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# The Impact of Risk Management Committee Characteristics on Firm Performance: Evidence from Non-financial listed Firmson Malaysia Stock Market

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**Abstract:**

This research aims to investigate the association between the characteristics of the Risk Management Committee (RMC) and the financial performance of non-financial companies listed on the Malaysian stock exchange from 2016 to 2018. The size, diligence, training, separation, and gender of the RMC are among the five qualities discovered and applied in this study. There are 576 non-financial service companies in the sample, resulting in 1728 firm-year observations. The strength and direction of the associations in the study were determined using multiple regression analysis. As a consequence, the analysis reveals that RMC size and RMC training are significantly positively associated with the financial performance of the organization. on the other hand, Meeting and RMC separation have a significant negative impact on financial performance. However, RMC gender is not significantly associated with the firm performance of non-financial listed companies in Malaysia. Researchers, corporate executives, policymakers, and regulatory authorities will benefit greatly from the findings of this study.

***Keywords:*** Performance; Risk Management Committee; Audit Committee ;Firm; Malaysia.

***Jel Classification Codes :*** *C22 ; M48.*

**Résumé:**

Cette recherche vise à étudier l'association entre les caractéristiques du comité de gestion des risques (RMC) et la performance financière des sociétés non financières cotées à la bourse Malaisienne de 2016 à 2018. La taille, la diligence, la formation, la séparation et le sexe des les RMC font partie des cinq qualités découvertes et appliquées dans cette étude. L'échantillon compte 576 sociétés de services non financiers, ce qui donne 1728 observations par année-entreprise. La force et la direction des associations dans l'étude ont été déterminées à l'aide d'une analyse de régression multiple. En conséquence, l'analyse révèle que la taille du RMC et la formation du RMC sont significativement associées positivement à la performance financière de l'organisation. d'autre part, la séparation de Meeting et de RMC a un impact négatif significatif sur la performance financière. Cependant, le genre du RMC n'est pas significativement associé à la performance des entreprises cotées non financières en Malaisie. Les chercheurs, les dirigeants d'entreprise, les décideurs et les autorités de réglementation bénéficieront grandement des résultats de cette étude.

***Mots clés:*** *Performance; Comité de gestion des risques ; Comité d'audit ; Cabinet ; Malaisie.*

***Jel Classification Codes :*** *C22 ; M48.*

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## I. Introduction

The inability of numerous institutions around the world to fully align their Risk Management function with their corporate governance practices is leading to massive corporate failures (Berger, Imbierowicz, & Rauch, 2016)Businesses come across several risks in the course of enhancing their financial performance especially in today's changing dynamic environment (Halim, Mustika, Sari, & Anugerah, 2017)Therefore, risk management is the most ideal procedure to be used by corporate organizations to minimize their losses and to control future risks that a firm is likely to encounter (Kakanda, Salim, & Chandren, 2017). Besides, numerous corporate failures around the world especially Enron and Wor1dCom have impaired on the trust shareholders place on auditors. This situation has casted a lot of doubt on the integrity of implementing risk management processes as well as audit committees (ACs) in monitoring function (Bates & Leclerc, 2009).Similarly, the near collapse of several global corporations such as Nokia, Toshiba, and Kodax have led to loss of confidence on members of corporate board, unyielding cost, unstable financial system as well as a general decline in economic activity (Halim, Mustika, Sari, & Anugerah, 2017) (Tuan-Hock, Lee-Lee, & Hishamuddin, 2012).

Several reasons account for these failures. However, the major reason behind these failures could be extreme risk-taking. Therefore, this calls for the need to have an RMC including RMC size, RMC diligence, RMC training, separate RMC, and RMC gender to oversee and implement RM agendas of firms (Tuan-Hock, Lee-Lee, & Hishamuddin, 2012). Besides, RM function is an issue that is critical with much attention on risk activities (Chou & Buchdadi, 2017) (Kakanda, Salim, & Chandren, 2017) (Tuan-Hock, Lee-Lee, & Hishamuddin, 2012). According to Badriyah, Sari and Basri (2015), different corporate organizations have various means of dealing with corporate risk. Some organizations surrogate risk observance to (AC), relying on the extension of the AC's power to perform other duties and responsibilities. Going on with this type of arrangement, it is doubtful if AC can concurrently handle both the audit and the risk function (Badriyah, Basri, & Sari, 2015) (Suhaimi & Yusof, 2020) (Zaman, 2001).Therefore, the confidence repose on the AC to safeguard owners' investments alone is somehow defeated (Tuan-Hock, Lee-Lee, & Hishamuddin, 2012).

Before 2017, the AC was responsible for overseeing and monitoring the risk related matters among Malaysian listed firms (Suhaimi & Mohamad Nor, 2017) (Yatim, 2010). The financial sector especially insurance firms were required to have a separate RMC in accordance with the 2003 provision of Bank Negara Malaysia (Suhaimi & Mohamad Nor, 2017) (Kuo-Cheng, Kweh, Kiong, & Azizan, 2017). However, non-financial firms were not bound by this

provision(Abdullah & Abdul-Shukur, 2017). Therefore, the provision of Bank Negara Malaysia has contributed immensely to the development of RMC among Malaysia listed firms especially as Malaysian Code of Corporate Governance (MCCG) has identified RMC as an essential part of corporate governance code for controlling firms' unavoidable risk (MCCG, 2007).

