainty

Ernst & Young (2012) noted that political uncertainty and risk more generally is often cited as a barrier to investment into Africa. However, although political risk clearly remains an important consideration in Africa, it should also not be overstated or seen as unique to Africa. They went further to state that to some degree, political risk has become a part of most markets around the world, and certainly is a risk of doing business in all emerging markets. They further highlighted that as an emerging growth market, instability is to be expected and the organisations that succeed are those that are best prepared to identify the challenges early and navigate their way through the evolving political landscape. The process of democratisation in Africa is advancing rapidly, and while this can result in social instability (most recently in North Africa), and a fragile democratic process in some states, the continent has generally moved on considerably in terms of political stability and reduced conflict since the end of the Cold War.

2.3.6 Managing Talent

Another key risk faced by organizations is that of managing talent. This has to do with ensuring that the organization loses highly qualified personnel with specialized skills. While literacy and numeracy levels vary quite considerably across many parts of Africa, shortages of specialised and management skills are common across the continent. With these shortages relevant to countries outside of Africa, and strong human resource cost control measures often in place, organisations are faced with the challenge of operating and growing a business with fewer experienced staff members and a growing salary cost. Merna & Al-Thani (2008) identified this as an example of a global risk in that it originates from sources external to the organization's environment. It is likely that the use of expatriate resources will grow substantially in the future. In addition, organisations will need to use their resources far more strategically and manage the constraints caused by the shortage of resources more carefully. The operational hazards of managing a large pool of staff given the different systems of labour law, taxation and immigration will be a key challenge. They added that strategic sourcing of people, the management of a diverse talent pool which is spread across a large geography and the ability to move talent effectively and efficiently across the continent will therefore be critical contributors to success.

2.3.7 Global Market Risk

Merna and Al-Thani (2008) noted that global risks originate from sources external to the business environment and although they might be predictable, their effect on the outcome may not always be controllable within the elements of the business. These risks are normally dealt with at corporate level. Global market risks have to do with issues such as commodity price shocks, refinancing of country debt and volatility in financial services.

Ernst & Young (2012) further noted that although most parts of Africa weathered the storms of the 2008-2009 global economic crisis, the continent is unlikely to be able to avoid the negative impact of a global double-dip recession or further crises in either the United States, the European Union or in Asia. Also, any significant slowdown in growth in India and China will decrease the flow of investment and trade from those countries and materially affect the growth prospects for Africa. As such, organisations operating in Africa are going to need to develop very effective control environments that can actively monitor the market risk in the countries where they operate and in other influential economies. In addition, the continued access to effective funding for growth will affect the cost of doing business and the ease with which markets can be entered.

2.3.8 Increasing Competition

Johnson, Scholes & Whittington, (2005) noted that inherent within the notion of strategy is the issue of competitiveness and that in business, this is about gaining advantage over competitors. Organizations are continually faced with the threat of new entrants into their target markets, organizations are continually diversifying their product offering to gain competitiveness. Even organizations in the public sector that traditionally enjoyed monopoly status have to rethink their strategies on how to deal with the ever increasing competition from the public sector. Ernst & Young (2012) noted that investment from emerging markets has grown considerably over the last few years, with China, in particular, and India leading the way. They noted that success over the longer term will require a clearly differentiated value proposition that incorporates socially acceptable and sustainable business practices with an effective proposition for customers. The ability to define an optimal growth strategy coupled with effective strategy execution through operations across multiple markets will be a significant key to success.

2.3.9 Corruption

Ernst & Young (2012) highlighted that corruption is another factor that is cited as a key risk to doing business across the continent. Dealing with corruption is a reality of doing business almost anywhere in the world, and Africa is no exception. This is clearly a critical concern. For example, companies subject to stringent anti-corruption legislation in their home countries may find it difficult to operate in countries with a poor reputation for managing corruption. They observed that Transparency International's Corruption Perception Index shows a large degree of variation across the continent, from higher ranked countries such as Botswana, Mauritius and South Africa (which compare favourably with other emerging markets, ranking well above Brazil, China and India, for example), to among the lowest ranked countries such as Angola, Sudan, Equatorial Guinea and Somalia (which rank alongside the likes of Venezuela, Iraq, Afghanistan and Myanmar). They concluded that a strong control environment will enable the business to monitor processes and decisions to identify potentially corrupt practices.

