THE DETERMINANT FACTORS FOR A SUCCESSFUL RISK CULTURE IN BANKING SECTOR: MALAYSIAN CASE

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UNIVERSITI UTARA MALAYSIA

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By

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DECLARATION

I hereby declare that the work in this research paper is my own except for quotations and summaries which have been duly acknowledge.

ROZILA BINTI HAMZAH

……………………………………………

ABSTRACT

Risk culture has become a significant aspect of the organization, especially in financial institutions. It has become one of the critical factors of a successful risk management practice. A strong risk culture needs to be developed at all levels of the organization. However, there is still a lack of evidence of risk culture, especially in the banking sector. Thus, the aim of this study is to examine the determinant factors of risk culture in Malaysia banking sector. The study used survey as the research methodology. The questionnaire was distributed to all levels of bank staffs. The stepwise multiple regression was used to test the relationship between determinant factors and risk culture. Risk culture was found to be influenced by the length of services among bank staffs, employee roles and policy and guidelines. While the top management roles were insignificant towards risk culture. The result indicated that employee roles and policy and guidelines are important to develop a strong risk culture in the banking sector. It can create awareness among bank staff the importance of their roles towards risk culture. The results also provide useful inputs in guiding the bank regulators to evaluate existing policies and guidelines on creating an effective risk culture in the banking sector.

ABSTRAK

Budaya risiko telah menjadi satu aspek penting dalam organisasi, terutama di institusi kewangan. Ia telah menjadi salah satu faktor kritikal dalam amalan pengurusan risiko yang berjaya. Budaya risiko yang kukuh perlu dibangunkan di semua peringkat organisasi. Walau bagaimanapun, masih terdapat kekurangan bukti budaya risiko, terutamanya dalam sektor perbankan. Oleh itu, tujuan kajian ini adalah untuk mengkaji faktor-faktor penentu budaya risiko dalam sektor perbankan Malaysia. Kajian ini menggunakan kajian sebagai metodologi penyelidikan. Borang soal selidik diedarkan kepada semua peringkat kakitangan bank. Regresi berganda langkah demi langkah telah digunakan untuk menguji hubungan antara faktor-faktor penentu dan budaya risiko. Budaya Risiko telah didapati dipengaruhi oleh panjang perkhidmatan di kalangan kakitangan bank, peranan pekerja dan dasar dan garis panduan. Manakala peranan pengurusan atasan tidak ketara ke arah budaya risiko. Hasilnya menunjukkan bahawa peranan dan dasar dan garis panduan pekerja adalah penting untuk membangunkan budaya risiko yang kukuh dalam sektor perbankan. Ia boleh mewujudkan kesedaran di kalangan kakitangan bank kepentingan peranan mereka ke arah budaya risiko. Keputusan kajian ini juga dapat memberikan input berguna dalam membimbing penggubal dasar bank untuk menilai polisi dan garis panduan yang sedia ada kepada mewujudkan budaya risiko yang berkesan dalam sektor perbankan.

ACKNOWLEDGEMENT

Praise be to Allah, the Lord of the Universe, Who gives the blessings and without His willing, I would not have the strength to complete this Project Paper, Peace and Prayer be upon His Prophet and Messenger Muhammad, the ideal role model for human beings.

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A great thankful is to my supervisor, Dr. Norlida Binti Abd. Manab, the most patient supervisor, I would say for her valuable guidance, input and advice all the way through of the completion of this dissertation. My appreciation of her help, support and contribution is very heartfelt indeed, and may Allah reward her for all of her effort.

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LIST OF ABBREVIATION

USA	United State of America
NAB	National Australia Bank
IIF	The Institute of International Finance
MIA	The Malaysian Institute of Accountant
BNM	Bank Negara Malaysia
RBS	Royal Bank of Scotland
FSA	Financial Services Authority
CFO	Chief Financial Officer
IFCTF	International Conference on Financial Crime & Terrorism Financing
ERM	Enterprise Risk Management
UAE	United Arab Emirates
COSO	Committee of Sponsoring Organizations of the Treadway Commission
ICAAP	The Internal Capital Adequacy Assessment Process
SPSS	Statistical Package for Social Research
KMO	Kaiser-meyer-okin
MSA	Measure Of Sampling Adequacy

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CHAPTER 1

INTRODUCTION

1.1 Chapter Overview

This chapter begins with the background or the overview of the study. It discusses the risk management practice and the risk culture in the banking sector. The chapter also includes the problem statement, the objectives of the study, the research question, and the hypotheses of the research. The second last part of this chapter reveals the significance of the study, which consist of the practical as well as the theoretical contribution of the study. The last part of the chapter summarizes with the organization of this study.