Moreover, the revised MCCG (2012) had played a significant role in ensuring the establishment of RMC. Although, the revised MCCG did not make it compulsory for corporate boards to constitute RMC, but the regulation has highlighted the significance of risk management and recommends that, all firms should consider a risk management framework as part of the firm's financial reporting system. The MCCG (2017) further depend on risk management practices among listed firms in Malaysia as it clearly emphasizes the role and duties of corporate boards of identifying, evaluating, monitoring, analyzing and managing all type of risks. The code required corporate boards to understand and identify business principal risk especially in decision making. The corporate organizations are required to take appropriate risks in order to safeguard the wealth of stakeholders and protect the assets of the organization. On this basis, Shad and Lai (2015) affirm that, risk management has occupied a vital place in business operations and has become a necessity instead of an option for companies. Similar claim was made by Florio and Leoni (2017) which argue that companies are likely to enhance their performance if they adopt a holistic approach to risk management.

Nevertheless, empirical evidence on the relationship between RMC and firms' financial performance is still scanty (Elamer & Benyazid, 2018) (Kakanda, Salim, & Chandren, 2017) (Tuan-Hock, Lee-Lee, & Hishamuddin, 2012). Only a few studies focus on the consequences of RMCs on financial performance (Al-Matari & Mgammal, 2020) (Kallamu, 2015). Whereas, Elamer and Benyazid (2018) claim that empirical evidence in support of an association between RMCand financial performance is rare. One reason behind this scanty empirical evidence is as a result of the relative newness of RMCin non-financial sector especially among Malaysian non-financial firms. Accordingly, this study is set to examine the effect of RMC on financial performance of non-financial firms in Bursa Malaysia. Specifically, the study will examine the effect of RMC size, RMC diligence, RMC training, RMC gender on financial performance. This study will offer various contributions to varied stakeholders. First, the study will be useful to regulators and policymakers as it will suggest ways the regulators will work towards standardizing risk management procedures as well as disclosing risk management practices in their corporate annual report. Secondly, the study will provide crucial insights into non-financial firms especially those who had already established a separate RMCon how to measure the effectiveness

of their RMC especially to determine whether RMC is fulfilling their purposes or adding to their costs.

## *II.* Literature Review

Risk management committee is a sub-committee of corporate board that is playing a significant role in the financial performance of companies and in strengthening the corporate governance structure in an organization. RMC has been given much priority in Malaysian financial structure. A close look at this fact reveals that Bank Negara Malaysia has issued policy guideline for licensed institutions to have at least three directors in their RMC (Kallamu, 2015). The three directors should be non-executive directors and should be dealt with as an independent chairperson of the committee. RMCis attracting much attention among corporate institutions as it controls the uncertain factors of the risk alongside other sub-committees of the corporate board including finance committee and AC. AC is a committee that is known for taking aggressive actions in risk management. However, there are some uncertainties that AC require the support of RMCsuch as to face the challenges of critical risk factors. RMCalso performed a vital role in ensuring and preventing conflict of interest between shareholders and managers by ultimately working to control the risk factors and monitoring the board (Hutchinson & Tao, 2012) .

Moreover, RMC is also considered as one of most important board committee that strive to create awareness on the importance of risk management and control. RMC has risk control mechanism under the surveillance of corporate governance that enables firms to control different risk factors. According to Jia, Li, and Munro (2018), firms with well-established RMCare more likely to concentrate on high risk management disclosure quality to investors. Regulators and practitioners also emphasized more on a stand-alone RMC rather than aligning the responsibility to AC or the board committee as whole as RMC has the best option to control risk factors. Also worthy of note is that RMC has the main responsibility of providing concrete and relevant information on risk factors to investors. Therefore, RMC is regarded as a sub-committee of the board that has the capacity to enhance the board oversight function which ensures that shareholders' interest is achieved. Hence, RMC will add to the usefulness and greatness of board information (Eisenhardt & Kathleen, 1989).

### *II.1 Risk Management Committee (RMC) Size and Firm Performance*

Risk management committee size refers to the total number of RMC members sitting on the committee during the financial year. RMC size plays a significant role in monitoring and evaluating risks identified by corporate management and in ensuring compliance with company policies and programs

(Alles, Datar, & Friedland, 2005). Large RMC size exists because of the likelihood of high agency costs, high leverage and greater complexity in corporate operations. Besides, it has been argued that companies that establish a separate committee which exclusively focuses on risk management function is more likely to demonstrate obligations toward enhancing the overall structures of the companies' corporate governance structure (Yatim, 2010)

Despite the scanty literature that examine the relationship between RMC size and corporate financial performance, the few available studies present conflicting results. Among others, a study conducted in the US by Pathan (2009) reveals that small firm's boards have a positive relationship with more risk-taking in the United States holding companies. Similar study was undertaken by Hutchison and Ngoc (2012) which affirms that the effectuality of the risk committee and compensation committee (CC) is to mutually handled and controlled excessive risk-taking factors which is likely to result into higher performance of the firm. The study further found that corporate board will be more efficient if the size of the board is appropriate and meaning that the size should be neither large nor small. As regard size of the board, Zubaidah*et al.*(2009) believed that the ideal size of a corporate board is a board that comprised of seven or more executive members, this number is likely to maintain the effectiveness and efficiency of the board (Jensen & Michael, 1993) (Zubaidah, Nurmala, & Kamaruzaman, 2009).

