AN EMPIRICAL STUDY OF RISK MANAGEMENT BEST PRACTICES IN PUBLIC LIMITED COMPANIES IN MALAYSIA

Ahmad Shukri YAZID
Universiti Darul Iman Malaysia, Malaysia

Mohd Rasid HUSSIN
Universiti Teknologi MARA, Malaysia

Ahmad Rizal RAZALI
Universiti Darul Iman Malaysia, Malaysia

Abstract

This empirical study examines the Risk Management 'Best Practices' among the Public Listed Companies (PLCs) of Malaysia. This particular study is the first of its kind for Malaysia, hence its significance. The relevant literature review relates to Risk Management as a structured response to risks, and also Enterprise-Wide Risk Management (EWRM) as a paradigm-shift to the apparent evolution of Risk Management concept in Malaysia. The Canadian experience in terms of their 'Best Practices', and also the study conducted by KPMG, are referred to as the main sources available. The importance of Corporate Governance in relation to Risk Management application and implementation is also emphasized. On the whole, the literature review also highlights the importance of the adoption and eventual implementation of EWRM functions to achieve organizational objectives and performance levels. Apparently, today's global business environment has made international operations more complex in nature with risks becoming more sophisticated. State-of-the-art technology and tools in Risk Management are most desirable to manage today's highly sophisticated risks. It is believed that an integrated Risk Management approach could possibly be used to assist companies and organizations worldwide in risk mitigation. This exploratory study therefore, attempts to construct an appropriate model of Risk Management 'Best Practices', and twenty major corporations listed under the Malaysian Bourse (Bursa Malaysia) were selected. Among the 'Best Practices' found were the need for a top-down approach in terms of Risk Management initiatives, commitment from all parties in managing risks, and inculcation of a good risk culture. Responsibilities of all parties in respect of Risk Management initiatives must be made clear. The need for a Risk Management Framework is undeniably critical, and Risk Management must be well communicated to all staffs within the companies. In order to enhance the Risk

Management program, training must given to all staff from the Board to the low levels. Finally, companies have to separate Risk Management from Internal Audit functions for effective management of risks and overall performance levels.

Keywords: Risk Management, Best Practices, EWRM, TRM, Malaysia

INTRODUCTION

Connotations of Risk and Uncertainty

The concept of risk in terms of its meaning and definition have been widely discussed and debated by scholars and practitioners alike over the past many years. Firstly, there are some arguments on the origin and the meaning of the word 'risk' *per se*. It is interesting to note that the word risk actually derives from either the Arabic word 'risq' or the Latin word 'risicum' (Wharton, 1992) while for Bernstein (1996) and Rosen and Zenios (2001), the word risk comes from the old Italian word 'risicare' which means to dare. Secondly, there is the issue regarding the definition of risk.

Numerous definitions have been associated with the word 'risk' itself. The definition of risk normally describes an 'unexpected or unintended outcome and bad or good outcome which is based on the chances of the occurrence/outcome' (Dorfman, 1998), Harrington & Niehaus (1999), Rejda (2001), Theil & Ferguson (2003), Treischmann, Hoyt, & Sommer (2005).

On the other hand, Merna and Al-Thani (2005, p.9) contend that "the word risk is used to imply a measurement of the chance of an outcome, the size of the outcome or the combination of both". It can be "reduced and controlled when loss becomes more accurately predictable" (Gahin, 1971, p.313).

However, in most situations, the term risk has been used interchangeably with the word 'uncertainty.' Even though there seems to be some similarity, they actually serve a different meaning. For example, Rejda (2001) used the term 'uncertainty' to explain the risk.

In one article, Kloman (2000) explained that uncertainties exist especially in decision making where there is uncertainty about outcomes and when the decision can be measured, then it becomes a form of risk. It is therefore, highly important to note that the probability of risk actually exists under conditions of risk and not under conditions of uncertainty (Frame, 2003).

Cassidy, Goldstein, Johnson, Mattie and Morley (2001) together defined risk in three

broad perspectives. Firstly, risk as a form of hazard represents the traditional perspective of Risk Managers. Secondly, risk as a form of uncertainty seems to be the view or perspective of Chief Financial Officers and Line Managers who are responsible for the entire operations of the companies. Thirdly, risk as a form of opportunity is a perspective of the Senior Management and the Planning Staff who are responsible for the external elements of risk.

Such a definition indicates that the perception and scope of risk have changed whereby risk is not only being defined and viewed as hazards and uncertainties, but also as opportunities, hence the negative and positive aspects of risk. But, it is important to note that it is the negative aspect of risk that people tend to avoid.

A final point to note is that till to date, there is neither consensus nor agreement by all parties involved or interested in the field of Risk Management in terms of the right or best definition of risk *per se*. But, it may be deemed acceptable that risk does contain the element of uncertainty which in turn relates to the doubt in one's mind in his/her ability to accurately predict the future, which has always been unknown to mankind on the whole.

This is perhaps the dynamism of risk which not only brings about uncertain outcome but in certain circumstances undesirable outcomes in terms of surprises which tend to catch many companies and organizations off-guard at times. It must be emphasized that major crises that happened to various companies and organizations were those entities which are managed by so-called professionals with attitudinal problem who tend to underestimate the potential impact of risk that could lead to eventual bankruptcy. Thus, awareness, knowledge and understanding of risk are essential attributes for better or effective management of risk. Inversely, ignorance of risk in essence is a form of risk in itself.

