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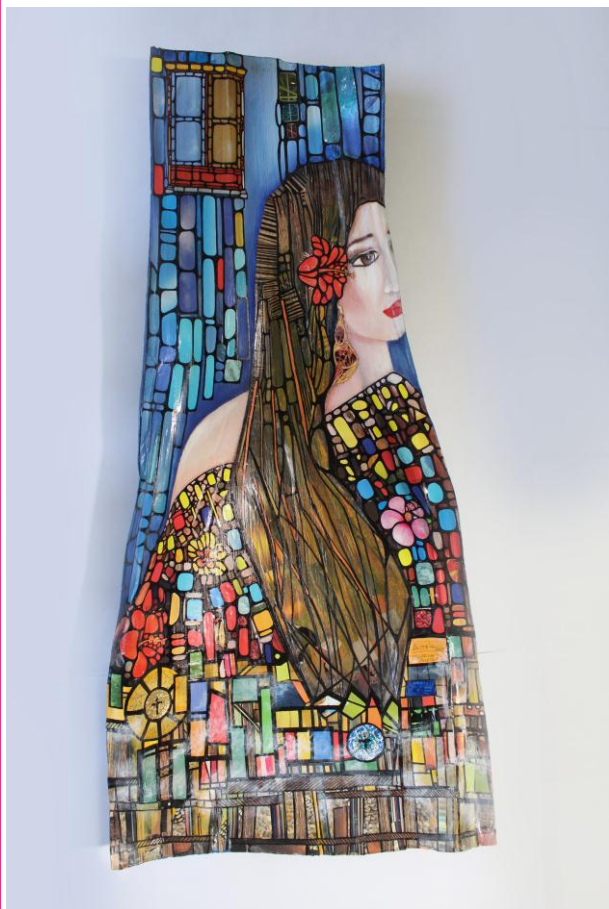
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The impact of corporate governance mechanisms on risk management

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Abstract

The main objective of this research is to identify and prioritize the corporate governance factors that have an influence on risk management and how they can be helpful to enrich risk management capabilities of Malaysian banks. The researcher employed both qualitative and quantitative research methods based on the nature of the research topic. As a result, the majority of employees are unable to assess whether the board had discharged their fiduciary and leadership functions. In conclusion, all commercial banks in Malaysia had adopted effective and strict application of the code of corporate governance and the most effective code is accountability.

Key Words: Corporate Governance, Risk Management, Banking.

El impacto de los mecanismos de gobierno corporativo en la gestión de riesgos

Resumen

El objetivo principal de este trabajo de investigación es identificar y priorizar los factores de gobierno corporativo que influyen en la gestión de riesgos y cómo pueden ser útiles para enriquecer las capacidades de gestión de riesgos de los bancos de Malasia. Los investigadores emplearon métodos de investigación tanto cualitativos como cuantitativos basados en la naturaleza del tema de investigación. Como resultado, la mayoría de los empleados no pueden evaluar si la junta ha desempeñado sus funciones fiduciarias y de liderazgo. En conclusión, todos los bancos comerciales en Malasia habían adoptado una aplicación efectiva y estricta del código de gobierno corporativo y el código más efectivo es la rendición de cuentas.

Palabras clave: Gobierno Corporativo, Gestión de Riesgos, Banca.

1. INTRODUCTION

The world's rapid economic development had accelerated the business development and expansion around the world. Companies and organizations today are operating in international market context to fight for market share, revenue, and profitability with the result of increasing the corporate sustainability. However, with the increase in the amount of business activity and competition level, the economies around the world are becoming ever complex and complicated, higher level of risk and uncertainty were exposed to all companies and

organizations (Antunes, 2015; Amadi and Amadi, 2014; Fung, 2015; Dabari and Saidin, 2015; Chowdhury and Shil, 2017; Kabir and Aftab, 2017; Hallunovi and Berdo, 2018). Indeed, companies have to bear more risks in order to seek their expected returns from the market. Risks are present in all businesses and organizations. Different companies face a different level of risks. For instance, banks and financial institutions are facing with a higher level of risks because of its high-level risk business operations and transactions that involving maturity transformation processes; providing loans, credit cards, and mortgage to individuals, clients, and organizations. Hence banks face with a greater level of challenges on different risks encountered. In reviewing of past financial incidents, the financial economic crisis had given significant impacts to banking industries.

