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The Role and Benefits of a Corporate Governance Framework as a Risk Intelligence Success Factor for Large Enterprises in Mea

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Abstract:*Risk management is gaining a lot of significance in corporate governance. While no study on the topic could be found, there is plenty of literature on related topics but mainly touching on countries in other regions other than MEA. The purpose of this study is to examine the role and benefits of a corporate governance framework as a risk intelligence success factor for large enterprises in Middle East (MEA) countries. The study relied on direct interviews of representatives from 100 private companies purposively selected from Lebanon, Jordan, Saudi Arabia, and the United Arab Emirates. The collected data was recorded, transcribed, coded, thermalized, and analyzed. The findings show that values of corporate governance are enablers of effective risk management.The study identified four major ways in which corporate governance framework acts as a risk intelligence success factor: (1) by promoting accountability; (2) by encouraging board and management support; (3) by encouraging integrity; and (4) by encouraging communication.The research is limited by its scope and difficulties in supplementing the interviews with a detailed case study research. The paper fills a gap in the current literature on corporate governance and risk management in MEA region andprovides relevant ideas for future research in this field.*

Keywords: Corporate Governance, Risk Intelligence, Success Factor

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I. Introduction

The impact of risks on the financial performance of an organization is an issue of great concern for shareholders, employees, consumers, and the industry in general. The last decade has experienced increasing interest from shareholders, managers, regulators, scholars, and researchers in the effects of risks on enterprises and the role that values of corporate governance can play in mitigating such risks. There has also been growing interest in risk management and the features of risk intelligent enterprises. Many studies have linked increasing business scandals in recent years to the failure of mechanisms of corporate governance (Soltani, 2014; Rahim & Rahman, 2015; Abid& Ahmed, 2014). This view has led to an increase in the studies examining the significance of corporate governance frameworks in risk management. Many of these studies have focused on the effects of corporate social responsibility, information technology (IT) governance, and business intelligence governance on enterprise risk management (ERM) (Rubino&Vitolla, 2014; Bezzina, Grima, & Mamo, 2014; Watts, 2015). A few studies have explored how corporate governance frameworks can enhance risk disclosures (Peters &Romi, 2014; Kurniawanto, Suhardjanto, Bandi, &Agustiningsih, 2017) and social risks (Ng, Lo, Choy, 2015), but few have explored the role of corporate governance frameworks as risk intelligence success factors. Risk intelligence involves gathering evidence about potential risk factors from both external and internal sources in an organization (Brennan &Mattice, 2013). Risk intelligence programs extensively examine all potential threats and risks that the organization is likely to face in all the environments in which it operates. The main purpose of this study is to fill the gap in research in this area by exploring the role and benefits of a corporate governance framework as risk intelligence success factor for large enterprises in Middle East and African (MEA) countries. This is an area of research that is underexplored, particularly in MEA countries. Much of the existing research in these countries on this subject has focused on the risk management measures or corporate governance measures adopted by organizations in these countries (Amico, 2014; Ghosh, 2017; Majdalawieh&Gammack, 2015; ElGammal, El-Kassar, & Canaan Messarra, 2018; Mersni& Ben Othman, 2016). There is limited published research that ties corporate governance frameworks and risk intelligence success factors. Therefore, the investigation of the link between the two in this study is a relatively new approach, which is likely to shed light on howcompanies in these countries can leverage corporate governance frameworks to enhance their risk management. One of the major weaknesses of risk intelligence programs today is their lack of in-depth intelligence, which has been linked to fragmentation of these programs with no single source of risk intelligence collection and analysis (Brennan &Mattice, 2014). By introducing organizational structures and embedding best practices of risk intelligence gathering in the culture of organizations, corporate governance frameworks can contribute to more effective risk intelligence programs. Therefore, this study is important because identifying the best practice in risk management is likely to enhance the reputation of an organization, leadership competence, ethical governance, and corporate social responsibility, thereby maximizing the financial benefits of an organization.