Nevertheless, despite the unfavorable nature of risk, given the circumstances and the situations that the companies are in, if the opportunities and returns are more attractive and alluring, people who are risk takers tend to accept the risk more willingly (William, 1996). On the other hand, all companies do face various forms of risk and uncertainty in their daily operations with the element of risk bringing about implications which can either be negative or positive in nature (COSO, 2003).

A New Paradigm of Risk Management

However, in today's modern environment with a new paradigm of Risk Management, companies have to carefully consider and manage all forms and sources of risk, regardless of their types and whether or not they are favorable. Among the types of risk exposures are the ability to improve company returns through value-based management in-

cluding the ability to enhance capital allocation, protect the company's image and reputation, achieve a standard of best practices, understand and carefully evaluate strategic risks, understand the full range of risk facing companies and organizations today, avoid personal liability (the personal fear factor), comply with corporate and governance standards, handle potential crises and the capability of business recovery, and maintain continuous business protection and ultimate security of the shareholder value.

Another important observation is the complexities of today's global business environment which undoubtedly brings about change in terms of risk being perceived, notably so when risk is now considered and managed in a portfolio-bias in order to create value. Thus, Risk Management in turn has been recognized as a vital component for companies in order to achieve eventual success. Such a view is well supported by a statement made by Crockford (2005, p.5) which emphasizes that "risk can be considered as a function of change, and Risk Management may thus be described as a technique for coping with the effect of change".

In essence, there are five basic steps in the Risk Management process, a view shared by most authors (Waring & Glendon, 1998; Harrington & Niehaus, 1999; D'Arcy, 2001; Rejda, 2001; Theil & Ferguson, 2003; Treischmann et al., 2005). These steps include risk identification, risk measurement, examination of alternative Risk Management techniques, selection of the appropriate Risk Management technique and finally implementing the Risk Management program.

However, the Risk Management concept that has been widely adopted relates to the traditional concept of managing risk exposures by companies and organizations in different sectors of industry and commerce. The Traditional Risk Management (TRM) concept however, is being perceived as an approach which is rather limited in terms of scope and application. Such a concept appears to be lacking in terms of total integration and that risk exposures are being managed in silos hence the incompleteness of such an approach (Lam, 2000; Davenport & Bradley, 2001; Ernst & Young, 2001; Barton, Shenkir & Walker; 2002).

In lieu of the TRM concept which seems to focus more on matters relating to safety and security rather than value creation, a new concept of increasing popularity emerged in the name of Enterprise-Wide Risk Management (EWRM). Such a new concept appears to be a new approach which ensures that risks are being managed on an enterprise-wide basis.

Because of the gradual realization of the shortcomings of traditional Risk Management capabilities especially in today's environment of risks, many companies are adopting the integrated Risk Management approach which provided the link to organizational

vision, mission, and strategies (Whitfield, 2003). But the pull-factor is more in terms of corporate requirement and compliance by virtue of Corporate Governance whereby risk is a vital component that must be addressed in relation to corporate responsibility and accountability.

Despite such a claim in terms of the effectiveness of EWRM as a state-of-the-art technique and a paradigm-shift in Risk Management, still, there seems to be a cloud of skepticism and procrastination among non-PLCs in various industries in other sectors to adopt EWRM. This is due to the fact that many of such companies and organizations have long adopted the TRM approach and thus, are more familiar and comfortable with TRM as a structured response to risks.

EWRM Program Implementation

According to Waite (2001), at the Organizational Level of Risk Management Responsibility, it is the Board of Directors (BoDs) which sets the corporate/organizational policies and initiates the EWRM Program. The BoDs also identifies the Critical Success Factors (CSFs) and seeks regular assurance on the effectiveness of the Internal Control System available within the company/organization.

On the other hand, management implements corporate policies on risk and control by designing the Monitoring System of Internal Controls. Thus, it is highly important to note that the successful implementation of EWRM Program on the whole highly depends on the efficiency and effectiveness of the Management of the company/organization itself.

In turn, it is the employees' responsibilities for the daily operation of the Internal Control System for the entire company/organization. At the bottom level staff, the fellow employees/workers also play an equally important role in respect of EWRM implementation. It must be emphasized that EWRM in essence, is not just about responsibilities. It is primarily about the way people work and the how they relate to the strategy and growth in order to achieve the company's objective (Pickett, 2006).

It is also important to note the underlying concept of EWRM is to enhance shareholders/stakeholders value and this relates to each type of organization whether profit, non-profit, or government agency, in providing value for its stakeholders (COSO, 2003). This had been stressed in the definitions of EWRM and in the EWRM concept itself. Miller (1992), Deloach (2000), Stroh (2005) and Panning (2006) all agreed that the function of EWRM is to drive value creation, in terms of financial and non-financial aspects.

In essence, this new paradigm and perspective of Risk Management is considered to be quite a rigorous approach, which is sometimes associated with different terms or titles such as Integrated Risk Management (IRM), Holistic Risk Management (HRM), Global Risk Management (GRM), Strategic Risk Management (SRM) or Enterprise Risk Management (ERM). Although the terms or titles or even ideas appear similar, the focus and emphasis are somewhat different.