1.2 Background

Risk management is not a new topic in this modern era. This issue has been discussed in numerous literatures (Ariffin & Kassim, 2011). Risk management is a crucial issue not only for the survival and profitability of a company, but also for the growth and development of the whole economy. The financial turmoil in 1997 and 2008 has awaken financial service organizations to the truth that when financial transactions enter into their operating environments, they prompt the risk exposures that can go well beyond insignificant transaction values, capital charges and other actions deemed appropriate for preventing unforeseen losses (Grody, Hughes & Toms, 2011).

Financial crisis and sudden collapse of major corporations and banks in the USA as well as around the globe have been closely linked to the weak risk management

The contents of the thesis is for internal user only

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UNIVERSITI UTARA MALAYSIA

OTHMAN YEOP ABDULLAH GRADUATE SCHOOL OF BUSINESS

The Determinant Factors for a Successful Risk Culture in Banking Sector:

Malaysian Case

I am currently conducting a research on the Determinant Factors for a Successful Risk Culture in Banking Sector: Malaysian Case The information will be of my interest in determining the factors that rise in the issues. Your response will be kept confidential and anonymous. Your cooperation is much appreciated.

Sincerely,

_____
Rozila Binti Hamzah (812327)
(UUM Postgraduate)

Part 1: Respondent's profile
Instruction: Please complete all the following questions by ticking [√] in these appropriate boxes or by supplying information required.

1. Age:
   [   ] 20-30
   [   ] 31-40
   [   ] 41-50
   [   ] 51 and above

2. Sex:
   [   ] Male
   [   ] Female

3. Ethnic:
   [   ] Malay
   [   ] Indian
   [   ] Chinese
   [   ] Other_____

4. Marital status:
   [   ] Single
   [   ] Divorced
   [   ] Married
   [   ] Other_____

5. Highest education level:
   [   ] Diploma
   [   ] Bachelor degree
   [   ] Master
   [   ] PHD / DBA
   [   ] Professional qualification
   [   ] Other_____

6. Position:
   [   ] Clerk
   [   ] Assist. Manager
   [   ] Manager
   [   ] Executive
   [   ] Other_____

7. Department:
   [   ] Operational Dept.
   [   ] Documentation Dept.
   [   ] Credit Dept.
   [   ] Other_____

8. Total monthly salary:
   [   ] Less than RM 2,000
   [   ] RM 2,001-RM 4,000
   [   ] RM 4,001- RM 6,000
   [   ] RM 6,001 and above

9. Number or years that you have been in your current position?
   [   ] Less than 1 year
   [   ] 2 year - 4 years
   [   ] 5 years - 8 years
   [   ] 9 years and above

10. Number of years that you have been with current bank?
    [   ] Less than 2 years
    [   ] 3 year - 5 years
    [   ] 6 years - 10 years
    [   ] 10 years and above

Part 2: The determinants of risk culture
Instruction: Please complete all the following questions by ticking [√] in these appropriate boxes.

A) These questions are pertaining to the roles of managers that have an impact to the risk organizational management culture.

	Strongly Disagree 1	Disagree 2	Not Sure 3	Agree 4	Strongly Agree 5
Managers provide continuous training on risk management to the staff	[ ]	[ ]	[ ]	[ ]	[ ]
Managers consistently approach work and staff on risk management.	[ ]	[ ]	[ ]	[ ]	[ ]
Managers encourage staff developments that relate to risk management education	[ ]	[ ]	[ ]	[ ]	[ ]
Managers are able to explain well about risk management to the staff	[ ]	[ ]	[ ]	[ ]	[ ]
Managers able to give answer about risk management to the staff when they were asked	[ ]	[ ]	[ ]	[ ]	[ ]
Managers provide recognition and other non-monetary benefit for staff	[ ]	[ ]	[ ]	[ ]	[ ]
Managers incorporated risk management into compensation program	[ ]	[ ]	[ ]	[ ]	[ ]
Managers monitor risk management practices among staff.	[ ]	[ ]	[ ]	[ ]	[ ]

B) These questions are pertaining to the roles of staffs that have an impact to the risk organizational management culture.

	Strongly Disagree 1	Disagree 2	Not Sure 3	Agree 4	Strongly Agree 5
Staff able to explain about the risk management well.	[ ]	[ ]	[ ]	[ ]	[ ]
Staff able to influence other colleague to learn about risk management.	[ ]	[ ]	[ ]	[ ]	[ ]
Staff can give idea on how to improve the risk management practices.	[ ]	[ ]	[ ]	[ ]	[ ]
Staff willing to learn more about risk management for the effectiveness of risk management practices.	[ ]	[ ]	[ ]	[ ]	[ ]
Staff actively participate on the effort such as training provided by top management on risk management.	[ ]	[ ]	[ ]	[ ]	[ ]
Staff completes tasks according to the risk management guidelines.	[ ]	[ ]	[ ]	[ ]	[ ]
Staffs are able to do the task that given to them.	[ ]	[ ]	[ ]	[ ]	[ ]
Staff takes appropriate action to handle risk.	[ ]	[ ]	[ ]	[ ]	[ ]

C) These questions are pertaining to the risk management policy and guidelines that have an impact to the risk organizational culture.

