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Effect of Risk Management on the Organizational Performance: The moderating role of Board Equity Ownership

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Abstract: *The current is aimed to examine the effect of risk management on firm performance and the moderating role of board ownership in the above said relationship. This study is based on the quantitative paradigm and collects the data from 110 respondent using a survey questionnaire. The questionnaire included the multiple items for each construct present in the model. The respondent were selected from the Iraqi industry. The result showed that organizational performance is significantly affected by risk management and also the board ownership equity is moderating the relationship. Hence both hypotheses of the study were found to be supported. The literature regarding the relationship of risk management and performance presents this relationship to be positive. The discussion of the results is also presented to support the results of the study.*

Keywords: risk management, board equity ownership, organizational performance.

Introduction

Project management has an activity called Risk management, it is now important due to the increase in globalization and competition (Odibat et al., 2017). There are numerous steps of risk management that help to make good decisions such as identifying, context, communicating risks, analyzing, monitoring treating and assessing. Problem-related to the project can be minimized by correct problem identification and to solve that problem (Vasilnakova, 2018). Firms can earn a competitive advantage by having a regular review of their operations and improve their methods to perform a task (Spedding & Rose, 2008). Firms should also pay attention to explore a strong method of risk management and develop a new area of risk. Due to the complexity and challenges of business, it is now become more vital for organization stability and survival to deal with risk (Boniface & Ibe, 2012). The modern organization got affected owing to intensive competitions, deregulations and globalization cause instability (Shecterle, 2010). Firm poor performance-rooted by assessment of risk, control and mitigation in a proactive manner.

Researchers investigate the relationship between risk management and firm performance (Manab & Ghazali, 2013; Mikes & Kaplan, 2014; Hoyt, Moore, & Liebenberg, 2008; Manab et al., 2010). The result shows the inconsistent and mixed finding of risk management and firm performance (Togok, Ruhana, & Zainuddin, 2014; Ballantyne, 2013). Some scholars argue that risk management cannot be fully studied because of a lack of resources and an appropriate framework (Acharyya, 2008). Moreover the financial literacy is the issue (Arif, 2015) as the financial literacy increases it help investors to understand risk (Rehman & Arif, 2015). Furthermore the relationship inconsistency of risk management and firm performance caused by an insufficient framework of risk management (Mikes & Kaplan, 2014; Lundqvist, 2014). There is no general statement that can define the benefits of risk management (Togok et al., 2014; Beasley, Pagach, & Warr, 2008).

Researchers suggested incorporating the dependent variable in the relationship between risk management and firm performance (Hafizuddin-Syah et al., 2014). Consistent with Naseem (2019) current study uses a moderating variable of board equity ownership and analyze the impact of risk management on firm performance. Hence this research is aimed to investigate the relationship of firm performance and risk management and moreover the moderating role of board ownership in the context of Iraq.

Problem Statement

Organizational performance and Risk Management have a positive correlation and several studies have provided evidence of this relationship. However there are studies providing negative relationship of the said variables and there are some studies showing inconclusive results. Also there are some limitation along with the above discussed contradictory results which indicates there needs to have more insights regarding this relationship. Hence it have become important to understand the impact of risk management on firm performance including the governance variable i.e. board equity ownership which takes the effect of how active the board of directors in the company in monitoring risk and its impact on firm performance. Which can lead to a better understanding of the publically listed firms risk management its impact on the performance and the role of board equity so that the investors and other stakeholder can benefit from the results of the current work.

Hence, it is time to review our understanding of enterprise risk management and its impact on the organizational performance and reflect how we can improve the performance of housing property to deal with the increasing level of complexity, chaos and uncertainty in project environments. In this paper, we start with a review of literature, first to understand the concept of Enterprise Risk Management and organizational performance. Next, we discuss the potential impact of ERM on the organizational performance. Finally, we discuss the characteristic of an appropriate framework of ERM to improve the organizational performance and to gain competitive advantage. This paper is essentially theoretical in nature and it is part of a continuing study that forms the basis for research grant of one of the authors. We conclude the paper by providing the groundwork for a more in-depth future study of the directional links of the concepts.

Significance of the study

The study is significant from different aspects firstly it focuses on the risk management and its impact on the firm performance and then it provides how board ownership works to modify this relationship. It highlights the role governance in risk management and hence leading towards the firm performance. This study is important for the stock holders to make investment decision based on the risk characteristics of the firm and the role of board's decision making power in the above said relationship.

Research Questions

1. Is there any impact of risk management on firm performance?
2. What is the role of Board Equity Ownership as a moderator in the relationship of risk management and firm performance?

Research Objectives

1. To examine the impact of risk management on firm performance.
2. To understand if there is any moderating role of board equity ownership on the relationship of risk management and firm performance.

