# EFFECT OF RISK MANAGEMENT COMMITTEE ON FIRM PERFORMANCE: A STUDY IN MALAYSIAN NON-FINANCIAL INSTITUTIONS

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**MASTER OF SCIENCE (INTERNATIONAL ACCOUNTING)**

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# EFFECT OF RISK MANAGEMENT COMMITTEE ON FIRM PERFORMANCE: A STUDY IN MALAYSIAN NON-FINANCIAL INSTITUTIONS

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# ABSTRACT

Poor risk management has been a major concern in Malaysia's context over the years with negative consequences including threat of business survival, the possibility of bankruptcy, huge financial losses, and deteriorated financial performance. However, the risk management committee (RMC), which is claimed to be an effective corporate governance tool to enhance risk management practices, is not widely adopted among Malaysian non-financial institutions. The existing literature regarding RMC and firm financial performance is also limited, especially in the Malaysian context. Hence, this study is conducted to examine the associations between characteristics of RMC including, the separation (RMCS), the size (RMCSZ), and independence of RMC (RMCIND), with the firm financial performance of return on assets (ROA). The study is conducted among Malaysian non-financial institutions that are listed on the main market of Bursa Malaysia as of the year 2022. A total sample size of 250 companies is randomly selected from 11 non-financial sectors for further analysis. Several data analysis techniques, including descriptive statistics, correlation coefficient, and multiple regression, were adopted to analyze the collected data. Assumption tests of outlier detection, multicollinearity, normality, and homoscedasticity were also adopted to examine the validity and reliability of the data. Overall, the findings of this study suggested that RMCS and RMCIND have insignificant negative associations with ROA, while RMCSZ has an insignificant positive association. This study has contributed to the existing literature as empirical evidence for past researchers' claims. In addition, this study also provides insight into the influence of RMC on a firm financial performance which could be valuable for the companies, shareholders, investors, policymakers, as well as academicians.



**Keywords**: corporate governance, risk management committee, financial performance, Malaysia.

# ABSTRAK

Pengurusan risiko yang lemah telah menjadi kebimbangan utama dalam konteks Malaysia selama bertahun-tahun dengan kesan negatif termasuk ancaman kelangsungan perniagaan, kemungkinan muflis, kerugian kewangan yang besar, dan prestasi kewangan yang merosot. Walau bagaimanapun, Jawatankuasa Pengurusan Risiko (RMC), yang didakwa sebagai alat tadbir urus korporat yang berkesan untuk meningkatkan amalan pengurusan risiko, tidak diterima pakai secara meluas di kalangan institusi bukan kewangan Malaysia. Kesusasteraan sedia ada mengenai RMC dan prestasi kewangan firma juga terhad, terutamanya dalam konteks Malaysia. Oleh itu, kajian ini dijalankan untuk mengkaji hubungan antara ciri-ciri RMC termasuk, pemisahan (RMCS), saiz (RMCSZ), dan kemerdekaan RMC (RMCIND), dengan prestasi kewangan pulangan aset (ROA) firma. Kajian ini dijalankan dalam kalangan institusi bukan kewangan Malaysia yang disenaraikan di pasaran utama Bursa Malaysia setakat tahun 2022. Saiz sampel sebanyak 250 syarikat dipilih secara rawak daripada 11 sektor bukan kewangan untuk analisis lanjut. Beberapa teknik analisis data, termasuk statistik deskriptif, pekali korelasi, dan regresi berbilang, telah diterima pakai untuk menganalisis data yang dikumpulkan. Ujian andaian pengesanan luar, multicollinearity, normaliti, dan homoscedasticity juga diterima pakai untuk memeriksa kesahihan dan kebolehpercayaan data. Secara keseluruhannya, hasil kajian ini menunjukkan bahawa RMCS dan RMCIND mempunyai hubungan negatif yang tidak ketara dengan ROA, manakala RMCSZ mempunyai perkaitan positif yang tidak ketara. Kajian ini telah menyumbang kepada kesusasteraan sedia ada sebagai bukti empirikal untuk tuntutan penyelidik masa lalu. Di samping itu, kajian ini juga memberikan gambaran tentang pengaruh RMC terhadap prestasi kewangan yang kukuh yang boleh menjadi berharga bagi syarikat, pemegang saham, pelabur, pembuat dasar, serta ahli akademik.



**Kata kunci**: tadbir urus korporat, jawatankuasa pengurusan risiko, prestasi kewangan, Malaysia.

# DECLARATION

I certify that except where due acknowledgement has been made, the work is that of the author alone; the work has not been submitted previously, in whole or in part, to qualify for any other academic award; the content of the thesis is the result of work which has been carried out since the official commencement date of the approved research program; and any editorial work, paid or unpaid, carried out by a third party is acknowledged.

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| | |
|---|---|
| RMC | Risk Management Committee |
| RMCS | Separation of Risk Management Committee |
| RMCSZ | Size of Risk Management Committee |
| RMCIND | Independence of Risk Management Committee |
| ROA | Return on Assets |
| FSIZE | Firm Size |
| MCCG | Malaysian Code of Corporate Governance |
| SC | Securities Commission |
| DOSM | Department of Statistic Malaysia |
| ERM | Enterprise Risk Management |
| COSO | Committee of Sponsoring Organizations |

# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the Study

The dynamic changes in the environment have always been creating new challenges and uncertainties for the business market. These have put businesses to confront numerous risks to enhance their performance while ensuring business sustainability (Halim, Mustika, Sari, Anugerah, & Mohd-Sanusi, 2017). Dvorsky, Kliestik, Cepel, and Strnad (2020) and Çera, Belás, and Strnad (2019) also identified that the changes in the business competitive environment, political and economic conditions could affect business risk exposure. In light of the dynamic risks, Musallam (2018) discussed the use of risk management to lower risk exposure by consistently evaluating the risk level and identifying internal and external resources needed to overcome the risks. Risk management involves the systematic process of identifying, assessing, and prioritizing a company's exposure to risks (Sondal & Batra, 2020). A well-coordinated risk management ensures the smooth operation of the company and mitigates the impact of adverse events. Vochiţoiu, Vedinas, Miclea, and Unguras (2020) explained that risk management is crucial to protecting a company's assets and attaining profits while balancing risk protective measures' economic and operational costs.

Failure to manage risk events would direct or indirectly harm the company due to the consequences of the risk events (Halim et al., 2017). The most prominent instance could be dated back to the time when financial crisis leading to business failures and global economic collapse over the past two to three decades (Karim, Vigne, & Lucey, 2022). The Asian financial crisis that happened in 1997 caused a significant blow to the regional economy leading to numerous financial institutions' and corporations' bankruptcy across

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