Nevertheless, two different theories "resource dependency and agency theory" have argued that a board with a handful number of directors is likely to be more focus and efficient as it will provide appropriate advice and counseling regarding the strategic options of the firm (Pearce & Zahra, 1991) (Zahra & Pearce, 1989) corporate boards with large number of directors are sometimes regarded as more proficient in dealing with the activities and decisions of top-level management as it is more difficult for CEOs to tell guide larger boards. Similarly, (Ahmed Haji & Mubarak, 2015) argued that larger boards have more significant role in enhancing firm's performance considering their high and diverse level of skills. Based on the above debate, the study hypothesized that:

H1: *RMC size is significantly related tofirm financial performance.*

### *II.2*Risk Management Committee (RMC) Diligence and Firm Performance

The main purpose of RMC is to mitigate corporate risk and its attendance consequence on firm's performance through a good risk framework. However, the efficacy of RMC can best be achieved if there is greater participation of board members in the committee's functions (Tuan-Hock, Lee-Lee, &Hishamuddin, 2012). Therefore, the main agenda of members of the RMC is to

hold frequent meetings that will enable greater interaction and ensure sharing of valuable ideas that will improve the firm's efficiency. The frequent meetings serve as a check and balance that will ensure all issues are resolved without overlooking any (Fajembola, Abdul Rahman, & Azureen, 2018)Therefore, it is anticipated that more RMC meetings translate to more robust governance (Hines & Peters, 2015). Hence, continuous RMC meetings will play an essential role in defining the efficacy of the RMC board members (Kakanda, Salim, & Chandren, 2018) (Tuan-Hock, Lee-Lee, & Hishamuddin, 2012) (Yatim P. , 2009)

During such meetings, RMC members can certainly communicate, discuss and accomplish shared objectives and also identify various risk factors within the organization (Kakanda, Salim, & Chandren, 2018) (Tuan-Hock, Lee-Lee, & Hishamuddin, 2012) Additionally, frequent RMC committee meetings enables committee members to keep updating themselves on actions which control the risk factors after a certain amount of continuous efforts (Kakanda, Salim, & Chandren, 2018) (Tuan-Hock, Lee-Lee, & Hishamuddin, 2012) (Yatim P. , 2009) Regular meetings are anticipated to ensure concrete and vigilant mechanism which helps in taking decision regarding firm matters (Tuan-Hock, Lee-Lee, & Hishamuddin, 2012). Therefore, when RMC members are diligent on their oversight responsibilities specifically risk management activities, there are not just likely to improve communication amongst themselves but there are also likely to employ better initiative in controlling the risk factors and oversights (Yatim P. , 2010).

Moreover, RMC diligence is also seen as a great step that board members can take in accomplishing those factors which can generally be overlooked by the management. From the perspective of resource dependency theory, RMC meeting is likely to play a vital role in disseminating knowledge and information with experts which is regarded as pivotal and a technical asset for companies. Besides, it is obligatory for a company to published its board meetings held within the year. The information will include date of the meetings and particulars of attendance of each of the director in the meetings. Therefore, regularity of board members during board meetings is presumed as an effective and essential mechanism for enhancing the efficiency of corporate board. Similarly, it is also generally believed that attendance of board meetings is considered as a vital avenue for committee members to acquire firm-related information and assist in accomplishing their monitoring role. Hence, this study hypothesizes that:

H2: *RMC diligence is significantly related to firm financial performance.*

### *II.3*Trained Risk Management Committee (RMC) and Performance of a Firm

Appropriate training given to members helps in updating the directors' knowledge and improving their efficiencies (Coulson-Thomas, 2008). The reason is that a well-trained committee member gets acquainted with their membership role. Trainings are obtained from attending workshops, conferences, seminars talks by experts in risk management as well as attending board meetings. The knowledge acquired from such trainings could serve as a tool to assist the members in assessing the risk information of the firm. Roy (2011) reported that having enough requisite training helps members of the RMCin assessing, implementing and handling complex issues relating to the company issues. In the same context, the training plays an important role in firm performance success (Azar, Sayyar, Zakaria, & Noor, 2018).