Literature Review

Risk management is gaining a lot of significance in corporate governance. While no study on the topic could be found, there is plenty of literature on related topics but mainly touching on countries in other regions other than MEA. Evidence from past studies implies that effective risk management is dependent on ethical governance (Soltani, 2014; ElGammal, El-Kassar, & Canaan Messarra, 2018; Peters &Romie, 2014). Transparency, ethics, and accountability are crucial components of ethical governance and they form part of effective corporate governance frameworks alongside other values such as integrity, leadership, competence, enterprise, fairness, commitment, confidence, and respect (Gebba&Aboelmaged, 2016; Ogunyemi&Laguda, 2016). Considering the significance of these values in good governance, the failure of corporate governance systems almost always leads to poor financial performance or scandals that affect the financial, brand, reputation, and/or social standing of a company (Rubino&Vitolla, 2014). Corporate governance generally refers "to the legal and organizational framework within which, and the principles and processes by which, corporations are governed" (Plessis, Hargovan, &Bagaric, 2010, p. 4)

Strong corporate governance frameworks leave companies and employees with little room to maneuver and engage in unethical behavior, corruption, ambiguities, or inconsistencies that might increase risks (Karmann, Mauer, Flatten, &Brettel, 2016). Basically, a reliable corporate governance framework allows a company to structure and document its data and processes, which enhances accountability thereby protecting shareholders and other stakeholders from unseen risks (Ng, Lo, & Choy, 2015). In other words, structures and transparent documentation enable an organization to better predict risks and apply control measures thereby avoiding being caught unawares.

Risk management has been reported to be most effective when it is based on the strategic goals of the organization (Bezzina, Grima, & Mamo, 2014). This implies that risk management is likely to be more effective when based on a framework of corporate governance. A reliable corporate governance framework minimizes unethical behavior, including the falsification of financial information, thereby protecting shareholders from risks (Ng, Lo, & Choy, 2015). Therefore, unsurprisingly, many studies have linked effective risk management to values and components of good governance systems, such as transparency, leadership, accountability, ethics, and corporate social responsibility. Multiple studies have proposed the integration of corporate social responsibility (CSR) and other values of good governance as components of the risk management strategy (Bezzina, Grima, & Mamo, 2014). This is informed by the recognition that all types of risks, including social and reputation risks, can be hazardous and should, therefore, be uplifted to a position of strategic relevance and importance to the organization. Bezzina et al. linked poor corporate governance and poor corporate social responsibility to high reputation risks. In particular, corporate social responsibility has been touted as a good strategy of managing risks associated with reputation, society, and culture (Watts, 2015; Bezzina et al., 2014).
Rubino and Vitolla (2014) reported that while a reliable corporate governance framework can improve risk management, the overall effectiveness depends on the underlying rationale for its introduction and whether its purpose is understandable to everyone in the organization thereby easing its implementation. This comes down to transparency. Transparency is an important value of corporate governance. In general, transparency occurs when processes are "known and understood, when they can be traced, audited and explained" (Carrel, 2010). Transparency allows organizations to understand relevant risks and find efficient strategies of controlling them (Bezzina, Grima, & Mamo, 2014). Traditionally, transparency was considered among the main risk management factors. Consequently, management of data and risk were computed based on the idea that automation and electronic control of these types of data would make it auditable and efficient and, as a result, transparent (Carrel, 2010). However, recent research has shown that automation of data, financial modeling, and electronic manipulation of data sometimes reduces transparency because it restricts understanding of the process to those with technological knowhow of the electronic processes (McBride, 2014). This has the effect of lowering the risk intelligence success factor (Fragouli&Ekruka, 2016; Bezzina, Grima, & Mamo, 2014).

According to a report by Accountancy (2014), a risk management system that fails to take into consideration the business model and corporate governance structure of an organization is less likely to achieve meaningful gains in risk management compared to a system that is customized to the complexity, size, and structure of the organization. Brennan and Mattice (2014) add that a successful program of risk intelligence requires a collaborative, creative, respected, and objective leader. Leadership is an important value of good corporate governance frameworks. Some studies have linked the responsibility of embedding and maintaining a risk management structure to the board of directors and the top management in an organization (Ishak & Mohamad, 2017; Mathew, Ibrahim, & Archbold, 2016). They are expected to order regular audits of processes and documents in the organization to find areas that might require further analysis to avoid hazards (Accountancy SA, 2014). Peters and Romie (2014) reported that environmental risks can be reduced through leadership measures, such as presence of corporate sustainability officers within a company and environmental committees within the board to enhance transparency and disclosure on environmental issues, such as greenhouse gas emissions. Additionally, ethical leadership, which is a key value of good corporate governance, nurtures good values in the organization and mitigates scandals that might cause poor reputation (Lalani, 2014; Osei, 2015).

Research Methodology

This study examines the role and benefits of a corporate governance framework as risk intelligence success factor for large enterprises in MEA. The study relied on a sample of 100 companies from Lebanon, Jordan, Saudi Arabia, and the United Arab Emirates.