An interesting account is provided by Young and Tippins (2001, p.16) who asserted that although the terms or titles convey a quite a similar idea, closer examination actually discloses some remarkable differences. They pointed out that the ideas of Enterprise Risk Management and Strategic Risk Management are heavily influenced by Financial Risk Management theory and practice whereas the Global Risk Management and Holistic Risk Management views are much broader and contradict the TRM approach which focuses more on the functions of insurance buyers.

In some circumstances, the Integrated Risk Management (IRM) and EWRM terms are being used interchangeably. Deragon (2000) revealed the difference between Integrated Risk Management (IRM) and EWRM based on his observations and interviews. He suggested that the primary focus of Integrated Risk Management (IRM) is on the structure of a risk financing plan, whilst the EWRM concept is broad where it focuses on the organization's management approach in terms of functions, processes, interrelations and customers.

The discussions brought up by the above literature suggest that Enterprise-Wide Risk Management is the proper term to express the new trend of Risk Management concept. Such a term is being adopted by Public Limited Companies (PLCs) but the concept has yet to be widely adopted by the various types of businesses and industries. Whilst EWRM stresses managing all types of risks that affect the organization's operational process and performance, this increasingly popular concept ensures that risks are addressed in totality and holistically across the board from the organizational perspective.

Risk Management Best Practices

In a study of trends and emerging practices of EWRM, Miccolis et al. (2001) found that EWRM programs tends to be adopted by larger companies and organizations. These entities are publicly listed companies and multinational companies. Tillinghast-Towers Perrin (2002) identified that by having the EWRM framework, namely a Chief Risk Officer (CRO) and EWRM Committee, these are the signs or indications of EWRM adoption within the companies and organizations.

With regard to EWRM implementation, the Casualty Actuary Society (2001) found that

vendors which include brokers, agents, consultants, and similar parties, are more familiar with the concept of EWRM compared to others in various other sectors including those in the insurance industry. The Casualty Actuary Society found that people within the Professional Grouping which includes professionals such as actuaries, accountants, brokers, financial analysts, risk managers and underwriters are mostly involved in EWRM. Interestingly, the study also discovered that the financial service industry applied EWRM skills beyond the insurance industry itself. Equally interesting, the EWRM concept and practices in the banking industry were also found to be much more advanced than in the insurance industry (Scordis, 2003).

It is rather obvious that different companies and organizations do have special implementation strategies in managing their risk exposures. In this respect, the word "best practices" illustrates the way of finding the finest way(s) in mitigating such risk exposures faced by these companies of different types of background and business activities. For this, Hillson (2004) proposes that the term 'best practices' relates to the following aspects:-

- *"Routine activities that lead to excellence"*
- *Not "what everyone does"...but "what everyone should do"*
- *Accepted by leading professionals*
- *Implemented by leading practitioners*
- *Widely accessible*
- *Scalable, easily tailored or modified*

There are other views with regard to 'Best Practices' definitions. For example, Zecher and Putnam (2001) state that 'Best Risk Management Practices' is about creating a corporate culture that manages for risk-adjusted performance and that corporate culture itself cannot be mandated as it evolves from Leadership at the top. A joint definition from PMN-KPMG (1999) put forward that a 'Best Practice' would be a strategy, approach, method, tool or technique that was particularly effective in helping the company or organization achieve its objectives for the management of risks. A 'Best Practice' would also be one that is expected to be of value to other companies and organizations. From the above definitions, it can be summarized that the term "Best Practice" itself explains how to find the finest way in managing and mitigating the multiple risks faced by companies and organizations. It must be set through a standard framework that would be acceptable, easy to understand, flexible, practical and effective, and also importantly, has value to the stakeholders and companies/organizations on the whole.

Elements of Best Practices

Zecher and Putnam (2001) strongly suggest that 'Best Practices' start from the Chief Executive Officer (CEO). In this regard, they highlighted five essential elements that

should be implemented in 'Best practices' of any company or organization. These elements are:-

- CEO must know how to be an effective Risk Manager in respect of Risk Management, because good Risk Management is the core feature for long-term survival of the company or organization;
- CEO needs to concentrate and stay focused on the company's Risk Management objectives and how such objectives should be well implemented;
- CEO needs to set up the Risk Management objectives for the client service functions by understanding and controlling the Risk Management portfolio and investment opportunities;
- CEO should use the latest technology and technical-know-how for data security, IT risks, and overall management flow process. It is not necessary to upgrade the current technology available to the latest technology gadgets but what matters is the ability of the company or organization to meet such standards in managing risk at the very reasonable cost possible;
- CEO must set an agenda for each functional area as stated above.

An interesting point to note is the Canadian experience. Creating and sustaining a mature Risk Management environment was one of the crucial components of modernizing comptrollership as recommended in the 1997 Report of the Independent Review Panel on Modernization of Comptrollership for the Government of Canada.

To enable such an environment, the Treasury Board Secretariat (TBS) together with the federal departments and other interested parties, successfully developed a results-oriented approach to Risk Management to help employees better understand, manage and communicate risk and the related choices - a modern, integrated approach. As the basis for this work, background research on 'Best Practices' in Risk Management was required in the Canadian private sector and provincial public sectors, and also in the private and public sectors internationally.

