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THE MODERATING EFFECT OF RISK CULTURE ON ENTERPRISE RISK MANAGEMENT IMPLEMENTATION IN MALAYSIA

OTHMAN IBRAHIM

DOCTOR OF BUSINESS ADMINISTRATION
UNIVERSITI UTARA MALAYSIA
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THE MODERATING EFFECT OF RISK CULTURE ON ENTERPRISE RISK MANAGEMENT IMPLEMENTATION IN MALAYSIA

By

OTHMAN IBRAHIM

Thesis Submitted to
Othman Yeop Abdullah Graduate School of Business
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in Partial Fulfillment of the Requirement for the Doctor of Business Administration
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Enterprise risk management (ERM) is a systematic way of assessing risk exposure within business organizations. It is also a comprehensive tool and systematic mechanism to predict the likelihood and impact of events, including unexpected occurrences. The objective of this study is to examine the key determinants of ERM implementation amongst Public Listed Companies (PLC’s). It is also to examine the moderating effect of risk culture on the relationship between ERM determinants and ERM implementation amongst the listed companies in Malaysia. This research adopted a quantitative orientation to analyze the data obtained from the questionnaire distributed to the companies listed on Bursa Malaysia via their Risk Management Division. Out of 814 PLC’s based on the directory of Bursa Malaysia’s main board, 300 were taken as a sample in this study. The primary data collection commenced after the pilot test was completed and the data was analyzed using SPSS Version v.18. From the analysis it is found that senior management commitment, chief risk officer, ERM policy, process methodology, risk assessment tool, audit committee, risk management committee, internal audit, rules and regulation and code of practice have a significant and positive relationship with the ERM implementation. The result reveal risk culture is considered as good moderator by positively interacts or increases the interaction between the ERM determinants and the ERM implementation. Hierarchical multiple regression indicated that risk culture played the moderating role in the relationship between senior management commitment, chief risk officer, risk assessment tools, risk management committee and ERM implementation. This study provides significant theoretical and practical contributions for the industry, practitioners, researchers and academician, besides providing a framework for ERM implementation in the listed companies in Malaysia. The results of this research have significant implications for stakeholders such as business or professional practitioner including internal auditors, top management, audit committee, standard-setters or even regulatory bodies and academician in Malaysia. The current study is significant as it helps shed light on the relative importance of the leadership, operating framework, governance mechanism and compliance constructs on ERM implementation in Malaysia. The findings of this study contribute to the body of knowledge in the area of risk governance, compliance and control mechanism that linked with the ERM implementation. The results of this study could serve as a guide to develop a strategy for audit actions in the assessment of ERM practices to further improve the level of ERM implementation by the intended shareholders as a whole.

Keywords: Enterprise Risk Management, Governance Mechanism, Operating Framework, Compliance, Risk Culture
Pengurusan Risiko Perusahaan atau *Enterprise Risk Management* (ERM) merupakan satu kaedah pengurusan yang sistematik untuk menilai tahap pendedahan terhadap risiko dalam sesebuah organisasi perniagaan. Kaedah ini juga merupakan kaedah yang komprehensif dan mekanisma yang sistematik untuk menjangkakan kebarangkalian dan implikasi ke atas situasi yang berlaku termasuk kejadian di luar jangkaan. Objektif kajian ini adalah untuk menilai faktor penentu utama yang mempengaruhi perlaksanaan ERM di kebanyakan syarikat penyenaraian awam. Di samping itu, kajian ini menilai kesan perantara budaya risiko terhadap hubungan antara penentu-penentu dan perlaksanaan ERM dalam syarikat penyenaraian awam di Malaysia. Kajian ini dijalankan dengan menggunakan pendekatan orientasi kuantitatif untuk menganalisis data yang diperolehi daripada soal selidik yang diedarkan kepada syarikat-syarikat penyenaraian awam yang terdaftar di Bursa Malaysia melalui Bahagian Pengurusan Risiko Bursa. Berdasarkan 814 syarikat yang tersenarai dalam direktori papan Bursa Malaysia, 300 daripada dijadikan sampel kajian. Pengumpulan data primer dimulakan selepas usia rintis telah siap dan data dianalisis menggunakan SPSS Versi v.18. Hasil analisis mendapati komitmen pengurusan atasan, ketua pegawai risiko, polisi ERM, metodologi proses, alat penilaian risiko, jawatankuasa pengauditan, jawatankuasa pengurusan risiko, audit dalam, terma dan perundangan serta kod tatacara menunjukkan hubungan yang positif dan signifikan dengan pelaksanaan ERM. Hasil kajian juga mendapati bahawa budaya risiko menunjukkan hubungan yang baik sebagai faktor pemangkin dengan positifnya berinteraksi serta meningkatkan interaksi di antara faktor-faktor penentu ERM dan perlaksanaan ERM. Hasil ujian regressi berperingkat juga mendapati bahawa budaya risiko menunjukkan peranan sebagai pembolehubah moderator dalam hubungan antara komitmen pengurusan atasan, ketua pegawai risiko, alat penilaian risiko dan jawatankuasa pengurusan risiko dengan perlaksanaan ERM. Kajian ini memberikan sumbangan secara signifikan bagi pembangunan teori dan praktikal kepada pihak industri, para profesional, para penyelidik dan ahli akademik selain menyediakan satu rangka kerja bagi pelaksanaan ERM dalam syarikatsyarikat penyenaraian awam Malaysia. Hasil kajian ini juga memberikan implikasi yang signifikan kepada pemegang saham seperti pengurusan profesional termasuklah juruaudit dalam, pengurusan atasan, jawatankuasa audit, penggubal piawaian, malahan badan perundangan serta ahli akademik di Malaysia. Kajian ini didapati signifikan dalam membantu mengukuhkan hubungan penting dalam kepimpinan, rangka kerja pengoperasian, mekanisma tadbir urus dan konstruksi pematangan terhadap perlaksanaan ERM di Malaysia. Dapatan kajian ini juga memberikan sumbangan kepada ilmu pengetahuan dalam bidang tadbir urus berisiko, pematuan dan mekanisme kawalan yang berhubung secara langsung dengan ERM. Hasil kajian ini juga boleh dijadikan panduan bagi pembangunan strategi untuk tindakan pengauditan dalam penilaian ke atas amalan ERM untuk menambah baik tahap perlaksanaan ERM oleh pihak pemegang-pemegang saham secara keseluruhannya.