RMC membership needs to acquire sufficient risk portfolio training. Also, members need to be acquainted with the concept and theories on risk, going concern, internal control as well as the actual business operation. The risk training should be extended to sub-committee members to get them equipped with the activities involved in risk managements (Yatim P. , 2009). Acquiring the needed training helps RMCmembers in ensuring that oversight functions are executed as planned. Moreover, diverse skills and experience acquired through trainings help in achieving an effective oversight function by the directors serving in the RMC.

The 2017 code of corporate governance issues in Malaysia has specifically introduces a plan and standard qualification requirements and orientation for selecting a director into the ris management committee. The code highlights the importance of the risk committee members training and recommends some training sessions for updating members on new regulation, laws and new forms of commercial risk (MCCG, 2000). Consequently, chapter 15(08) of the Kuala Lumpur Stock Exchange listing requirement highlight that every board member must attend the training program organized to educate the members and for the directors that have genuine reason for not been able to attend the training, such excuse has to be reported to the regulatory body well as in the annual report.

From the agency perspective, board structure gets improved where continuous members trainings and educational programs are put in place (Roy, 2011). As part of the overall board composition, the RMC members' effectiveness and check-and-balance responsibility get improved with such continuous membership training. Mclntyre and Murphy (2019) maintained that the more the board members attend various training, the better the board expertise. (Mclntyre & Murphy, 2009). In the same manner, resource

dependency theory emphasizes the importance of the board members training. The theory stresses that a training session is needed to improve members' knowledge of internal control mechanism, portfolio risks and overall risk management. It is acknowledged that sufficient training to RMC members will assist in ensuring that their monitoring role is accomplished perfectly. Hence, this study hypothesized that:

H3: *Number of training attendance by RMC members is significantly related to firmfinancial performance.*

### *II.4*Risk Management Committee(RMC) Separation and Firm Performance

RMCs symbolizes a corporate governance instrument put in place to manage numerous risks within a company's risk probable and to monitor the likely events that might adversely affect the performance of company. Many discussions were presented between practitioners and regulators to weigh if the best corporate governance practice associated to risk management is for companies to establish a separate RMC, which needs to be independent unit from the board AC, or with the board committee as a whole (Hines & Peters, 2015). The function of the risk management has been embedded on the committee of audit. Nevertheless, the dual functions pose on the AC has made it impossible for the AC to perform effectively and efficiently function and as such many companies have capitalized on the loophole to engage in myopic accounting practice (Yatim P. , 2009) (Beasley, Carcello, Hermanson, & Neal, 2009) and (Klein, 2002) found that firms with RMCs are more likely to have good governance practice, lower risk exposure, and enhanced financial reporting quality. Furthermore, Subramanian, Mc Manus, and Zhang (2009) report less fraudulent financial reporting for companies withstanding RMC. Related to that, (Dabari & Saidin, 2016) suggest that the board should enhance the oversight function and effectiveness to ensure robust risk management. Correspondingly, Ames, Hines and Sankara (2018) provide that firm with RMC are more likely to disclose a good rating information and performance.

Furthermore, it is claimed that strong corporate governance in a firm determines management practices and decision-making process including those associated with the formation of a special overseeing committee to monitor firm's risk management process (Badriyah, Basri, & Sari, 2015) (Kakanda, Salim, & Chandren, 2017). In order to reduce overall risks, the board needs to be encouraged to come up with a dedicated committee that will be in charge of overseeing the risk management processes. Furthermore, there are agitations from various stakeholders on need for all listed companies to establish a broad framework, together with the RMC, for alleviating the risk exposure and by extension, enhance firm performance (Kakanda, Salim, & Chandren, 2018).

Moreover, risk management is crucial for the future survival of businesses (Abdullah & Abdul-Shukur, 2017). The high global concentration on the risk management culture has significantly encouraged legislative reforms globally. In Malaysia, Ng *et al.* (2012) claim that a firm must be capable to control, monitor, and identify its risks. As a result, it needs that an independent enterprise RM system should be set by all listed firms in Malaysia (Halim, Mustika, Sari, & Anugerah, 2017). Therefore, poor risks monitoring by various firms has resulted in the firms suffering substantial losses which decline performance. When a firm suffers a loss that seems to have resulted due to high risk, the members of RMC are likely to be changed (Kallamu, 2015).

Risk management is beyond just AC expertise on firm's internal control system and financial statements, but also encompasses the risks surrounding its interactions with the external environment such as marketing risk and competition risk (Ishak & Yusof, 2013) (Kakanda, Salim, & Chandren, 2017). Therefore, separate RMC formation that concentrates on the firm's risks related issues only will help in managing the risks efficiently and enhance firm performance (Badriyah, Basri, & Sari, 2015). Furthermore, risk management practice is a vital subject with a lot of concern on risk activities (Chou & Buchdadi, 2017) (Kakanda, Salim, & Chandren, 2017) (Tuan-Hock, Lee-Lee, & Hishamuddin, 2012). Moreover, Hines and Peters (2015) argued that the proponents of separate RMCs claimed that such practice help in reducing weight of risk oversight activities of the AC and consequently, focuses more on the internal control as their primary responsibility (Hines & Peters, 2015).