2.4 Risk Mitigation Strategies Adopted by Organisations

Brealey and Myers (1998) observe that business risk mitigation may be defined as a concept used by stakeholders, management, employees or auditors to express concern about the probable material effects of an uncertain environment on business goals. Business risk mitigation helps us find ways to manage events that will negatively impact the financial, physical or human capital of an organization or institution. Business risk mitigation also recognises that the purpose of organizations is to deliver services and goods to their respective customers and to meet business demands.

Risk management protects business performance and helps sustain results. It’s about achieving a clear understanding of risks and developing plans to manage them. Ernst & Young (2012) noted that organizations achieve results from risk in three interrelated ways. They noted that some companies focus on mitigating overall enterprise risk, while others focus on efficiency, reducing the overall cost of controls and others look to create value through a combination of risk mitigation and cost reduction.

Merna and Al-Thani (2008) further note that in today’s climate of rapid change, people are less likely to recognise the unusual, the decision-making time frame is often smaller and scarce resources often aggravate the effect of unmanaged risk. They add that the pace of change also means that the risks facing an organization change constantly and therefore there's need to regularly review the dynamic process of identification and mitigation of risks. In line with this, the various strategies adopted by organizations to mitigate risks include:-

2.4.1 Identification of Risks that Matter

Culp (2002) defines the core risks facing a firm as those risks that the firm is in business to bear and manage so that it can earn returns in excess of the risk free rate. He distinguishes these risks from the noncore risks as those which the firm's primary business exposes it but the firm does not necessarily need to retain. Organizations need to have the ability to identify and address key risk areas and the agility to quickly close the gaps through identifying and understanding the "risks that matter", differentially investing in the risks that are "mission critical" to the organization, effectively assessing risks across the business and driving accountability and ownership and by demonstrating the effectiveness of risk management to investors, analysts and regulators. This entails the proper identification and assessment of all the risks that an organization is exposed to and then prioritizing them accordingly. This will then inform the specific key risks that the organization may accept, avoid, transfer and/ or control. Based on this analysis, the organization would be informed of the risks that matter that need to be properly managed.

2.4.2 Cost Reduction and Value Creation

Ernst & Young (2012) identified some opportunities that are critical for an organization's survival in a volatile economic environment. Some of these opportunities are implementing a new risk operating model to materially improve the cost structure, reducing cost of control spend through improved use of automated controls, streamlining or eliminating duplicative risk activities and improving process efficiency through automated centers, business activities and continuous monitoring. They further identified the following ways through which organizations can use risk and control management to improve business performance; ensuring they achieve superior returns from risk investments; ensuring they accept and own the right risks to achieve competitive advantage; improving controls around key processes; use of analytics to optimize the risk portfolio and improve decision-making and using risk management savings to fund strategic corporate initiatives.

2.4.3 Business Continuity and Disaster Recovery Plans

Sadgrove (2009) noted that following the assessment of risks, businesses should then decide how to manage the risks either through avoiding, minimizing, spreading or transferring them. Among the risk mitigation factors, she noted that the business needs to evaluate its ability to deal with an incident or accident and ensure that there are emergency procedures and equipment. She emphasized that the needs need to consider having contingency plans which are regularly tested. This is what she referred to as business continuity plans. These go hand in hand with disaster recovery plans which would then address the issue of the duration within which a business would take to resume operations if a disaster happened. This is notably a key risk mitigation measure that many organizations have adopted. To address the infrastructure gap, many organizations install power generators that ensure business continuity even when there are power outages; a prevalent risk in many organizations. Industrial firms particularly require properly designed business continuity and disaster recovery plans that would ensure operations continue unaffected. With this, organizations can carry out seamless operations that ensure that they meet their objectives.

2.4.4 Establishment of Risk, Compliance and Internal Audit Functions

Merna and Al-Thani (2008) noted that corporate strategy often entails planned actions to respond to identified risks and that these plans are thus implemented by a strategic business unit charged with the responsibility of managing the risks of the organization. As part of good corporate governance, many organizations whether publicly listed or not, are continually embracing various guidelines issued by various regulatory bodies so as to effectively manage the risks that the entities face.

The Central Bank of Kenya has issued risk management guidelines for use by players in the banking sector; the Insurance Regulatory Authority has instructed players in the insurance industry to set up independent internal audit and risk management functions that would review compliance with various regulations. Additionally, the Capital Markets Authority has provided for an establishment of independent internal audit functions to handle review of compliance and other corporate governance issues. As such, even if not regulated, organizations are continually adopting these guidelines as part of good corporate governance. This has proved a key risk mitigation strategy that would address the regulatory and compliance risk. The risk management department would then be charged with the responsibility of continually assessing the various risks that these organizations are exposed to and coming up with varying but appropriate methods to address them.