In view of the above, a 'Best Practices' Framework was used to focus discussions with participating organizations. Such a framework contained a list of suggested strategies where 'Best Practices' would be expected to be of common interest to a variety of organizations. This particular study was conducted in close collaboration with a study of International Best Practices in Risk Management, and a Coordinated Conclusions Report was jointly issued by the two studies.

At least twenty-one 'Best Practices' were identified and all have value and relevance for the Canadian Federal Government. The strategies set out in the 'Best Practice' Framework are logically associated with developing a new initiative. Grouping by strategy element was therefore considered a good method for presenting and analyzing the best

practices.

For this purpose, organizations at the front end or somewhat progressed in their Risk Management initiative will be able to readily reference the best practices most relevant to their stage of development. The groupings are presented in two categories namely, Structural Strategies and Implementation Strategies, each with several equally important variables.

The following 'Best Practices' were identified by two or more organizations interviewed and are therefore seen to have significance:-

- Commitment from the top;
- Face to face workshops for developing senior management support;
- Targeting "natural fit" areas;
- Risk/Control Self-Assessment sessions;
- "Learning by doing" method of training and support;
- Risk perception and risk communications; and
- Clearly defining "risk" *per se*.

It is therefore worth mentioning that from a concurrent TBS study of Risk Management practices in federal departments; "cultural change" was frequently identified as the foremost challenge in moving toward a mature Risk Management environment. Nevertheless, other variables are also identified as equally important to the overall implementation of Risk Management 'Best Practices' within the organization, and include the following:-

- A Management Drive towards a more systematic management of risk which undoubtedly makes a lot of sense
- Benefits are there even though they are intangible and not easily measured
- Leadership and Support must be visible
- Develop Competency first
- Care must be taken in defining and explaining Risk
- On-going Investments are necessary

METHODOLOGY

The primary objective of this particular study is to examine the Risk Management 'Best Practices' among the Public Listed Companies (PLCs) in Malaysia. This empirical study is the first of its kind in Malaysia. Such a first time study focuses on the 'Best Practices' approach in mitigating risks by the companies involved in the survey. A qualitative approach (including personal interviews) was adopted and reference was also made to available annual reports. In order to ensure this research is in line with the objectives,

the following features explain the methodology used, with some relevant criteria in selecting the participants for this study.

Research Criteria

The main criteria set for selecting the twenty companies for this research work are as follows:

- The companies selected meet the diverse varieties of Main Board companies in the Malaysia Bourse [formerly known as Kuala Lumpur Stock Exchange (KLSE)]. Such diversities include:
  a) Consumer products
  b) Industrial products
  c) Trading and services
  d) Construction
  e) Property
  f) Mining
  g) Plantation
- These companies comply with some criteria of major corporations as defined by Yazid (2001), whereby these companies have branch(s) or subsidiary(s) overseas or joint ventures with overseas partners
- These companies are exposed to several risks, which include strategic risks, operational risks, credit risks, and market risks
- These companies are more likely to respond to the survey
- These companies have good reputation and are well established
- Data on these companies is easily obtainable.

Data Collection

For the purpose of this study, data was gathered through:

- ***Annual reports***
  The annual report seems to be the best way to obtain true and fair information. It provides a true account of the company's structure and organization such as the nature of business, annual turnover and Risk Management approach, in order to maximize shareholders' wealth.
- ***Personal interviews***
  Industry surveys which include personal interviews were conducted based on the twenty companies selected. Personal interviews were undertaken in order to ensure that all relevant information gathered are valid, non-biased and reliable in terms of accuracy and reliability. Risk Managers for these companies were selected to reduce bias in information.

As a guide for interview sessions, an interview script was developed in a structured format. Questions were split into two major parts and each part was divided into sub-categories. A summary of explanation for every part is described below:-

Part A:	Practices for integrating Risk Management into the Corporate Framework of a company/organization.
Part B:	Practices for disseminating and integrating Risk Management throughout the entire company/organization.

FINDINGS

Risk Management as a structured response to risks is expected to be widely accepted and applied industry-wide since the implementation of the Malaysian Code of Corporate Governance (MCCG). Since the introduction and eventual implementation of MCCG, Risk Management as a discipline has become increasingly important and more so among PLCs.

Corporate Risk Management Strategies

This section reports the 'Best Practices' of Corporate Risk Management strategies which were gathered from the Personal Interviews through the Industry Survey.

Commitment and Risk Management Culture

It must be emphasized that the message and direction for implementing the Risk Management program should actually come from the highest level of the companies' organizational hierarchy namely, the Board of Directors. Strong commitment of the Board is very important and highly critical to ensure the successful implementation of the Risk Management program.

Obviously, Risk management initiatives do take up lots of resources. Therefore, it is important for the Board to have the right attitude in the first place and secondly, attempt to carefully understand and eventually appreciate the notion that Risk Management could possibly add value to their companies.

An important point that needs to be highlighted is that the 'Risk-Conscious Culture' among employees on the whole has to be developed within companies. For this, 'management buy-in' is vital. Only when the top management is receptive to the whole idea

of Risk Management, will the onward implementation of the Risk Management program be successful. In view of this, the perception and attitude of those personnel in the top management group is vitally important. In addition, the attitude of all staff towards risks is also crucial in ensuring that risks are well managed throughout the entire business operation.