Sampling

500 private companies from Lebanon, Jordan, Saudi Arabia, and the United Arab Emirates were purposively sampled and contacted and asked to avail a representative for participation in the study. The companies were requested to avail one or more of the following for the interview; the Chief Executive Officer, Chief Internal Auditor Officer, Chief Human Resource Officer, Board Member, orChief Risk Officer. Of the 500 companies initially contacted, 127 expressed their willingness to participate representing a 25.4 % response rate. Based on the logic of theoretical saturation (Glaser & Strauss, 1967), after it was established that data was not adding fresh insights, the interviews were halted at a sample of 100 companies, despite of at least 127 companies expressing willingness to participate.

Table 1: Sample Demographic Characteristics

Category	Factor	Frequency	Percentage
Country	Lebanon	25	25%
	Jordan	25	25%
	UAE	25	25%
	Saudi Arabia	25	25%
Position	Chief Executive Officer	15	15%
	Chief Internal Audit Officer	30	30%
	Chief HR Officer	15	15%
	Chief Risk Officer	30	30%
	Board Member	10	10%
Education	BA-BS	55	55%
	MBA-MSc	36	36%
	PhD-DBA	9	9%

Table 1 Shows that the 100 respondents distributed equality between all countries, and the respondents represent top management positions, where 15% Chief Executive Officer, 30% Chief Internal Audit Officer, 15% Chief HR Officer. 30% Chief Risk Officer and 10% Board Member. Also, The Table shows that all respondents hold academic degree with 55% BA-BS, 36% MBA-MSc and 9% with PhD, this implies that the respondents are highly educated and highly experienced to answer the researcher questions during the interview and give him full detailed data that can considered highly reliable.

II. DATA COLLECTION

Data was collected via interviews from representatives of 100 private companies in Lebanon, Jordan, Saudi Arabia, and the United Arab Emirates. Either of five types of company representatives was sought for the interview. The five types were the Chief Executive Officer, Chief Internal Auditor Officer, Chief Human Resource Officer, Board Member, or Chief Risk Officer. These experts were sought based on the belief that their experience and knowledge of company operations and strategy would generate valuable and in-depth data for the research. The interviews were conducted individually and face-to-face in a mutually agreed-upon location. Each interview lasted for approximately 60 minutes and was recorded and transcribed with the consent of the participants. The interviews were structured to allow proper analysis of the data and to also guide the interviewer to ensure the interview took place in a free and friendly manner. Where appropriate and necessary the structured interview questions were supplemented with some follow up questions. The study did not intend to test a specific hypothesis so open-ended questions were used with the intention of producing some inductive theories.

III. DATA ANALYSIS

The responses from participants were transcribed, compiled, andcoded based on common patterns. The data analysis process began with listening to the recorded interviews and transcribing them. This also familiarized the researcher with the data. The next step was categorizing the data from the transcriptions into codes. This was followed by analysis of the coded data and its classification into themes.

Findings and Discussion

All the interviewees felt that sound corporate governance frameworks reduce the risks facing an organization. They also reported that risk management is an important function in their organization. Based on the analysis of data, the study identified four major ways in which corporate governance framework acts as a risk intelligence success factor: (1) by promoting accountability; (2) by encouraging board and management support; (3) by encouraging integrity;and (4) by encouraging communication. These four, which are values of corporate governance frameworks, are considered as enablers of effective risk management.From our data analysis, when these five values are integrated within a company's corporate culture, corporate risk is managed more effectively. One subject described corporate governance framework as a "structure that supports the proper functioning of an organization." This structure aids risk management through the four enablers identified above.

For instance, the research subjects identified ethical leadership as a moral guide for employees. The popular opinion from the study subjects is that ethical leadership rubs off employees and encourages them to support the management and board in efforts to manage operational risk. According to Rechtschaffen (2014), when the management develops a sense of integrity in the organization, employees tend to show more willingness to share ad hoc information about events, positions, and industry risks. This information is a reflection of what employees feel the management should know and is volunteered without the need for the management or board to request it. The opposite is true when employees perceive the management to be unethical and corrupt. Therefore, ethical leadership encourages effective two way communication between management and employees. Effective communication, according to the majority view of the research subjects in this study, occurs when employees consider the management to be committed to the goals and values of the organization. This type of leadership tends to be embedded as part of corporate governance framework.