It is obvious that hitherto, some firms delegate risk monitoring to a committee of audit. Considering the extent of the AC's tasks, many scholars argued that the committee's risk management effectiveness is reduced for having the two functions under their stride concurrently (Badriyah, Basri, & Sari, 2015) (Chou & Buchdadi, 2017) (Ishak & Yusof, 2013) (Zaman, 2001). Consequently, relying on the AC to safeguard the owners' interest is challenged especially, with the apparent corporate scandals and business failure (Tuan-Hock, Lee-Lee, & Hishamuddin, 2012). Therefore, this study hypothesized that:

H4: *The existence of separate RMC is significantly related to firmfinancial performance.*

### *II.5*Risk Management Committee (RMC) Gender and Firm Performance

Regarding the diversity of gender despite a steady upsurge accomplished in recent years, there still exist an inadequate attendance of females on board of the firms (Green & Hamroy, 2018). Agency theory postulates that the board has a central part in resolving the agency issues and to guarantee a balance among

the interests of management and the shareholders (Solimene, Coluccia, & Fontana, 2017). Similarly, resource dependence theory provides support for the argument on the board committees diversity especially the inclusion of more woman members and the benefits that might be derived from the diverse members (Hillman, Cannella, & Paetzold, 2000).

Moreover, Ahmadi, Nakaa and Bouri (2017) claim that the agency theory connects risk management, independence of the board and corporate disclosure, and furthered that absence of female members reduces board independence and by extension reduces corporate disclosure. Moreover, another study that hinges on the both agency and stakeholders theory, pointed that presence of female board members is associated with enhanced corporate disclosure (Ahmadi, Nakaa, & Bouri, 2017). The female directorship is an integral component of corporate governance attributes and is assumed to be among the internal mechanism in decreasing the agency conflict either between corporate shareholders and managers or majority and minority shareholders (Lakhal, Aguir, Lakhal, & Malek, 2015). The existence of at least one female director as a member of the board is likely to affect the efficiency and usefulness of the board (Amran, Abdul Manaf, & Ishak, 2015). Furthermore, the RMCin performing functions of board roles is perceived to be more beneficial to the firm if the board is made up of members with gender mix (male and female) directors (diversity). Additionally (Huang & Kisgen, 2013). argued that involvement of female members in the RMC strengthens the independence of the board. This signifies that mixed gender directors goes a long way in the enhancement of an improved board monitoring, therefore resulting in taking decisions that conform with the shareholders' and the managements' interests.

According to Azmi and Barrett (2013), female members act in different ways with their opposite gender and such combinations transforms the board culture giving that monitoring and advisory function get improved. However, gender diversity is well researched and there is no much evidence that gender mix is the most important form of boardroom diversity because the other forms of diversities are not well investigated (Bernile, Bhagwat, & Yonker, 2017). Besides, Azmi and Barrett (2013) further buttress that females are prone to some forms of malice, risk-aversion, have financial expertise, and are apt in decision-making. More so, during meeting in the board, female used to be good listeners when others speak, attentive and open-minded. They are also compassionate, accord respect to the constituted authority and help in identifying a mutual ground for all contending sides which help in reaching a compromise to bring an end to any delicate problems.

Evidences show that contribution of women in association to firm

progress are interested by numerous researchers (Low, Roberts, & Whiting, 2015) (Reguera-Alvarado, Fuentes, & Laffarga, 2017). The scholars suggest that women contribute well in board discussion which enhances company's profitability. Gordini and Raancati (2017) examined the contribution female directors make to the firm's progress. The scholars document that, women as board members are more likely to enhance the performance of the companies. (Gordini & Elisa, 2017). women participation is predictable to offer a better advantage in the board of directors. (Khan, Hassan, & Marimuthu, 2017) argued that female board members improve the firm's performance of Malaysian firms. In the same manner, Kyawe, Olugbude and Petraci (2017) conclude that female director contribute effectively in enhancing the company's social performance. (Kyaw, Olugbode, & Petracci, 2017). Furthered proposed that a law need to put in place to that will ensure a proper gender mix (with at least a woman in the board) because of its importance in improving the social performance. Also, it is recommended that female director be considered due to their contribution in firm profitability (Low, Roberts, & Whiting, 2015).

Nevertheless, the positive impact of female director appeared to reduce in a nation with female economics participation. The gender mix is not limited to board room. The diversity of the Top Management team is also encouraged because it triggers constructive debate which leads to better managerial decisions. Their presence enables viewing issues from different perspectives considering the environmental dynamics. In Malaysia, to encourage female balance, the MCCG 2017 requires that, listed firms need to disclose their policies with respect to gender mix and further encourage that at least 30% of the board members need to be female members. Hence, this study hypothesized that:

*H5: The gender of RMC is significantly related to firm* ***financial*** *performance.*

**Operationalization of Research Variables**

The operationalization of the variables in this study is presented in a summary form in Table1 below. The variables are separate RMC, RMC Size, RMC diligence, RMC training, and RMC gender. However, the control variables are size of firm, firm leverage, and age