It is interesting to note that some companies actually indicated that establishing the appropriate culture is perhaps more important than developing policies or framework. But, a note of reminder is that if the staffs on the whole are more concerned with risk then they should be well trained and better prepared to manage the various risk exposures of their corporate entities.

Some of the 'Best Practices' found in the study are as follows:-

- Board members are willing to allocate a considerable amount of money and human resources to ensure the successful implementation of Risk Management
- Committees were set-up at various levels throughout the companies to handle risk and insurance related issues
- All staffs are aware of the existence of risks throughout the company's daily operation.
- The risk-conscious culture among staffs seem prevalent
- Management do spend more time and money to train and develop the right work ethics and good attitude among staffs to ensure the successful implementation of risk management initiatives.

Risk Management Objectives and Values

Objectives

Before implementing any Risk Management program, a company has to be clear about the objectives of Risk Management. These objectives are essential as they assist the company in deciding the resources which are required for the purpose of risk mitigation. From the interviews conducted during the industry survey, some of the objectives that have been highlighted by the respondents are as follows:-

a) to ensure that company's assets and resources are safeguarded;
b) to maintain the company's reputation and integrity;
c) to optimise company's return and minimise impact of future losses, and subsequently protect shareholders' interest;
d) to meet regulatory requirements;
e) to improve strategic competitiveness and operational effectiveness that would enhance the long term value of shareholders;
f) to fulfil the company's strategic objectives;

g) to identify and manage risks in a structured manner within the entire company;
h) to strengthen Risk Management approaches and capabilities;
i) to provide reasonable assurance against material misstatement or loss;
j) to promote a more innovative, less risk-averse culture in which the taking of calculated risks in pursuit of potential opportunities will benefit the company on the whole.

It is important to note that on the whole, the companies involved do have most of the objectives above. These Risk Management objectives just mentioned could be considered appropriate and extremely useful in relation to the companies' 'Best Practices' available. Any company for that matter should have some of these objectives incorporated in order to justify the Board of Directors of the importance of Risk Management being integrated within the Corporate Framework.

Risk Management is not just seen as one of the requirements of the Malaysian Bourse (Bursa Malaysia) or the Malaysian Corporate Code of Governance. In fact, Risk Management could possibly add value to a company (Smithson and Simkins, 2005). The companies involved in the Risk Management Survey believe that practicing Risk Management in a more structured manner will enable them to achieve their Key Performance Indicators (KPIs) and objectives. Besides that, Risk Management would increase quality, accuracy and integrity of information for decision making. Thus, the value of Corporate Risk Management should be shared among all employees in a company, irrespective of their position.

Values

Some companies define the value of Risk Management through both non-quantifiable and quantifiable aspects. The non-quantifiable aspect covers a company's image and reputation whereas; the quantifiable elements could be defined in terms of monetary value. On the other hand, a few companies define values as the ability to effectively manage uncertainty and change, thereby creating opportunities that would eventually enhance the shareholders' value.

The value of managing risk is apparent in view of the fact that companies are better informed, more decisive and pursue growth opportunities with increased confidence. This is necessarily true because the companies are able to identify the potential risks and mitigate them on a holistic or integrated approach.

These values ought to be communicated to various parties and levels throughout the entire company. Thus, it is interesting to note that some of the methods highlighted during the interview sessions are as follow:-

- Companies could have periodic risk sessions with senior or middle management levels;
- A monthly bulletin or newsletter could be issued and circulated within the entire company to ensure that all parties concerned are fully aware about risks facing the company;
- A risk advisory services intranet website is also a good method to convey the Risk Management message to all staff in the company. The use of computer technology could be considered as an efficient way to communicate the company's Risk Management program to all levels of staff;
- A better way to communicate the values of managing risk is through the effective Standard Operating Procedure statement of internal control, which at the same time ensures that all policies and procedures are in place and subject to consistent review by the group internal audit. Perhaps this could be considered as the 'Best Practices' in communicating values of managing risk to all parties involved in the company.

Responsibility for Managing Risk

In order to examine the responsibility for managing risk, we have to firstly examine the role of all parties concerned within the entire company. Such parties include the Board of Directors, Risk Management Committee, Chief Executive Officer/Managing Director, Head of Units and also the Risk Managers.

Firstly, the study examines the primary role and responsibilities of the Board of Directors. Usually the Board is held responsible for setting up the appropriate policy for managing risks. In addition, the Board members are also responsible for setting the company's risk appetite and tolerance levels.

Secondly, the role of the Risk Management Committee is being examined. The committee has an important role to play too, that is, to provide an insight into the Risk Management program on the whole. In addition, the committee is responsible for overseeing the procedures and practices in order to identify, evaluate, mitigate and monitor all the potential risk exposures facing the company. At the same time, they have to advise management on the resources and internal controls which are required to mitigate risks. Finally, they have to report regularly to the Board with regard to risk related issues.

Thirdly, the study attempts to determine the role and responsibility of the Chief Executive Officer (CEO) or Managing Director (MD). The CEO or MD has to report to the Risk Management Committee and to the Board on all Risk Management activities. They have to report on the status of all risk mitigation actions carried out within the entire company. In addition, they have to increase the level of awareness and compliance cul-

ture throughout the company.