2.4.5 Recruitment of Highly Qualified Staff with High Integrity

Sadgrove (2009) noted that qualifications in risk management are now emerging. She further notes there has been an increased interest in the field of risk management and that the public-sector risk management forum, has been promoting a Registered Risk Practitioner (RRP) qualification in conjuction with the Institute of Risk management (IRM) and the Association of Insurance and Risk Managers (AIRMIC). Service organizations are now setting up risk functions with qualified people whose main responsibility is that of managing the business risks arising. To develop a culture of risk ownership throughout the organization, they are also encouraging risk knowledge among all members of staff. Additionally, service organizations are continually carrying out background checks for potential staff prior to recruitment. This has resulted from the increase in misappropriation of funds over the recent past. They are continually requiring short listed staff to obtain a certificate of good conduct which would ensure that there are no convictions or investigations being carried out on them. Moreover, the qualifications for engagement of potential employees are continually being raised. Firms offering specialized services such as fund management firms, investment companies and other service organizations are raising their bars of minimum qualifications. Once recruited, the firms are ensuring that they manage talent by offering motivational schemes and continuous skills development and enhancement mainly through training.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the research design and methodology that was applied in this study. It discusses the research design especially with respect to the choice of the design. It also discusses the data collection methods that were utilized as well as data analysis and data presentation methods employed in the study.

3.2 Research Design

To achieve the stated objectives, the study made use of a case study. A case study enabled the researcher to collect in depth information about the population that was being studied. Kothari (2004) states that a case study essentially entails an intensive investigation of the particular unit under consideration. Through a case study and a descriptive research design, the researcher is able to give proper and concise recommendations to the relevant parties.

3.3 Data Collection Methods

The respondents in the study comprised three senior managers from the risk, IT risk advisory and business development departments and two managers from the assurance service line. These were selected based on the fact that they play a key role in making decisions in their service lines and are in charge of implementing decisions made by the executive management, relating to the service lines in which they are a part. These respondents were all based in the Ernst & Young Nairobi office and were thus interviewed from the Nairobi office.

This choice of location of respondents was informed by the fact that the Nairobi office serves as the head quarters for Ernst & Young in Kenya and this is where the firm's strategic decisions are made. The research study made use of focused discussions using an interview guide. The interview guide was designed on the premise of the risks faced by Ernst & Young in Kenya as well as the strategies adopted to mitigate these risks.

The study also made use of secondary sources of data by examining the various publications and journals by both Ernst & Young and other authors in the context of risk mitigation measures. It was beneficial to make use of secondary sources of data since it was both time saving and cheaper in terms of resource requirements. The books and publications utilized in the research study were obtained from the Ernst & Young Nairobi office and other sources outside the organization.

3.4 Data Analysis

The results of the study carried out were analysed through content-analysis. According to Kothari (2004) content analysis consists of analyzing the contents of documentary materials such as books, magazines, newspapers and the contents of all other verbal materials which can be either spoken or printed. He further noted that the analysis of content is a central activity whenever one is concerned with the study of the nature of the verbal materials. The rationale for selecting content analysis as the preferred analysis method arose from the nature of study that the researcher undertook. It allowed for analysis of both qualitative and quantitative data as well as the insights into complex models of human thoughts and since the study mainly constituted the review of secondary sources of data and interviews with the identified respondents, it thus meant that content analysis would be the best method of analysis. To ensure the validity and reliability of the data collected during this research study, the researcher pre tested the interview guide by first distributing it to three respondents who gave their view of the guide. Additionally, the researcher targeted managers and senior managers who are involved in decision making at different levels in the firm.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter presents the results and findings of the research on the risk mitigation strategies adopted by Ernst & Young in Kenya. The chapter covers general information relating to the study, risks faced by Ernst & Young in Kenya and the strategies adopted to mitigate the said risks, so as to ensure that Ernst & Young remains a global leader in assurance, tax, advisory and transaction services.

4.2 Response Rate

Mugenda and Mugenda (2003) indicate that a response rate of 50% is adequate for analysis and reporting. They add that a response rate of 60% is good and that a response rate of 70% and over is excellent. The study targeted five senior managers and managers in Ernst & Young but from various service lines. The researcher managed to carry out interviewees on the targeted response. The excellent response rate was as a result of time effort put in by the researcher to schedule meetings with the respondents as well as the emphasis put across to the interviewees on the importance of the research given the roles they play within the firm and more specifically within their service lines.