*Kata kunci: Pengurusan risiko perusahaan, Mekanisma tadbir urus, Rangka kerja pengoperasian, Pematuan, Budaya risiko.*
In the name of Allah, Most Beneficent and Most Merciful. Firstly all praise and thanks to Allah, first and last, Lord and Cherisher of all words who taught humankind everything they knew not. His blessings and His mercy is upon the Holy Prophet Muhammad S.A.W., the best of mankind. I would also like to express special thanks to my main supervisor Associate Prof Dr. Mohamad Hisyam bin Selamat for his wisdom, patience, understanding, insight, knowledge, attention, kindness, encouragement and for always having time to provide guidance and mentoring throughout my Doctor of Business Administration program in Universiti Utara Malaysia. Words alone cannot express my greatest appreciation and gratitude, Insha’Allah, Allah will reward him abundantly. My appreciation also goes to all students of Doctor of Business Administration program and my colleagues who always give me support and encouragement during my study.

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PULIC LISTED COMPANIES IN MALAYSIA
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Main Board (1st Board as of 8TH JULY 2014)

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<td>ERM</td>
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<td>BOD</td>
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<td>SMC</td>
<td>Senior Management Commitment</td>
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<td>CRO</td>
<td>Chief Risk Officer</td>
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<td>EPOL</td>
<td>ERM Policy</td>
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<tr>
<td>PROM</td>
<td>Process Methodology</td>
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<td>AC</td>
<td>Audit Committee</td>
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<td>IA</td>
<td>Internal Audit</td>
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<td>RMC</td>
<td>Risk Management Committee</td>
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<tr>
<td>RAT</td>
<td>Risk Assessment Tool</td>
</tr>
<tr>
<td>RNR</td>
<td>Rules and Regulations</td>
</tr>
<tr>
<td>COP</td>
<td>Code of Practice</td>
</tr>
<tr>
<td>COSO</td>
<td>Committee of Sponsoring Organization of the Tread way Commission</td>
</tr>
<tr>
<td>RC</td>
<td>Risk Culture</td>
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<tr>
<td>FERMA</td>
<td>A Risk Management Standard by the Federal of European Risk Management</td>
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<tr>
<td>MICG</td>
<td>Malaysian Institute of Corporate Governance</td>
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<td>IIAM</td>
<td>Institute Internal Auditor Malaysia</td>
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<tr>
<td>SC</td>
<td>Securities Commission</td>
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<tr>
<td>CIA</td>
<td>Chief Internal Auditor</td>
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<tr>
<td>TSE</td>
<td>Toronto Stock Exchange (TSE)</td>
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<td>EPOL</td>
<td>Existence of ERM Policy</td>
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<td>ISO</td>
<td>International Standardization for Organization</td>
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CHAPTER ONE
INTRODUCTION

1.1 Research Background

The term ‘risk’ refers to uncertain and unpredictable situations that disrupt the process of achieving corporate objectives and creating shareholders’ values (Deloach, 2000; Cassidy, 2005). In an unpredictable business cycle, risk is highly uncertain and could negatively affect a company’s operations, including but not limited to, strategy operations, human capital, reputational exposure and the legal framework (Shimpi, 2005; Gupta, 2011). Thus, every company has to effectively manage operational risks so that profitability and business growth could be ensured. In the literature, the process of managing risk is termed as Enterprise Risk Management (ERM).

Smith et al. (1997) defined ERM as a tool to manage, measure and mitigate risk exposure that give an impact to the business operations and strategy objectives. In other words, ERM is a value-added tool for business improvement by identifying and analyzing potential risks or hazards inside and/or outside the company, and in turn, determining suitable actions to mitigate them. According to Anthony (2001), ERM is a comprehensive business tool to assist companies to align business strategy, processes, human capital, technology and innovation and knowledge transfer with actions that aim to maintain business sustainability and shareholder’s expectation. The role of ERM in mitigating an organization’s exposure to business risks is also highlighted in The Committee of Sponsoring Organizations of Tradeway
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7.0. REFERENCES


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