A respondent from a family company that had recently been involved in a corruption scandal reported that the organization had to hire an external executive as part of changing the leadership culture in the organization. He argued that "a rot at the top ultimately spreads downwards as the staff tends to emulate the behavior of the management." The respondent also identified effective communication as an important enabler for effective risk management. In his own words, "information should be shared and understood by all within the organization and on a regular basis." This is consistent with previous findings that intense sharing of information is important for managers to understand the complexity of processes, to assess the preparedness of controls within the organization, and to understand the companywide risk exposure (Borodovsky& Lore, 2000). According to a different interview subject, "managers should nurture an active and trustworthy environment for information sharing."

The respondents also emphasized the importance of linking risk management with the strategic goals of the company. Consistent with previous research, our analysis established that risk management should take a holistic approach whereby it should be integrated with the overall strategy and goals of the organization (Fraser & Simkins, 2010). This allows the organization to identify how risk events might impact on the overall value of the organization (Liu, Lejot, &Arner, 2013). Our data analysis also identified transparency as a key enabler of risk management. Nearly all interview subjects mentioned organizational transparency as essential to identification and mitigation of risk. They linked transparency to effective communication and good working environment. This is consistent with previous research findings. For instance, Carrel (2010) reported that management needs to internally gather all the data relevant to the major risk factors and then communicate this information complete with justifications, control processes, and all other relevant information to all employees in the organization.

The study has also demonstrated that effective risk management is a fruit of good leadership. As one interview participant states:

"The boards of directors and top managers at an organization have the responsibility of creating the strategic direction of the company and to ensure values of good governance are integrated in that strategy, which promotes effective risk management. The board and management also have the responsibility of leading by example and supervising subordinates to ensure the values and principles of the organization are maintained."

Another responsibility of the board and management, according to another study participant:

"Is ensuring the company meets all the legal requirements and industry standards thereby minimizing risks associated with violation of statutory and regulation requirements."

However, the best sentiment was by the executive of a prominent company in the oil industry who stated that:

"Corporate governance contributes to effective risk management in two main ways. First, by establishing internal principles and values of good governance, which develop to become the organizational culture and, second, by instilling trust and confidence between the organization and stakeholders thereby promoting collective responsibility and mutual trust, which limits unpredictability and solitary decisions."

A critical analysis of the abovefindings indicates that corporate governance and risk management have a symbiotic relationship because risk management equally aids corporate governance by assisting managers to identify potential risks and establish measures of mitigating them. Therefore, a corporate governance framework is an important risk intelligence success factor for large enterprises in MEA. Table 2 shows a summary of the link between corporate governance framework and risk management that was identified in this research.

Table 2: Summary of link between corporate governance framework and risk intelligence management

Corporate governance value	Role in risk management
Accountability	• Accountability and transparency are key enablers of risk management • Accountability promotes good working environment and mutual trust
Board and management support	• Risk management should be linked with company's strategic goals, which is a function of the board and top management • The board and management should ensure good values are integrated within the organization to make them part of the organizational culture
Integrity	• Ethical leadership is a moral guide for staff thereby preventing risky unethical behavior, such as corruption. • Integrity enhances mutual trust staff between staff and management, which promotes communication and sharing enhancing chances of mitigating risk
Communication	• Allows managers to understand the complexity of processes • Allows managers to assess the preparedness of controls within the organization • Allows managers to understand company-wide risk exposure

IV. CONCLUSION

The findings of this study show a positive correlation between sound corporate governance measures and risk mitigation. In particular, the study has identified transparency and voluntary disclosure of risk factors as a good measure of enhancing accountability. The benchmark of accountability created by the voluntary disclosures enhances the standards and discipline of the organization, thereby enhancing capabilities to manage risks. Findings from this study imply that one of the best ways of managing risk in an organization is to embed good governance and best practices of risk management within the organizational culture. In other words, corporate governance framework is an important risk intelligence success factor. This study has established that all information associated with the major risk factors for an organization should be disclosed both internally and externally. This type of transparency enhances auditing and understanding of the risk factors as well as an evaluation of how control processes were implemented.In conclusion, this study has demonstrated that most companies consider a sound corporate governance framework to be an important enabler for effective risk management. The study identified four major ways in which corporate governance framework acts as a risk intelligence success factor: (1) by promoting accountability; (2) by encouraging board and management support; (3) by encouraging integrity; and (4) by encouraging communication.This research was limited by the scope of the study. While the study sample was considered as sufficient, efforts to complement the interview with detailed case studies were not possibledue to rejection of such requests by thecompanies as well as lack of sufficient resources. This denied the researcher an opportunity to enrich the research.

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