4.3 General information

The researcher sought to understand the background of the respondents interviewed in the study in terms of their designation and the service line/ department in which they were based. The respondents were thus asked to indicate the department/ service line to which they belonged and their designation within the firm. The researcher further sought to establish the duration of time within which the respondents had worked in the firm. This was aimed at checking whether the respondents had a clear understanding of the business of the firm as well as its strategies. From the interviews conducted, the researcher established that their work experience with the firm ranged between three and twelve years.

In order for the researcher to determine the level of involvement in decision making within the firm, the respondents were asked to indicate their level of involvement in decision making in the firm. The respondents who were senior managers were notably highly involved in making operational decisions within their service lines and rarely involved in making strategic decisions of the firm. The remaining respondents whose designation was manager; were mainly involved in implementing the decisions made by the executive partnership and the senior management within their service lines. The implication of this is that the results may not reflect the actual strategies adopted to mitigate risks at corporate level owing to the fact that the respondents were not majorly involved in strategic decision making.

4.4 Key Risks Faced by Ernst & Young in Kenya

The study sought to establish the key risks faced by Ernst & Young in Kenya. The respondents indicated that the firm considered various risks to be the key risks facing the organization and these are as outlined below.

4.4.1 Reputational Risk

60% of the respondents in the study considered reputational risk to be the main risk facing Ernst and Young in Kenya. This is due to the fact that the firm rides on the good reputation that it enjoys both within the business environment in Kenya and globally. The interviewees indicated that the EY brand was among the most valuable assets that the firm owns. Based on the nature of services provided by Ernst & Young, it is imperative that the firm upholds the image that it projects in the market which leads to confidence by the market in its service offering. Failure to uphold the good reputation of the firm may imply that the firm is unable to win jobs in the market which would then lead to low productivity, reduced market share and thus the inability of the firm to remain a global leader.

4.4.2 Potential Loss of Experienced Talent

Potential loss of experienced talent to competitors and the market was highlighted as another key risk faced by the firm. This was owed to the high turnover that was observed to affect not only Ernst & Young in Kenya but also other professional services firms within the country. The respondents observed that Ernst & Young had a large pool of talented personnel who had been recruited from the industry and the leading universities in the country. They noted that the mere fact that the firm possesses this pool of talented employees, implies that they are prone to professional poaching by the firm's clients as well as from the competitors in the industry and especially the "big four" firms.

4.4.3 Potential Exposure of Confidential Client Information

In addition to the above, potential exposure of confidential client information was noted as another key risk faced by Ernst & Young in Kenya. By the very nature of firm's operations, the firm is exposed to potential linkage of confidential client information to the client's competitors. Clients will usually share confidential client information such as business plans and strategic plans with the firm's employees during their engagements as this is the basis upon which the firm provides advisory and assurance services. Due to this, the employees could potentially leak this information to competitors. Safe custody of firm information as well as client data was noted a key concern for the firm.

4.4.4 Infrastructure Gap

With the constantly changing and advancing technological environment in which businesses operate, the respondents observed that the firm has to deal with potential infrastructure gaps. They noted that Ernst & Young global operates as a global integrated organization with separate legal entities such as the one in Kenya. Due to this, the firm has to deal with potential infrastructure gaps in terms of technological advancements as well as the vast geographical distances separating different clients. This also has an influence on the firm's ability to safeguard its information as well as that of clients and other stakeholders. From the interviews conducted it is clear that infrastructure gap was noted as a key concern for the firm.

4.4.5 Regulation and Compliance Risks

The respondents indicated that the firm operates as a regulated entity due to the fact that it carries out professional services. The firm operates as both a consultancy services firm as well as an assurance firm conducting assurance services in line with generally accepted standards and thus exposing them to compliance risks. Additionally, the respondents noted that Ernst & Young in Kenya has to comply with high ethical standards and ethics as formulated by the firm at the global level. They noted that this also exposes them to compliance risks. The respondents noted that the regulatory risks arise from regulatory authorities such as the revenue authority and the retirement benefits authority both of which are entities within the legal framework of the country. They further noted that the firm being a legal entity is subject to various obligations impacted on the organization by these authorities. An example of this is the obligation to remit various types of tax to the Kenya Revenue Authority (KRA) as well as remittance of employee benefits to the Retirement Benefits Authority (RBA) on a timely basis.