Literature Review

Risk Management

Risk management can be done by developing factors that influence enterprise risk (Dafikpaku, 2011; Thornton, 2009). According to the researcher risk management help to optimize the firm outcome (Ahmed & Manab, 2016).). To create a framework help the organization to analyze the risk and can take measures to minimize or avoid the risk (Chalker, 2018). Risk management involved different steps that support organization to forecast the probability of risk, these are the strategies that board designed but implementation is done by the top management (Sax & Andersen, 2019). Researchers claim risk management is a process to identify the risk of an organization and aligns technology, strategy, people, knowledge and processes (Lai and Samad, 2011). Study shows that risk management is a practice to manage risk in the organization (Dafikpaku, 2011).

DeLoach and Thomson (2014) conduct research and highlighted the fact that risk management is a producer to manage risk and reward system and mitigate the adverse impact as possible as it can be, it is a way to deal with the threats and achieve goals. Risk management helps the management to make a decision that reduces the risk of an organization (Lai, 2012). To enforce risk management in the organization help to improve the value of shareholder which also increase firm value (Manab & Ghazali, 2013). Still, a few studies are available to explore the relationship between risk management and firm performance (Togok, Ruhana, & Zainuddin, 2013). From the above discussion, we develop the first hypothesis of the current study as:

H1: Effective risk management increases organizational performance.

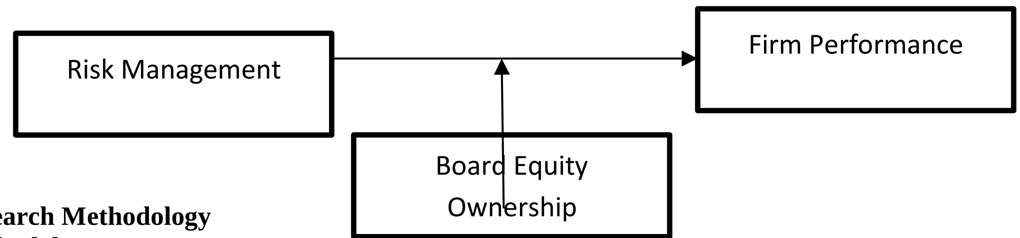
Board Equity Ownership

The relationship of control and ownership is based on agency theory i.e. the separation of control and ownership (Vandekerkhof, 2018; Arif & Syed, 2015). The organization uses a board of directors to teach the organization about control and authorizes (Habbash, 2019). Board of directors perform a function of control decision and management for the internal managers of an organization and retain the control over making critical decisions, monitor mangers, dismiss and reward of mangers (Vandekerkhof, 2018). Researchers underline the fact that with of help of a board of directors ownership organization can create their balance between shareholder interest and management interest (Torchia & Calabrò, 2016). Managers that have high equity in the firm are less preferred to take a risk because it will cause higher damage to their wealth, thus manager having equity can act more seriously to the risk management criteria Bouwens and Verriest (2014). A study has been conducted by Ren et al. (2012) to analyze the impact of managerial ownership and board of directors on firm performance, they found a negative impact of board meeting frequency, board stock ownership and managerial stock ownership. The current study incorporated board equity ownership as a moderating variable to change or strengthen the relationship between risk management and firm performance. From the above discussion, we develop the second hypothesis of the current study as:

H2: There is a significant moderation of Board equity ownership in the relationship of risk management and firms' performance.

Firm Performance

The word firm performance is used to describe the current position of an organization in a market (Gavrea, Ilies, & Stegerean, 2011). It presents the organization's growth over time (Saeidi et al., 2014; Asif et al., 2016). It also helps an organization to achieve objectives and goals and earn the trust of shareholders (Antony & Bhattacharyya, 2010). The firm performs is the utilization of available resource and produce a maximum outcome (Asat, Maruhun, Haron, & Jaafar, 2015). Saeidi et al. (2014) uses the financial measure to compute firm performance such as return on equity and return on the sale. Nwaiwu & Joseph, (2018) used both non-financial and financial methods to measure firm performance. Study shows that operationalization of non-financial methods creates a positive impact on organization performance. The research revealed the fact that sometimes management involves in unethical practices by using accounting methods to hide the information Chow & Van Der Stede (2006) argue that non-financial methods are less accurate but deal with an operational area that is control by management (Chow & Van Der Stede, 2006).



Research Methodology
Methodology

This study is based on the quantitative paradigm and collects the data from 110 respondent using a survey questionnaire. The questionnaire included the multiple items for each construct present in the model. The respondent were selected from the Iraqi industry. All the questionnaire items were selected on the basis of the existing literature.

The questionnaires items were based on the five point scales. The options included strongly disagree, disagree, neutral, agree and strongly agree. For testing the reliability of the construct Cronach's alpha was employed and found that all constructs have the Cronbach Alpha value of above the minimum value of 0.7. Hence all constructs have their reliability up to the mark.