In 2008, there were more than 200 commercial banks and financial institutions in the United States were bankrupted and liquidated due to the severe economic downturn happened in the previous year. The reason to the large failures and bankruptcies were due to ineffective risk management practices adopted by U.S banks, where commercial banks were concentrated on maximizing returns and profits during economic recession, granting significant amounts of loan transactions, and led to the significant losses as companies and organizations were unable to repay the loan (Dorfman, 2007). Malaysia shares some similarities with the United Kingdom, such as the application of certain legal systems and acts, company laws, code of corporate governance, and market structure of the Malaysian banking industry. This paper focuses on drafting the proposal in

studying the application and adaptation of corporate governance as the tool of risk management practices used by commercial banks and financial institutions in the Malaysian banking industry, and its effectiveness and efficiencies for risk management practices. Based on the finding concluded, this research will provide recommendations and suggestions for commercial banks in Malaysia toward enhancing and improving their risk management practices and get themselves prepared for future economic challenges.

2. LITERATURE REVIEW

Risk management failures at major corporations have captured the headlines for many years, primarily in the financial sector, but in other sectors as well, and have not always been the result of shortcomings in financial risk-taking (Crockford, 1986). The importance of an effective risk governance framework was underlined in the Committee's report from 2009 on *The Corporate Governance Lessons from the Financial Crisis*. In the United Kingdom, the corporate governance is treated as the code of laws and regulations in which large and public listed companies are strictly obeying and follow, and this had led to the safety of the majority of UK banking industry in successfully survived through 2008's financial crisis. Malaysia shares some similarities with the United Kingdom, such as the application of certain legal systems and acts, company laws, code of corporate governance, and market structure of the Malaysian banking industry. This was due to the colony of British to dominate Malaysia in early decades. According to Goergen (2012), corporate governance policies include five main sections which consist of

leadership, effectiveness, accountability, remuneration, relations with shareholders (Ramli et al., 2018). The leadership concentrates on the selection and formation of members for the board (Asad et al., 2018). From the code, the board should consist of an equal number of executive directors and non-executive directors, and both directors are having rights to vote, speak, and generate ideas during the meeting. The audit committee is only including non-executive directors. The effectiveness focuses on the appointment and selection of directors to the board. In this section, all directors should subject to reelection in a constant period, such as in every of two years, this should discharge their responsibilities and duties when they are subject to reelection, and no directors should be sitting in the position without reelection (Faisal et al., 2016). Also, the chairman and CEO should not be the same person in the company to prevent ultimate power for decision making. The board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management and internal control systems. The remuneration and wages of executive directors are watched and governed by the code, a policy that determines the level of remuneration of the director. This helps to prevent over and excessive level of remuneration paid to executive directors as they controlling the business operations. This section explains the mutual understanding of shareholders and management, managers and boards should act in the best interest of shareholders in order to ensure the satisfactory dialogue. The board should engage in general meetings to communicate with investors and shareholders. Other than the five main sections, there are two schedules designed to provide governing and controlling effect. The schedule a focuses on the design of performance-related remuneration for executive directors, and schedule B focuses on

the disclosure of corporate governance arrangements (Abidin, Haseeb, Chiat, & Islam, 2018).

3. METHODOLOGY

This paper employs the mixed method of research methodology, qualitative and quantitative research methods. The researcher has confidence using these quality data to generate and contribute to the quality finding for the research study. There are 120 respondents set for the population, and all respondents are obtained and collected through non-probability sampling strategy.

4. RESULTS

The demographic variable and information are the basic and personal information that may give impacts on the reliability and accuracies of findings.