4.5 Importance of Risks Identification and Consideration in Decision Making

The study aimed at establishing the importance of identifying the key risks faced by Ernst & Young in Kenya and their consideration thereof in decision making within the firm. From the interviews conducted, a number of reasons were noted as the importance of the identification and consideration of risks by the firm in decision making. The respondents indicated that by the very nature of the business of the firm, it has to identify risks arising in the profession and overall professional environment and take these into consideration while making decisions; both at operational and strategic level. They also noted that since the firm offers highly specialized services, it runs the risk of professional indemnity. As such, it has to evaluate this in the course of doing business.

Additionally, the respondents indicated that the business environment within which the firm operates is highly competitive. As such, they indicated that it was important for the firm to continually scan the market so as to establish the current challenges from within and outside the firm. Failure to do this would be detrimental to the firm as it would mean that the firm does not makes strategic decisions based on current challenges in the business environment. Further, the respondents pointed out that the firm is governed by various regulatory bodies which place various requirements on it. Ernst & Young in Kenya is registered as a Certified Public Accountants (CPA) firm. Due to this, it has to uphold the highest professional credibility so as to retain its certification otherwise it would be withdrawn from the list of CPAs. On the other hand, the firm is subject to various forms of taxes, including the Value Added Tax (VAT), Withholding Tax (WHT) and Pay as you Earn (PAYE). The firm has to ensure full compliance with the set timelines for the submission of the afore-mentioned failure to which it would be subject to fines and penalties and this would impact negatively to the firm's reputation.

4.6 Risk Mitigation Strategies Adopted by Ernst & Young in Kenya

Further, the study sought to establish the strategies that have been adopted by Ernst & Young in Kenya to mitigate the risks identified above. From the study findings, it was established that several strategies have been adopted by Ernst & Young in Kenya to mitigate the risks identified and these are discussed below;

4.6.1 Branding initiatives

To address the reputation risk as identified, the respondents noted that the firm has established various strategies that are aimed to ensuring a good reputation of the firm and its services. Specific action plans have been formulated and approved by the executive partnership as key methods of enhancing and sustaining a good firm reputation of the firm. Several brand building activities have been adopted as periodic events so as to uphold the strength of the brand, these include; participation in financial reporting award ceremonies and activities thereof, organizing brand promotion activities such as "entrepreneur of the year award and participation in charitable activities.

Effectively the study noted that the various activities carried out by the firm have contributed to the uplifting of the firm’s image not only within the local environment but on a global scale. Notably, the study highlighted that the winner of the 2012 World “Entrepreneur of the Year” award was received by a chief executive officer of a company based in Kenya. According to the study, this strategy has been successful in upholding the reputation of the firm and thus mitigating the reputational risk.

4.6.2 Global Code of Conduct

Additionally, the firm has a global code of conduct that governs how the organizational employees are to conduct themselves both within the firm’s premises and while away from work. These have ensured that employees live up to the standards of the firm and uphold its good reputation. The interviewees noted that Ernst & Young brand is and has been a strong brand both locally and internationally. For a long time, Ernst & Young’s tag line had been “quality in everything we do”. This motto has been continually and consistently communicated to all organizational employees, right from the time of engagement, through induction into full absorption into the firm. Recently, the firm rebranded and adopted a new tag line “building a better working world”. Due to these agreed upon tag lines/ mottos that have been communicated to all organizational members, staff members are encouraged to always deliver quality in everything they do. The study further noted that the staff member are well aware of the motto and are continually guided and obligated to uphold quality and now recently changed, build a better working world.

4.6.3 Recruitment and Retention Policies

Further, the study noted on the issue of potential loss of experienced talent to competitors and the market; Ernst & Young's recruitment policy is such that only highly qualified personnel are recruited and retained within the firm. The respondents illustrated that the firm only employs fully qualified certified public accountants of Kenya (CPA-Ks) with degrees in the business field are recruited as auditors in the firm. The respondents pointed out that this was an additional strategy that the firm has adopted to remain competitive and to uphold its reputation as a hub of a large pool of talented staff to serve the firm's clients.

The study also indicated that Ernst and Young has formulated policies that reward and motivate employees. These include the rewards and recognition programme, new horizons and secondment opportunities. In addition to this, the firm has designed employee welfare schemes that work to benefit the staff on non-work related matters. The respondents noted that their employer, the firm has created a working atmosphere that is both friendly and conducive to the development of staff. An open door policy has been adopted by the firm and this was noted to have created a warm atmosphere for the staff to work in and this, according to the respondents had proved an even greater motivator than financial motivators.

The respondents further noted that this strategy had not been effective as they had been a notably high turnover of experienced staff who either joined the firm's competitors or where absorbed into the job market. The study further noted that this was because the competitors and the larger job market were perceived as offering better employment terms to the leaving employees. In essence then, the respondents noted that the firm would need to review the recruitment and retention policies and their implementation thereof taking into consideration the external factors relating to employment terms within the industry.