Data analysis

Reliability of constructs

S.NO	**Construct**	**Alpha Value**
1	Performance	0.786
2	Risk Management	0.817
3	Board Ownership Equity	0.785

The reliability analysis of the construct show that all the value were above the benchmark value of 0.7 and found to be reliable. The further analysis are show in the sections below.

Correlations

	PERFORMANCE	RISK_MANAGEMENT	BOARD EQUITY
PERFORMANCE	1	.846**	.730**
		.000	.000
	110	110	110
RISK_MANAGEMENT	.846**	1	.677**
	.000		.000
	110	110	110
BOARD EQUITY	.730**	.677**	1
	.000	.000	
	110	110	110

**. Correlation is significant at the 0.01 level (2-tailed).

The above table of correlation shows the correlation of the variables. It can be noticed that risk management and board equity are highly correlated with the performance of the organization. Moreover the correlation between risk management and board ownership equity is not so high hence there is no issue of multicollinearity.

Regression analysis

To test the above mentioned hypotheses, regression analysis was performed. The results of the analysis is presented in the following tables.

Testing for Direct Effect

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.846[a]	.716	.713	.50927

a. Predictors: (Constant), RISK_MANAGEMENT

The above table shows the R^2 to be 0.716 which means that around 72 percent variation in the firm performance is due to the risk management.

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	70.459	1	70.459	271.669	.000[b]
	Residual	28.010	108	.259		
	Total	98.469	109			

a. Dependent Variable: PERFORMANCE
b. Predictors: (Constant), RISK_MANAGEMENT

The above table of anova show the model fit. The significant value of 0.00 which is less than 0.05 which shows that the model is fit.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.656	.201		3.259	.001
	RISK_MANAGEMENT	.850	.052	.846	16.482	.000

a. Dependent Variable: PERFORMANCE

The above table of coefficient shows that risk management has a positive and significant impact on firm performance. The beta coefficient is 0.85 with the t-value of 16.48 which is greater than 2. Moreover the p-value is less than 0.05 which shows that the relationship is significant at 0.05 level. Hence it can be said that there is a positive and significant relationship between risk management and firm performance.

Testing for Moderation

The moderating effect of board equity ownership is tested in the relationship of risk management and firm performance. The result for the moderating effect is presented in the following table of coefficient.

Coefficients[a]

Model	Unstandardized Coefficients	Standardized Coefficients	t	Sig.

		B	Std. Error	Beta		
1	(Constant)	-.895	.476		-1.880	.063
	RISK_MANAGEMENT	1.057	.162	1.052	6.532	.000
	BOARD EQUITY	.642	.144	.641	4.471	.000
	RISK_x_BOARD	-.112	.041	-.701	-2.712	.008

a. Dependent Variable: PERFORMANCE

The above table shows that introducing a new variable of board equity is also significant and when the interaction of risk management and board equity brought into equation the interaction effect is also significant hence there is a significant moderating effect of board ownership equity in the relationship of risk management and firm performance.

Discussion

The above result showed that organizational performance is significantly affected by risk management and also the board ownership equity is moderating the relationship. Hence both hypotheses of the study were found to be supported. The literature regarding the relationship of risk management and performance presents this relationship to be positive. Risk management helps the management to make a decision that reduces the risk of an organization (Lai, 2012). To enforce risk management in the organization help to improve the value of shareholder which also increase firm value (Manab & Ghazali, 2013). According to the researcher risk management help to optimize the firm outcome (Ahmed & Manab, 2016).To create a framework help the organization to analyze the risk and can take measures to minimize or avoid the risk (Chalker, 2018). The firm performs is the utilization of available resource and produce a maximum outcome (Asat, Maruhun, Haron, & Jaafar, 2015). Managers that have high equity in the firm are less preferred to take a risk because it will cause higher damage to their wealth, thus manager having equity can act more seriously to the risk management criteria Bouwens and Verriest (2014). A study has been conducted by Ren et al. (2012) to analyze the impact of managerial ownership and board of directors on firm performance, they found a negative impact of board meeting frequency, board stock ownership and managerial stock ownership. Researchers underline the fact that with of help of a board of directors ownership organization can create their balance between shareholder interest and management interest (Torchia & Calabrò, 2016). Hence the study results are aligned with the above mentioned results.

Conclusion

Firms can earn a competitive advantage by having a regular review of their operations and improve their methods to perform a task (Spedding & Rose, 2008). Firms should also pay attention to explore a strong method of risk management and develop a new area of risk. Due to the complexity and challenges of business, it is now become more vital for organization stability and survival to deal with risk (Boniface & Ibe, 2012). Hence this research is aimed to investigate the relationship of firm performance and risk management and moreover the moderating role of board ownership in the context of Iraq. The above result showed that organizational performance is significantly affected by risk management and also the board ownership equity is moderating the relationship. Hence both hypotheses of the study were found to be supported. The literature regarding the relationship of risk management and performance presents this relationship to be positive.

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