

RISK MANAGEMENT COMMITTEES' INDICATORS AMONG CHINESE PUBLIC LISTED COMPANIES

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Abstract: *After many company catastrophes, the board of directors' financial and non-financial risk management has garnered attention. Thus, the risk management committee (RMC) is becoming a board-level subcommittee to help the board of directors fulfil its role. This thesis studies the causes of RMC in Chinese public-listed firms. This study examines the relationship between RMC and board features such as independence, CEO duality, size, directorship, meeting, and competence. We evaluated six hypotheses in this study. Annual reports of all firms listed on Bursa China's Main Market for the 2009 financial year were used, except for financial institutions, which are regulated differently. The total sample had 797 firms. This study used logistic regression, as in previous investigations. This study shows that RMC positively correlates with board features such as board size and independent director outside directorships. Other control factors like corporate size and leverage are positively associated with RMC. Company boards of bigger size are more likely to form RMC. Companies with more independent directors use combined RMC for risk governance. Governance theory, particularly agency theory, is somewhat supported by the data, suggesting board monitoring aligns principals' and agents' different interests. This study may help regulators, politicians, and other stakeholders adopt or strengthen risk management reporting standards, especially in developing nations. This report should also encourage the industry to establish an RMC as a governance support tool for risk oversight.*

Keywords: *Risk Management Committee, Board of Directors, Corporate Governance, Chinese Public-Listed Firms, Risk Oversight*

Introduction

Corporate governance requires risk management, especially in publicly listed companies where investors want transparent mechanisms. These organisations' stability and sustainability depend on risk management committees' risk detection, assessment, and mitigation. Risk management committees in Chinese public-listed companies are examined for their creation and effectiveness (Ding and Wei, 2023). China's fast-changing economy and worldwide financial markets make risk management committee methods and practise crucial. Risk management committees must address their unique challenges as publicly listed companies and corporate governance demands grow.

This study examines Chinese public company risk management committees. We analyse the development and effectiveness of these committees to provide a complete picture of their impact on risk management and corporate governance in Chinese companies. Risk management committees in corporate governance, research goals and issues, and the research framework are introduced in this chapter. Later chapters will analyse Chinese publicly listed companies' risk management committee indicators and their relevance.

Publicly listed businesses' risk management committees are a global corporate governance trend. These committees help organisations identify, assess, and mitigate risks in today's complex and changing business environment. Companies must manage risk to safeguard shareholder value and ensure long-term sustainability and resilience. China's fast-growing economy and rising involvement in international financial markets make it an interesting corporate governance and risk management topic. Stock exchanges in the nation have a varied range of publicly listed firms, reflecting its active corporate ecosystem. Risk management committees become more critical as these organisations face globalisation, regulatory changes, and market fluctuations (Yuan, Zhou, Liu and Yan, 2022).

China is aggressively adopting international corporate governance standards. These changes focus on risk management committees to improve openness, accountability, and investor trust. Chinese firms want worldwide investment and development. Compliance with global standards requires understanding and applying effective risk management practices when interacting with international stakeholders. China's business faces regulatory, operational, and geopolitical risks. Effective risk management solutions require studying how risk management committees handle these issues. Domestic and global shareholders seek better company governance and risk control. A robust risk management committee can achieve these objectives and build shareholder trust. Risk management committees are becoming more important in China, but their prevalence, makeup, and efficacy are less known. This study will fill this gap by examining the indicators that affect committee creation and operation. This research highlights the need and timeliness of researching risk management committees in Chinese public businesses (Ching, Rahim and Chung, 2021). This study examines their indicators to understand better Chinese risk governance practises and their implications for corporate governance and risk management in an increasingly linked global business environment.

The committees responsible for risk management in publicly traded Chinese firms are the primary subject of this research project. This is an area that has not been studied in great depth previously. It is unknown whether these committees exist in the Chinese corporate environment, their membership, or how successful they are. In the context of the ever-changing dynamics of corporate governance in China, having a solid understanding of the elements that determine the creation and functioning of these committees is very necessary. Risk management

committees' function in improving corporate governance and risk management practises among publicly listed companies may be better understood via research into these committees. The study aims to contribute to improved corporate governance and risk management in these enterprises. This is especially important in light of the increased attention paid to risk management across Asia, including China, in the wake of the financial crisis that occurred in 1997. The study aims to address a significant gap in the Chinese risk governance literature.