4.6.4 Security Policies within the Firm

The study further sought to understand the strategy that Ernst & Young in Kenya had adopted to mitigate the risk of potential exposure of confidential client information. On this, the interviewees indicated that there were tight security measures that sought to ensure the highest degree of security of client information. To begin with, the firm has come up with security policies that bind all employees. As a mandatory requirement, employees are expected to sign a confidentiality agreement on employment and are constantly sent reminders on their responsibility to uphold the confidentiality of client information. This, according to the interviewees have proven successful since the transfer of information from the office laptops to any other device has been restricted to encrypted memory sticks and hard disks which are more reliable and secure.

The interviewees in the study further noted that there had been very little complaints of security breach incidences and the few issues arising had been dealt with at corporate level. Further, the study noted that the backup strategy through cloud computing had proved effective especially where the laptops were either stolen or crashed as it was possible for the data/ information to be retrieved. Moreover, where data had been uploaded into the service delivery tools; it was easier to retrieve it and this was noted as effective in ensuring the continuity of operations within the firm.

4.6.5 Keeping Abreast and Adapting to Technological Changes

To resolve the risk of infrastructure gap, the interviewees noted that the firm is abreast with recent developments in technology. They indicated that the firm reviews the performance of various devices on a regular basis to ensure that they perform optimally. Laptops for example are replaced on a regular basis to adopt to changing needs of the work requirements as well as ensuring tight controls over the devices and information contained. Moreover, the firm continually adapts to changes in the technological environment as a way of building its reputation as a leader in the market. The interviewees noted that the firm has several softwares that assist the staff in organizing and recording data and information during engagements. It has well thought out and researched methodologies that inform how these engagements are carried out so as to ensure client expectations are met and exceeded as well as building it as a strong brand in the market. An example here was noted as the Global Audit Methodology (GAM) for external audit and the Identify, Diagnose, Design, Deliver, Sustain (IDDS) methodology for advisory services. The tools designed to record and organize engagements' information include the Global Audit Methodology tool (GAMx) for external audit engagements. In addition to this, the respondents noted that the firm has adopted current technology for data backup. They noted that Ernst & Young had adopted cloud computing for data backup.

4.6.6 Quality and Risk Management Department

The study sought to determine how the risk of regulation and compliance had been mitigated and the specific strategies adopted to mitigate this risk. On this, the interviewees pointed out that the firm has a quality and risk management department that handles all risk matters including compliance to global firm requirements. They noted that since the firm is a global organization, several requirements had been imposed on Ernst & Young in Kenya to ensure consistency in quality and service delivery across the globe. All matters relating to these compliances were noted to be handled by this department. The interviewees also noted that this department was charged with handling all legal matters. In line with this, they noted that all legal contracts and agreements of the firm with external entities had to be reviewed by the department prior to signing. On local compliance, the interviewees noted that the firm is subject to upholding high professional standards having been licensed to provide consultancy services in the accounting and auditing profession by the Institute of Certified Public Accountants of Kenya (ICPAK). As a result of this, the QRM department is charged with ensuring quality is delivered to clients and all other parties that interact with the firm. On taxation matters, the interviewees noted that the finance department was charged with the responsibility of ensuring that the various taxes are remitted to the revenue authority on a timely basis.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of the key findings from the study, the conclusions drawn from the findings and the recommendations from these findings. The conclusions and recommendations drawn were in pursuit of the research objective of the study which was to determine the risk mitigation strategies adopted by Ernst and Young in Kenya.

5.2 Summary of Findings

From the presentation of the findings in chapter four, the study noted that the interviewees belonged to various service lines including assurance, tax and advisory and the business development department. Three of the respondents were senior managers whereas the remaining two respondents were managers within their service lines. The respondents had worked in the firm for at least three years and were mainly involved in decision making at operational level. They therefore may not have been the best placed to give information for the study as they are not involved in strategy formulation at the corporate level.

The key risks that Ernst & Young in Kenya faces were noted as reputational risk, potential loss of experienced talent to competitors and the market, potential exposure of confidential client information, infrastructure gap as well as regulation and compliance. The study thus attests to the fact that indeed Ernst & Young in Kenya is faced with the risks similar to those generally facing most organizations and that it has adopted similar strategies as identified in the study.