Fourthly, the role of the Heads of Units/Sections/Divisions is examined. They are also responsible for identifying, evaluating and managing all potential risks at the unit level and for bringing to the management attention any high impact risks. They have to ensure that everyone in the units/sections/divisions understand Risk Management and be extremely clear with regard to the extent of the individual employee's responsibilities in managing risks.

Finally, the study examines the role of Risk Managers. They are the ones who work with other managers in establishing and maintaining effective Risk Management in their areas of responsibility. They have to monitor the entire progress of risk mitigation actions within the company and also assist other managers in reporting relevant risk information to the management.

Risk Management Process

Risk Management Framework

For some time companies have managed risks but there was no structured approach in doing so. Currently, companies seem to use a more structured approach in dealing with risks. In this respect, most companies tend to have a framework for managing risks. Some of the companies used AS/NZ framework while some use the Committee of Sponsoring Organisations (COSO) framework. However, there are other companies which apply a combination of these two approaches and evolve their own standard.

The Risk Management framework is important because it spells out the policy, objectives, risk identification and assessment methodologies, risk response and mitigation strategies, monitoring procedures, responsible parties and reporting structure. The framework needs to be presented to the Board for approval.

Risk Champion

It is interesting to know who in a company actually provides the leadership or champions the Risk Management initiatives. Findings show that several parties in a company champion the management of risk. A number of companies interviewed suggested the Chief Executive Officer (CEO) or Managing Director (MD) who actually leads the Risk Management initiatives.

Interestingly, other companies that responded suggested that the Head of the Risk Management unit actually provide the leadership required in Risk Management. A few com-

panies suggested that the Risk Management committee leads the Risk Management activities.

However, in the 'Best Practices' model, someone must lead the company's Risk Management initiatives and activities. It does not matter who actually does the job. But, it is important to have someone within the entire company or organization championing the cause so that risks can be dealt with effectively in ensuring the ultimate survival of the company whilst at the same time enhancing shareholders' value.

Risk Communication

It is very important for the Board and Management to cascade the Risk Management down throughout the company. Normally, this is the task and responsibility of the Chief Executive Officer (CEO) who instructs the Risk Manager to convey the same message to other staffs in the respective units. In this manner, it is expected that a good Risk Management culture would be developed eventually if all parties in the company understand thoroughly the values and benefits of Risk Management as an added-value tool for organizational performance.

One interesting finding from this study is that all initiatives under the Risk Management program are translated to the Key Performance Indicators (KPIs) of every individual executive officers and monitored through the performance planning appraisal method. Even though this is not a common practice yet among the Malaysian PLCs, it is something that each company would expect to do.

Examples of good communication within the company are as follows:-

- Monthly meetings at various levels of the company to monitor the Risk Management program and to discuss possible ways of ensuring that the supporting staffs also understand Risk Management;
- Head of Units are responsible in conveying all messages pertaining to risk related issues to all staff in the respective units of the company or organization.

Risk Management Software

Technology could help companies in running their daily operations. In this respect, computer software could be used by companies in undertaking all Risk Management activities. Importantly, software could be used to provide some useful indicators of the company's potential risk exposures. Companies usually buy Risk Management software available in the market.

However, there is one problem in using the software publicly available, because the software is usually in standard form. Since companies and organizations are different in terms of their background and nature of business activities, they are therefore exposed to different kind of risks. In view of this, it is therefore better for them to develop their own Risk Management software. This is the typical case in Malaysia whereby some companies tend to develop their own software.

Risk Management Training

When companies first started Risk Management activities, they hired Independent Risk Management consultants to do the job. The consultants provided the expertise in designing a Risk Management Framework. They also provided relevant training to staffs who are directly involved. Now, later, most companies conduct their own training program. To the middle managers and supporting staffs, training is considered to be extremely important.

During the training sessions, the management have the opportunity to convey the corporate message in relation to the company's Risk Management policy to all staff concerned. The management could also provide further understanding of Risk Management initiatives.

Thus, communication is found by the respondents as one of the key variables in ensuring that the staff on the whole are truly aware and understand the Risk Management initiatives carried out by the company. Once all staffs begin to appreciate and understand better what Risk Management is all about, then the process of implementing Risk Management and at the same time inculcating the Risk Management culture will be a follow-through process with minimal resistance by the fellow employees at every level.

Role of Internal Audit

Findings also showed that Internal Control is another management function that needs to be considered in a 'Best Practices' model. It is argued that the role of Internal Auditor and Risk Manager should be complementing each other (Lam, 2003). Usually, the Risk Management unit provides the risk profiling report to the Internal Auditor.

The Risk Management Framework and Guidelines together with the Work Procedure Manual are part of the materials being audited by the Auditor concerned. The findings of the Auditor are very important to ensure that the staffs actually follow the Risk Management Framework and Guidelines, thus protecting the interests of the company and shareholders. In addition, the Internal Auditor provides independent assurance that all Risk Management related activities are properly performed.

The role of Internal Auditor could be summarised as follows: (a) to provide assurance on the Risk Management activities, (b) to complement the Risk Management function, (c) to focus on auditing the significant risks as well as the Risk Management process throughout a company, (d) to co-ordinate risk reporting to the Audit Committee and the Board of Directors.