**Table 1Operationalizations of the test variables, dependent variables andcontrol variables.**

| Abbreviation | Meaning | Definition | Hypothesized relationship | Source |
|---|---|---|---|---|
| ROE | Return on Equity | Ratio of net profit to total equity | | Annual Report |

| | | | | |
|---|---|---|---|---|
| SRMC | Separate RMC | Coded as ' 1 ' if the firm maintain a separate RMC, else is coded '0' during the financial year. | + | Annual Report |
| RMCSZ | RMC Size | Members of RMC that served the committee in the financial year. | + | Annual Report |
| *RMCD* | *RMC Diligence* | Total number of time the RMC sat in the financial year. | + | *Annual Report* |
| *RMCT* | *RMC Training* | Total trainings attended by the RMC members. | + | *Annual Report* |
| *RMCG* | *RMC Gender* | It is an indicator variable such that 1 represents presence of woman on the board and 0 if otherwise. | + | *Annual Report* |
| *FSZ* | *Firm Size* | Logarithm of the total value of the firm assets. | + | *Annual Report* |
| *LEV* | *Leverage* | Ratio of the sum of long and short terms debt to the total assets. | - | *Annual Report* |
| *FAGE* | *Firm Age* | The years of company from date of incorporation. | + | *Annual Report* |

**Data**

The data used in the study is obtained from the listed non-financial firms in Malaysia that are active in the study period spanning from year 2016 to 2018. Within the three-year period, there are 796 companies that are listed in the main board. Secondary sources are used in obtaining data from listed and actively non-financial operating firm listed on Bursa Malaysia. The annual reports are available in the website of the Bursa Malaysia provided the required information used in this study. The data that was manually collected from the directors' profile and corporate governance reports of the annual reports include the information on the number of RMC meetings that took place during the year, number of trainings sessions, board members genders and whether RMC is separate from AC. The remaining data (ROE Leverage and Firm size) are financials and are obtained from data streams.

**Model Specification**

The five hypotheses formulated are tested using multivariate regression model. The model used in the study investigates the effect of RMC characteristics on the profitability of firms listed in the Bursa Malaysia spanning from year 2016 to 2018. The year 2016 as the base period is selected in order to weigh the impact of the recent code of corporate governance in Malaysia (Malaysia Code Corporate Governance MCCG 2017) which suggests the use of separate RMC. The new code also emphasizes the use of independent directors to strengthen the firms' risks frameworks. A total of 576 listed firms were selected which form the companies from the non-financial sector. The effect of explanatory variables on the dependent variable (return on

equity) in this study is confirmed using multiple regression. The regression model is represented in the following equation;

$$ROEit = \alpha 0 + \alpha 1RMCSit + \alpha 2RMCDit + \alpha 3RMCTit + \alpha 4SRMCit + \alpha 5RMCGit + \alpha 6FIZit + \alpha 7LEVit + \alpha 8FIAit + \epsilon it$$

Where:

$\alpha 0$ is the intercept (constant);

$\alpha 1$- $\alpha 8$ denotes percentage change of ROE as a result of changes in the test variables;

$i$denotes the number of companies in the panel;

$t$ denotes the panel data periods

$\epsilon it$ is the error term that is factored to satisfy the linear regression model assumption.

**Descriptive Statistics**

The result of descriptive statistics are summarized in the Table 2 as thus;

**Table 2Descriptive Statistics of the continues variable**

| Variable | Obs | Mean | Std. Dev. | Min | Max |
|---|---|---|---|---|---|
| ROE | 1,728. | 0.029 | 0.257 | - 2.375 | 3.144 |
| RMCS | 1,728. | 3.408 | 0.966 | 2.000 | 13.00 |
| RMCD | 1,728. | 4.160 | 1.859 | 0.000 | 13.00 |
| RMCT | 1,728. | 6.413 | 6.976 | 0.000 | 46.00 |
| SRMC | 1728. | 0.331 | 0.471 | 0.000 | 1.000 |
| RMCG | 1728. | 0.129 | 0.185 | 0.000 | 1.000 |
| FIA | 1,728. | 27.230 | 16.793 | 0.000 | 111.0 |
| LEV | 1,728. | 19.599 | 16.255 | 0.000 | 87.8 |
| FIS | 1,728. | 13.298 | 1.591 | 3.258 | 20.50748 |

Notes: This table shows the following variables: ROE = return on equity; RMCS=Risk management committee size; RMCD=Risk management committee diligence; RMCT=Risk management committee Training; SRMC=Separate risk management committee, RMC=Risk management committee gender, FIA=Firm age; LEV=leverage; and FIS=firm size. *** indicate significant at the 1% level; ** indicates significant at the 5% level; indicate significant at the 10% level.