The study went ahead to highlight the importance of identification of these risks and their consideration in decision making as the fact that by their nature of business operations, it was important for the firm to continually identify the risks and take them into consideration in decision making. Additionally, risk identification and consideration in decision making was noted as important due to the competitive business environment within which the firm operates as well as the fact the firm is governed by various regulatory bodies which place various requirements.

The study identified the risk mitigation strategies adopted by Ernst & Young in Kenya as continual and consistent communication of the firm's motto to its employees, periodic events targeted at upholding the strength of the Ernst & Young brand, recruitment and retention of highly qualified personnel, rewards and recognition programmes, tight security measures to uphold confidentiality of client information, keeping abreast with recent developments in technology, use of well thought out and researched methodologies to carry out operations and setting up of the quality and risk management department.

The study further indicated that these strategies had been effective in the area of addressing reputational risks of the firm, potential exposure of confidential client information, infrastructure gap and ensuring compliance with legal requirements. However, the study noted that some of the strategies had not been effective in addressing the potential loss of experienced talent to competitors and the market. Impliedly therefore the management of Ernst & Young in Kenya would have to review the strategies adopted to address this risk.

5.3 Conclusions of the Study

Based on the findings from the study, the study concludes that there are various risks that Ernst & Young in Kenya faces and that the firm has adopted various strategies to mitigate these risks. The study concludes that their identification and consideration in decision making is of paramount importance due to the nature of the services that the firm offers as well as the business environment in which it operates. The study also concludes that the risk mitigation strategies adopted by Ernst & Young in Kenya have been effective to a big extent but it also highlights that some of the strategies have not been effective in mitigating some of the risks identified.

5.4 Limitations of the Study

There were a number of limitations that were experienced during the study. To begin with, this was a case study that entailed the study of only one institution. Due to this, the data collected may differ from that collected from other institutions. Additionally, the operating environment of Ernst & Young differs from any other organization, including the other professional services firms in Kenya. Hence the results may not be generalized for all service organizations. However, the study was based on an effective research instrument that sought to elicit both general and specific information on strategies adopted to mitigate risks of professional services firms in Kenya.

The study targeted respondents who were either in management or senior management. The study noted that these respondents were mainly involved in making operational and not strategic decisions of the firm. Effectively therefore, the study may not have highlighted some of the strategies that Ernst & Young in Kenya have adopted at the corporate level. Additionally, the study faced time constraints; the duration of the study was limited and the targeted interviewees were noted to have very tight work schedules. This limited the amount of data that could be collected on the risk subject.

5.5 Suggestion for Further Research

The study recommends that there should be replica study in other organizations in similar or different operating environments so as to determine whether the same conclusions would hold as well to gain an understanding of the risks that they face and the strategies adopted to mitigate these risks. The study has emphasized that the practice of risks identification and consideration has become a key boardroom focus area and would thus recommend that similar studies be conducted in other organizations.

The study further recommends that a survey be conducted on professional services firms in Kenya to investigate the risks that they face and the strategies adopted to mitigate these risks. This would form a good pointer of the specific risks that they face, the strategies they adopt and the level of effectiveness of these strategies. The results of such a study would then be a better reference of risk mitigation strategies adopted by professional services firms in Kenya.

5.6 Recommendations for Policy and Practice

The study is valuable to the partnership of Ernst & Young in Kenya as it highlights the risks that are faced by the firm as well as the strategies adopted by the firm to mitigate these risks. The study goes ahead to outline the importance of the identification and consideration of these risks in decision making. The study notes that some of the strategies have not been effective in mitigating the identified risks. The study would thus be of importance to the partnership in addressing the reasons why this is the case. It also informs players in the same industry of the various risks faced and strategies adopted to mitigate these risks.

Government and policy makers at various levels will also benefit from the study as it will guide them in developing policies that relate to professional services firms as well as risk mitigation measures adopted by these firms. Researchers and academicians also benefit from this study and can use it as a basis of further research in the area of risks identification and mitigation. The findings will thus contribute to the professional extension of existing knowledge on risk mitigation in professional services firms in Kenya.

REFERENCES

Abuya D. (2008), *Strategic Risk Managmenet Practices among State Corporations in Kenya,* (Unpublished MBA project, University of Nairobi.

Brealey R.A and Myers S.C (1998), *Principles of Corporate Finance*, 5th Edition The McGraw- Hill.

Camillus, J. (2011), Organizational identity and the business environment: the strategic connection*. International Journal of Business Environment*, 1 (4), P. 488-501

Charles W. K. (2007), *A Survey of Internal Auditors Risk Mgt Practices in the Banking Industry in Kenya*, Unpublished MBA project, University of Nairobi.