Table 1: Frequency Table of Respondents' Gender

Gender	Frequency	Percentage
Male	22	16.4
Female	112	83.6
Total	134	100.0

Table 3: Distribution of Positions Hold by Employees

Age	Frequency	Percentage
20-25	32	23.9
26-30	33	24.1
31-35	30	23.1
36-40	23	17.2
40-50	9	6.7
Above 50	7	5.0
Total	134	100
Mean	Median	Mode
28.8	24.7	26.0

Table 3: Distribution of Positions Hold by Employees

Positions	Frequency	Percentage
Top Management	14	10.4
Middle Management	27	20.1
Operational	93	69.5
Total	134	100.0
Mean	Median	Mode
1.7	2.9	3

Table 4: Distribution of Qualifications of Respondents

Years	Frequency	Percentage
High School	0	0
Diploma	58	43.3
Degree	49	36.6
Master	26	19.4
Phd/Professionals	1	0.7
Total	134	100.0
Mean	Median	Mode
2	2.8	2

The above table represents the descriptive analysis of the commercials in Malaysia had adopted strict corporate governance in their banking operations. In looking at the number of executive directors and non-executive directors in the board, nearly all employees stated that they have equal numbers of executive directors and non-executive directors, however, certain respondents indicated that their banks have more executive directors than non-executive directors, as they adopt the latest corporate governance policies, as it is required under the new policy.

	Mean	Median	Mode	S.D.
The company has the equal numbers of Executive Directors and Non-Executive Directors.	4.6	5.0	5.0	1.4
The directors are subjected for elections for every two years.	3.8	3.0	4.0	1.8
The board established clear roles and responsibilities in discharging its fiduciary and leadership functions.	3.2	3.0	1.0	1.1
Chairman and CEO of the company are separated persons.	4.6	4.0	5.0	1.7
The board established a nominating committee that consists only of Non-Executive Directors.	2.6	3.0	3.0	1.4
The remuneration system for directors is transparent.	3.9	4.0	4.0	1.2
Independent directors are assessed annually.	3.0	3.0	3.0	1.7
The tenure of independent directors are not more than 9 nine years in cumulative.	2.7	3.0	4.0	1.6
The chairman of the board is not an independent directors	3.1	4.0	4.0	1.6
There is audit committee been established with inclusion of Non-Executive Directors only?	3.3	4.0	4.0	1.6
The board established a sound framework to manage risks.	3.7	4.0	5.0	1.7
The existing corporate governance implemented at the company is effective in identifying and managing risks.	3.4	4.0	4.0	1.6

5. CONCLUSION

The research has been conducted successfully as expected, and there were total 134 sets of research questionnaires having been collected, and data were inputted into the analysis to generate findings for the study. For board establish clear roles and responsibilities in discharging its fiduciary and leadership functions, the results showed that majority of employees are unable to assess whether the board had discharged their fiduciary and leadership functions, respondents provided that it can be clearly seen that powers and authorities are delegated to managers involved in the middle and operational levels. To some extent, it can be concluded that the board of Malaysian commercial banks had adhered to this. This indicated that employees of Malaysian banks contended that their corporate governance implemented is to deal and manage with risks, at least those basic risks such as duties of directors and prevention of manmade errors and mistakes such as internal fraudulent activities. Nevertheless, there was a portion of respondents indicated that they do not know whether the corporate governance is effective in managing risks for banking operations. The finding of this research paper would provide insights to Bank Negara on how Malaysian Banking Industry should be improved in the aspect of risk management practices, enhancing the solidness of the Malaysian banking industry to defend itself for future economic instability and crisis to ensure gradual economic developments of Malaysia. The last but not the least beneficiary of this research study is other researchers. The finding of this paper would provide guidance and data to other researchers who study and research

in the same area as this research does. Other researchers would use the finding of this paper as the references to build their literature backgrounds and uses the data from this study toward their finding and analysis.

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