However, feedback from the respondents involved in the industry survey revealed that some companies actually placed the Risk Management functions under the Internal Auditor. In such cases there appears to be some overlapping in terms of the role played. Ideally, these two functions need to be separated to ensure that both parties concerned play their respective roles effectively.

CONCLUSIONS

This study provides an insight into the appropriate model of Risk Management 'Best Practices' that should be followed by PLCs in Malaysia. Such a model could be a useful guideline as it reflects the ongoing practices of these Public Listed Companies as far as Risk Management is concerned.

The Risk Management framework and policy is a must for any company that is engaged in Risk Management activities. The framework could provide the necessary guidelines for the management to follow. Furthermore, the framework and guideline make it easier for the management to convey all necessary Risk Management messages to other parties in the company.

Findings from this study also show that commitment and support from the top management must be made clear to all parties concerned. The respondents involved in the survey strongly suggested that the Management must demonstrate their concern on Risk Management issues. Importantly, they have to develop and promote an environment of support and be more conscious about risks. An acceptable risk culture should be developed in the Public Limited Companies.

The respondents surveyed also suggested that all Risk management activities which are being carried out by companies should be structured and ought to assist them in minimising future expected losses. Companies should be able to appreciate the justification of adopting and implementing Risk Management as it undoubtedly adds value to the company and shareholders. The respondents asserted that Risk Management should not be done just for compliance purposes only.

Another interesting finding is that all respondents agreed that Risk Communication is a

key feature for the eventual success of implementing Risk Management program and initiatives within the entire company. Companies must be able to cascade down all Risk Management messages and initiatives to all levels of employees. Failure to communicate effectively the Risk Management initiatives to all employees would result in negative feelings or resistance.

The findings also show that the appointment of Chief Risk Officer (CRO) or the Risk Manager is also another critical factor in the 'Best Practices' model. In addition, the respondents surveyed strongly asserted that any person within the company who is directly responsible for the set-up of Risk Management program and eventual undertaking of all Risk Management activities must possess the relevant Risk Management background in terms of qualifications and expertise.

Thus, the respondents agree that Risk Management is highly essential in determining the effectiveness of the company's overall performance and that someone qualified in Risk Management with the relevant expertise should be the right person handling the job. But, having the right personnel alone does not guarantee success or effectiveness of the company's overall performance.

In view of the above, the respondents surveyed strongly suggested that the top management should be the first party to be receptive to the whole idea of adopting and implementing Risk Management for the company. Otherwise, it would be a meaningless endeavour.

An important point is that the Risk Management 'Best Practices' framework could possibly be refined into a Management of Risk Framework. In turn, such a framework would provide useful guidance to respective departments within the entire company or organization on how to address the Risk Management process implications and Corporate Strategy implications.

Other important findings reveal that the advantages and benefits are there although they are not easily measured when companies decide to implement a Risk Management program. Equally important, the respondents agreed that people, namely the staffs on the whole, together with systems and processes are valued as the current foundation for the company to move towards a more systematic management of risks.

Thus, this particular study affirms the confirmation that Risk Management actually improves the level of company performance and at the same time enhances shareholders value. All the respondents agree that the benefits are there although they are intangible and not easily quantifiable. An important point to note is that all respondents involved in this study agree that the availability of Risk Management framework and initiatives

within their companies actually provides them with the level of confidence required in managing their risk exposures effectively.

REFERENCES

Barton, T.L., Shenkir, W.G., & Walker, P.L. (2002). *Making enterprise risk management pay off: How leading companies implement risk management.* New Jersey: Financial Times/Prentice Hall PTR, Pearson Education, Inc.

Bernstein, P.L. (1996). *Against the gods: The remarkable story of risk.* New York: John Wiley & Sons.

Bursa Malaysia Securities Berhad. (2004). *Best practices in corporate disclosure.* Retrieved February 16, 2005, http://www.klse.com.my.

Cassidy, D., Goldstein, L., Johnson, S.L., Mattie, J.A., & Morley, J.E. (2001). *Developing a strategy to manage enterprise wide risk in higher education.* Retrieved Mar 16, 2006 http://www.nacubo.org/institutional_effectiveness/white_paper/enterprise_risk.pdf.

Casualty Actuary Society. (2001). *Survey on enterprise risk management.* Casualty Actuarial Society.

COSO. (2003). *Enterprise Risk Management Framework: Draft.* Retrieved September 17, 2005, http://www.enterprise_wise_risk_management+&De+Loach+html.

Crockford, G.N. (2005). The changing face of risk management. *The Geneva Papers*, 30, 5-10.

D'Arcy, S.P. (2001). Enterprise risk management. *Journal of Risk Management of Korea.* 12(1). 207-228.

Davenport, E.W., & Bradley, L.M. (2001). Enterprise risk management: A consultative perspective. Retrieved August 28, 2005, http://www.casact.com.

David Hillson. (2004). "Risk Management: best practice & future developments". Slide presentation: www.risk-doctor.com/pdf-files/rm1003.pdf.

Deloach, J.W. (2000). *Enterprise-wide risk management: Strategies for linking risk and opportunity.* London: Financial Times, Prentice Hall.

Dorfman, M.S. (1998). *Introduction to risk management and insurance.* Prentice Hall.

Ernst & Young. (2001). 2001 *Risk Management Guide from theory to practice: Evolving your organization's risk management.* Insurance and Actuarial Advisory Services.