Cooper, D.R. and Schindler, P.S. (2000), *Business Research methods*, seventh edition, New York: Irwin/ McGraw-Hill.

Culp, C. (2002), *The Art of Risk Management. Alternative Risk Transfer, Capital Structure, and the Convergence of Insurance and Capital Markets*. John Wiley & Sons Inc.

Deloitte. (2004), *Global risk management survey*: Deloitte Development LLC

Denscombe, M. (1998). *The good research guide for small scale social research projects*. New Delhi. Viva books private limited.

Doherty, N. A. (2000), *Integrated risk management: Techniques and strategies for managing corporate risk*. New York: McGraw-Hill, Inc.

Douglas, M. and Widavsky, A. (1982), *Risk and Culture*, University of California Press, Berkeley

Dowd, K. (1998), *Beyond Value at Risk,* John Wiley and Sons, NY

Emery, Gay (1998), *Corporate Finance Principles and Practice*, Addison- Wesley, Reading

Ernst & Young (2012), *Turn Risks and Opportunities into Results: Exploring the leading risks for organisations investing in growth in Africa*

Garlick, A. (2007), *Estimating Risk. A Management Approach*. Gower Publishing Limited, Gower House.

Gemmel, P. (2006), "Strategic Management of Professional Service Firms", *International Journal of Service Industry Management*, 3rd edition Vol. 17 Iss: 5, pp.518 – 520

John, A P II, Richard, B R Jr, 2011, *Strategic Management; Formulation, Implementation and Control*, 12th edition, McGraw-Hill/Irwin.

Johnson G., Scholes K. & Whittington R. (2008), *Exploring Corporate Strategy*, FT-Prentice Hall, 8th Edition.

Kenneth, W.H and Jack, E.F (1991), Risk Management in a Service Business: *International Journal of Service Industry Management*, Vol. 2, 1991 PP 49-65.

Kothari, C.R (2004), *Research Methodology, Methods & Techniques,* New Age International (P) Limited, Publishers, 2nd Revised Edition

McNamee, D, & Selim, G. M. (1998), *Risk management: Changing the internal auditors paradigm*. Florida: The Institute of Internal Auditors Research Foundation.

Merna, A. and Smith, N.J. (1996), *Projects procured by privately financed concession contracts*, Vols. 1 and 2. Asia Law & Practice, Hong Kong.

Merna, T and Al-Thani F,(2008), *Corporate Risk Management*, John Wiley & Sons, Inc, 2nd edition

Mintzberg, H, 1998, *Strategy Safari: A Guided Tour through the Wilds of Strategic Management*, Free Press; 1st edition

Mugenda, O. M. and Mugenda, A.G. (2003), *Research Methods: Quantitative and Qualitative Approaches*

Ongechi, A.M. (2009), *Risk Management Strategies used by Fina Bank Limited in Lending to SMEs*, Unpublished MBA project, University of Nairobi.

Porter M. E. (1985), *Competitive Advantage.* The Free Press.

Robertson, M. and Swan, J. (2004), *''Going public: The emergence and effects of soft bureaucracy within a knowledge-intensive firm'', Organization*, Vol. 11 No.1, pp. 123-48.

Sadgrove, K. (2009), *The Complete Guide to Business Risk Management*. Ashgate Publishing Limited 2nd Edition

Salesio G. (2006), *Risk Mitigation Strategies adopted by Insurers in Kenya*, Unpublished MBA project, University of Nairobi.

Wambugu, B, (2012), *Business Daily "PwC faces legal action over forensic audit of motor dealer*. Business Daily Africa, March 22, 2012.

APPENDIX: INTERVIEW GUIDE

Please answer the questions below by filling in the spaces provided

i. Name …………………………………………………………………………………...

ii. Department/ service line…………………...………………………………………

iii. Designation……………………………………………………………......................

iv. Years with the firm...

v. What is your level of involvement in operational and strategic decisions in the firm?

vi. What are the key risks faced by Ernst & Young in Kenya. Of these, which is the most significant risk to Ernst & Young in Kenya as an entity?

vii. Why are these risks of significant importance to the firm?

viii. To what extent does Ernst & Young in Kenya take into account the risks identified in making both operational and strategic decisions relating to the firm?

ix. What are the risk mitigation strategies that Ernst & Young in Kenya has adopted to mitigate the identified risks?

x. How effective have these strategies been, in addressing the risks identified? Have these risk mitigation strategies led to the firm remaining a global leader in assurance, tax, transaction and advisory services? Kindly illustrate.

Thank you