The Table 2 presents the descriptive statistics regarding the variables used in the research undertaking. From the result in the table, the average firm performance (return on equity-ROE) of non-financial firms in Malaysia under study is 0.0293(2.93%). This is significantly below the average ROE of 12.64% and 19.88% found by Zabri, Ahmad and Wah (2016) and Shamsudin, Noor and Isa (2018) who conducted their studies using Malaysian data. Regarding size of the RMC, the mean RMC size on Table2 is 3.410 and the standard deviation is 0.960. In addition, the outcome in the table summarises that the average RMCD which measures the number of meetings held, is 4 times a year with 1.86% standard deviation. The table further shows that the mean RMC training is little above 6per annum with 6.98% standard deviation. The result also displays that the average percentage of firms with a separate

RMC is 33.09% while 47.07% is the variable's standard deviation. The RMC gender average is 12.93%, with a standard deviation of18.51%.

**Correlation Analysis**

One of the purposes of the correlation is used to reveal the direction and strength of linear associativity between any two variables (Pallant, 2005). Giving the nature of the data used in the study, Pearson's correlation analysis is used to determine the nature and extent of relationships among the variables. Table 3 summarizes the Pearson's correlation result. The strength of the relationship among variables is usually ascertained by the correlation coefficient donated by (r) of the variables.

**Table 3Pearson's Correlation Matrix for theVariables**

| Variable | ROE | RMCS | RMCD | RMCT | SRMC | RMCG | FIA | LEV | FIS |
|---|---|---|---|---|---|---|---|---|---|
| ROE | 1 | | | | | | | | |
| RMCS | 0.1301*** | 1 | | | | | | | |
| RMCD | -0.0186 | 0.0428* | 1 | | | | | | |
| RMCT | 0.1515*** | 0.2054*** | 0.0879*** | 1 | | | | | |
| SRMC | -0.0056 | 0.0687*** | -0.5981*** | 0.0034 | 1 | | | | |
| RMCG | 0.0666*** | 0.0261 | 0.0338 | 0.13*** | 0.0765*** | 1 | | | |
| FIA | -0.0155 | -0.0427* | -0.0121 | 0.0332 | -0.0113 | 0.0784*** | 1 | | |
| LEV | -0.0918*** | 0.0545** | 0.0222 | 0.0239 | 0.0614*** | -0.0148 | -0.0084 | 1 | |
| FIS | 0.2331*** | 0.1997*** | 0.094*** | 0.2188*** | 0.1368*** | 0.1702*** | 0.1917*** | 0.3926*** | 1 |

From Table 3, the correlation result shows that RMCS, RMCT, risk management committee gender (RMCG), and firm size (FIS) have significant positive relationship with return on equity (ROE) at 0.01 statistical level. However, leverage (LEV) has a significant negative association with ROE at 1% level of significance, while RMCD, separate risk management (SRMC), and FIA has negative, but insignificant relationship with ROE. Equally important, correlation statistics is used in determining the possibility of Multicollinearity or otherwise amongst the explanatory variables in a study. In this study, based on the correlation result fromTable 3, all the coefficients are below 80% which confirms the absence of multicollinearity.

**Regression Result**

For the purpose of this study, random effect (RE) model is used to examine the relationship between RMC characteristics (size, diligence, training, gender and separation from AC) and firm profitability using data of the listed non-financial firms in Malaysia. RE regression is used after Breusch-Pagan LM test and Hausman specification test was conducted. The test used in selecting between the random effect (RE) and pooled OLS, LM test is used. While Hausman test is conducted to make a selection between Fixed Effect (FE) and RE models. Both tests have favored RE model. The random effect regression result is presented in Table 4 thus:

**Table 4** ***Regression Result of the Effect of RMC on firm performance***

| Variable | Coef. | t | p>t |
|---|---|---|---|
| Constant | -0.5660 | -10.57 | 0.000*** |
| **Independent:** | | | |
| RMCS | 0.0220 | 2.83 | 0.005*** |

| | | | |
|---|---|---|---|
| RMCD | -0.0187 | -4.17 | 0.000*** |
| RMCT | 0.0031 | 3.22 | 0.001*** |
| SRMC | -0.0659 | -4.05 | 0.000*** |
| RMCG | 0.0215 | 0.65 | 0.516 |
| **Control:** | | | |
| FIA | -0.0012 | -4.05 | 0.000*** |
| LEV | -0.0034 | -7.37 | 0.000*** |
| FIS | 0.0526 | 11.96 | 0.000*** |
| Observations | | 1728 | |
| No. of Observations | | 576 | |
| $R^2$ | | 0.2329 | |
| Wald chi2 (8) | | 130.110*** | |
| Prob>chi2 | | 0.000 | |

The RE regression result as depicted in Table 4 indicates that the $R^2$ value is 0.2329, suggesting that, 23.29% variation in the dependent variable is explain by the explanatory variables. Also, the result also indicates that, the model is significant (*Wald chis2(8)*=130.11,*p*<0.01), suggesting goodness of fit of the model.