Frame, J.D. (2003). *Managing risk in organization: A guide for managers.* United States of America: Jossey-Bass.

Gahin, F.S. (1971). Review of literature on risk management. *The Journal of Risk and Insurance*, 38(2), 309-313.

Harrington, S.E., & Niehaus, G.R. (1999). *Risk Management and Insurance.* McGraw-Hill.

Hillson, D. (2006). Surveying the risk management Universe - Where are we now? In Hillson, D (Ed.), *The risk management universe: A guide tour* (p.1-9). London: British Standards Institution.

Hussin, M.R. (1996). *An examination of responses to risk in ASEAN Industry and Commerce.* PhD thesis. Glasgow Caledonian University, Glasgow, Scotland, United Kingdom. London: British Library.

KPMG. (1999). Best Practices in Risk management: Private and Public Sectors Internationally.http//:www.tbs-sct.gc.ca/rm-gr/site/altformatnotice.aspx?Language=EN&id=959&fid=17.

Kloman, H.F. (2000). An iconoclastic view of risk. *Risk Management Report*, 27(2). Retrieved July 23, 2005, http://www.riskinfo.com.

Lam, J. (2000). Enterprise-wide risk management and the role of chief risk officer. eRisk. March, 1-5.

Lam, J. (2003). Enterprise Risk Management. New Jersey: John Wiley & Sons, Inc.

Manab A. N, Hussin M.R., Kassim I. (2006). *Enterprise-Wide Risk Management (EWRM) Implementation and Compliance among Public Listed Companies (PLC) in Malaysia.* Paper presented at the Asia-Pacific Risk and Insurance Association (APRIA) 10th Annual Conference, 30 July - 2 August 2006, Meiji University, Tokyo, JAPAN.

Merna, T., & Al-Thani, F.F. (2005). *Corporate Risk Management: An Organizational Perspective.* London: John Wiley and Sons.

Miccolis, J.A., Hively, K., & Merkly, B.W. (2001). *Enterprise risk management: Trends and emerging practices.* Florida: The Institute of Internal Auditors Research.

Miller, K.D. (1992). A framework for integrated risk management in international business. *Journal of International Business Studies.* 23(2), 311-331.

Panning, W.H. (2006). Making ERM happen. *Best's Review*, 106, 88.

Performance Management Network - KPMG. (1999). "Review of Canadian Best Practices in Risk Management: Summary of Findings". www.tbs-sct.gc.ca/rm-gr/site/altformatnotice.aspx?Language=EN&id=960&fid=17.

Pickett, K.H.S. (2006). *Enterprise risk management: A manager's journey.* New Jersey: John Wiley & Sons, Inc.

Rejda, G.E. (2001). *Principles of risk management and insurance*, (7th ed.). New York: Addison Wesley Longman.

Richard Zecher and Bluford Putnam. (2001). "Best practice begins with CEO". Global Investor. London: Jun 2001., Iss. 143; pg.46.

Rosen, D., & Zenios, S.A. (2001). *Enterprise-wide asset and liability management: issues, institutions, and models.* Nicosia, Cyprus: HERMES Center of Computational Finance & Management, University of Cyprus.

Scordis, N. (2003). Emerging trends in risk management: From the insurer's perspective. *Review of Business*, 24(3), 5-8.

Smithson, Charles and Betty J. Simkins. (2005). *Does Risk Management Add Value? A*

Survey of the Evidence. Journal of Applied Finance Vol 17, No. 3.

Stroh, P.J. (2005). Enterprise risk management: At Unitedhealth Group. *Strategic Finance*, July: 27-35.

Theil, M., & Ferguson, W.L. (2003). Risk management as a process: An international perspective. *Review of Business*, 24, 30-35.

Tillihghast-TowersPerrin. (2002). *Enterprise risk management in the insurance industry: 2002 benchmarking survey report.* Retrieved March 24, 2005, from http://www.tillinghast.com.

Treischmann, J.S., Hoyt, R.E., & Sommer, D.W. (2005). *Risk management and insurance*, (12th ed.). Ohio: Thomson Learning.

Waring, A., & Glendon, A.I. (1998). *Managing risk: Critical issues for survival and success into the 21st century.* London: International Thomson Business Press.

Wharton, F. (1992). Risk Management: Basic Concepts and General Principles. In J. A. F. Wharton (Ed.), *Risk Analysis, Asessment and Management* (pp.1-14). New Jersey: John Wiley & Sons.

Whitfield, R.N. (2003). *Managing institutional risks: A framework.* PhD Dissertation, University of Pennsylvania. Retrieved April 14, 2006, http://www.lib.umi.com.

Williams, C.A., Jr. (1996). Attitudes towards speculative risks as an indicator of attitudes towards pure risks. *Journal of Risk and Insurance*, 33(4), 577-586.

Yazid, A. S. (2001). *"Perceptions and Practices of Financial Risk Management in Malaysia".* Glasgow Caledonian University, Scotland. Ph.D Thesis.

Young, P.C., & Tippins, S.C. (2001). *Managing business risk: An organization-wide approach to risk management.* New York: AMACOM (American Management Association).

Zech, J. (2001). Rethinking risk management: The combination of Financial and Industrial risk. *The Geneva Papers on Risk and Insurance*, 26(1), 71-78.