	Strongly Disagree 1	Disagree 2	Not Sure 3	Agree 4	Strongly Agree 5
The risk management policies and guidelines provide a clear direction and guidance for manager and all level of staff.	[ ]	[ ]	[ ]	[ ]	[ ]
The risk management policies and guidelines are incorporated with job descriptions.	[ ]	[ ]	[ ]	[ ]	[ ]
Risk management policies and guidelines assist to achieve target.	[ ]	[ ]	[ ]	[ ]	[ ]
Risk management policies and guidelines aid on work systematically.	[ ]	[ ]	[ ]	[ ]	[ ]
Risk management policies and guidelines assist to enhance risk response decisions.	[ ]	[ ]	[ ]	[ ]	[ ]
Risk management guidelines help to assist on daily operation.	[ ]	[ ]	[ ]	[ ]	[ ]
Risk management guidelines help on handling risk effectively.	[ ]	[ ]	[ ]	[ ]	[ ]

Part 2: Risk culture.
Instruction: Please complete all the following questions by ticking [√] in these appropriate boxes.

	Strongly Disagree 1	Disagree 2	Not Sure 3	Agree 4	Strongly Agree 5
Increasing awareness of risk management within an organization.	[ ]	[ ]	[ ]	[ ]	[ ]
Increasing sense of responsibility by providing information about risk to managers/top management.	[ ]	[ ]	[ ]	[ ]	[ ]
Increasing qualified and quality staff for managing risk.	[ ]	[ ]	[ ]	[ ]	[ ]
Increasing monitoring on risk management set by top management.	[ ]	[ ]	[ ]	[ ]	[ ]
Increasing understanding on risk management concept.	[ ]	[ ]	[ ]	[ ]	[ ]
Increasing corporation between departments.	[ ]	[ ]	[ ]	[ ]	[ ]
Encouraging staff to give their opinions and ideas regarding risk management.	[ ]	[ ]	[ ]	[ ]	[ ]

-THANK YOU FOR YOUR PARTICIPATION-

APPENDIX B: Normality Test

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
totaltmr	105	19.00	40.00	32.5524	4.41148	-1.033	.236	.530	.467
totalsr	105	16.00	38.00	33.3143	3.80868	-1.711	.236	4.041	.467
totalpg	105	18.00	35.00	28.9810	3.46127	-.877	.236	.192	.467
totalrc	105	20.00	34.00	29.2571	3.10096	-.934	.236	.189	.467
totaldemo	105	2.00	10.00	5.2476	2.37285	.962	.236	-.088	.467
Valid N (listwise)	105								

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Logsr	105	.30	1.38	.7661	.22396	.226	.236	-.176	.467
Valid N (listwise)	105								

APPENDIX C: Homoscedasticity

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
							Mean	Std. Error	95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Difference	Difference	Lower	Upper
logsr	Equal variances assumed	1.039	.310	3.255	103	.002	.13690	.04206	.05349	.22031
	Equal variances not assumed			3.224	94.427	.002	.13690	.04246	.05260	.22119
totaldemo	Equal variances assumed	1.283	.260	-1.637	103	.105	-.75642	.46198	-1.67264	.15980
	Equal variances not assumed			-1.658	102.054	.100	-.75642	.45636	-1.66160	.14876
totalrc	Equal variances assumed	2.262	.136	-2.538	103	.013	-1.50550	.59328	-2.68213	-.32888
	Equal variances not assumed			-2.496	90.942	.014	-1.50550	.60306	-2.70342	-.30758
totalpg	Equal variances assumed	2.368	.127	-2.140	103	.035	-1.42920	.66791	-2.75385	-.10455
	Equal variances not assumed			-2.081	84.638	.040	-1.42920	.68664	-2.79452	-.06388
totaltmr	Equal variances assumed	7.640	.007	-2.410	103	.018	-2.03999	.84645	-3.71872	-.36125
	Equal variances not assumed			-2.328	80.536	.022	-2.03999	.87635	-3.78380	-.29617

APPENDIX D: Multicollinearity

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	16.690	3.586		4.654	.000		
	totaltmr	.179	.067	.255	2.660	.009	.723	1.383
	totalpg	.252	.087	.281	2.907	.004	.710	1.408
	totaldemo	.189	.114	.145	1.661	.100	.873	1.146
	logsr	-2.020	1.355	-.146	-1.491	.139	.693	1.444

a. Dependent Variable: totalrc