Moreover, the result as shown in Table 4 suggest that Risk Management Committee Size (RMCS) has a significant positive relationship with financial performance of non-financial companies listed on Bursa Malaysia ($\beta$=0.022; *p*<0.01). This suggests that as the size of the RMC increase so will the firm performance of a company increase. Accordingly, hypothesis one ($H_1$) of this study is supported. The findings of this study support the supposition of agency theory which believes that large size sub-committee of a corporate board such as RMC that are active and resourceful, can easily resolve agency conflicts between management and owners of the business and consequently increase firm performance. The result is also in agreement with the findings of Subramaniam *et al.* (2009) which contended that acompany with a large number of corporate board members have a greater chance of having directors with the required skills to manage activities and even involved in a sub-committee that has been dedicated to risk management. (Subramaniam, McManus, & Zhang, 2009)The result also corroborate with the argument of Tao and Hutchinson (2013) which affirms that, the effectiveness of the **RMC** depends on it size and composition, which eventually improves the performance of a firm. This finding is also in line with Al-Hadi*et al.* (2016), which reveals that RMC size has a significant and positive influence on the market disclosures, which in turn positively and significantly affect firm performance. (Al-Hadi, Hasan, & Habib, 2016)

Secondly, the regression result as presented in Table 4 indicates that, Risk Management Committee Diligence (RMCD) is negative and significantly related to financial performance of non-financial companies listed on Bursa Malaysia ($\beta$= -0.0187, *P*<0.01). Therefore, hypothesis two (H2) of this study is rejected. This implies that the more the number of RMC meetings the lower the financial performance of firms. The result of this study is consistent with the findings of Elamer*et al.* (2018) who concludes that the risk committee meeting has a negative relationship with financial performance of listed financial institutions in the FTSE-100index.(Elamer & Benyazid, 2018)

Thirdly, the result of the regression analysis as presented in Table 4 indicates that Risk Management Committee Training (RMCT) has a statistically significant positive effect on financial performance of non-financial firms listed on Bursa Malaysia ($\beta$=0.0031;$p$<0.0l). This result signifies that the relationship between RMCT and performance is positive and statistically significant, indicating that the higher the attendance of workshops and training of RMC members the better the performance (ROE) of non-financial listed firms in Malaysia. Hence, higher attendance of workshops by RMC members will have the resources required to increase the performance of a firm. Consequently, this outcome has supported hypothesis three (H3) of this study.

From Table 4, the result of regression analysis indicates a significant negative relationship between Separate Risk Management Committee (SPRMC) and financial performance of non-financial firms listed on Bursa Malaysia ($\beta$= -0.0659;$p$< 0.01). This result did not support the initially postulated hypothesis which predicts that there is a significant positive association between the existence of separate RMC and firm performance. Hence, hypothesis three of this study is rejected. This result supports the findings of Al-Hadi*et al.* (2016) which reports that, risk management committee has a significant negative effect on the implied cost of capital which will invariably enhance the firm's performance. The result contradicts the findings of prior studies which suggested that, RMC provides the board with a more compatible risk framework that may benefit the firms in improving the effectiveness of the firm's operations (Fraser & Henry, 2007). In the same way, several other scholars such as Kakanda*et al.* (2017) and Ng *et al.* (2012) prove that risk management committee (RMC) contributes to the effectiveness of the board and improve its performance.

Finally, the regression result as presented in Table 4 reveals that Risk Management Committee Gender (RMCG) is not significantly related to firm performance of listed non-financial firms in Malaysia ($\beta$=0.0215; $p$>0.1). This suggests that gender of RMC does not have a significant effect on performance of firms. This result has failed to support hypothesis five (H5) of this study which states that RMCG has a positive association with firm performance (ROE). The result also goes against the postulation of agency theory which believes that, women are vigilant, risk-averse and has the ability to make right decisions that is capable of helping to reduce the conflict of interest between the management and shareholders. Hence, increase gender of RMC will not necessarily lead to higher performance of company (Azmi & Barrett, 2013).

## Conclusion

The target of this paper is to investigate the impact of RMC structures on the financial performance of non-financial companies listed on Malaysia's main stock market from 2016 to 2018. The results of the random effect regression demonstrate that the size and training of RMCshave a significant positive link with the financial performance of Malaysian non-financial firms. Meetings of the RMC and the separate RMC, on the other hand, have a significant negative impact on the financial performance of the firm. The gender of the RMC, on the other hand, did not appear to have any bearing on financial success. This study

will provide diverse contributions to various stakeholders based on the findings. First, the study will be valuable to regulators and policymakers because it will identify strategies for them to work toward standardized risk management procedures and reveal risk management practices in their annual reports. Second, the study will provide critical insights into non-financial firms, particularly those that have already established a separate RMC, on how to measure the effectiveness of their RMC, specifically to determine whether the RMC is achieving its goals or increasing costs. Despite the study's contribution in studying the impact of RMC attributes on the financial performance (ROE) of Malaysia's listed non-financial businesses, it has several flaws that could be addressed in future research. Only listed non-financial enterprises from the Bursa Malaysia website were used in this analysis. This will make it harder to generalize the results. As a result, future researchers will be able to investigate the impact of RMC qualities on the success of other industries or eve nun listed organizations. Future research could look into areas like overlap, expertise, and age of the RMC, as well as the committee's internal processes.

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