This research affects Chinese publicly listed companies' governance, risk management, and changing environment (Loang & Ahmad, 2023). Research promotes corporate governance in Chinese public companies. It shows how risk management committees encourage transparency, accountability, and responsible decision-making. Chinese companies must understand and use risk management to meet global norms and expectations while dealing with overseas markets and stakeholders. This study connects Chinese corporate governance with international standards. Global and domestic investors respect corporate governance and risk management. Risk management committee studies may increase Chinese investor trust and investment. Chinese regulators can learn from this research on risk management committee regulations' efficacy. Policy reforms may help corporate governance.

Literature Review

Traditional Risk Management

Even well-established enterprises like government agencies are at risk from technological advances (Sadgrove, 2005; Daud & Yazid, 2009). In order to mitigate potential risks, management should develop and implement a comprehensive control plan. This risk management concept dates back to the 1970s. Risk management began with insurance buying to safeguard the company's property and insure against unforeseen events at a price more significant than the projected worth of potential harm. Liebenberg and Hoyt (2003) said unjust insurance premiums affected shareholder wealth. Sadgrove (2005) claimed that insurance was more challenging because insurance firms added exclusion clauses to limit coverage and avoid claims. Some studies advised corporations to buy insurance since it could decrease contracting, bankruptcy, tax, and regulatory expenses (Mayers & Smith, 1982).

Current Trend of Risk Management

The internal control system has become a risk management staple. The U.K. adopted the Cadbury Committee's Code of Best Practice on corporate governance (Cadbury Code) in 1992 following numerous company catastrophes (Loang, 2023). The Cadbury Code required directors to maintain a sound internal control system to protect shareholders and corporate assets. The InternalControl-Integrated Framework (1992) by the Committee of Sponsoring Organisations of the Treadway Commission (COSO) has broad global influence in the U.S.

Despite its growing popularity, enterprise-wide risk management seems underdeveloped. In a poll of 700 AICPA members, 44% said their organisations had no ERM process and had no intentions to establish one (Beasley, Branson & Hancock, 2009). Only 18% of Malaysian listed businesses assessed by Yazid, Hussin, and Razali (2008) embraced ERM. ERM development in Malaysia was relatively young; thus, this was expected. Over half of the 625 directors on 79 Australian and New Zealand boards disagreed or were unsure if their firm had an effective ERM system (Insync, 2008).

Underlying Theory: Agency Theory

Agency theory addresses two main principal-agent issues (Eisenhardt, 1989). Due to different aims, the principal and agent may have a conflict of interest. Managers may have personal aspirations, while shareholders likely mainly care about financial gains to maximise investment returns (Liu & Loang, 2023). Agency issue shows managers may have harmed shareholders. Second, principal and agent risk tolerance differ, causing risk-sharing issues. Risk-averse managers may opt to preserve firm resource consumption over overseas investment prospects that might boost shareholder value. Since agents have better access to corporate operating data than principals, Subramaniam (2006) noted that information asymmetry worsens the agency problem. Thus, principals are incentivised to use numerous methods to reduce agency costs from self-interested behaviour.

Much previous research has used agency theory, notably in board committee investigations. Monitoring committees (audit, remuneration, nomination, and risk management committees) can improve decision-making, directors' diligence, and shareholder interests, reducing the agency problem. Consistent with this premise, monitoring committees were generally found in corporations with larger boards (Reeb & Upadhyay, 2007), larger sizes (Firth & Rui, 2006), and dominant owners, where agency costs were high.

This study finds an RMC to be an effective monitoring tool for aligning principals and agents and reducing agency difficulties. A risk management framework necessitated company-wide involvement in daily risk identification, assessment, and response (Chen, H., Yang, D., Zhang, J.H. and Zhou, H., 2020). This new method relied on sensitising all employees to participate in company choices to meet goals. When principals and agents strive towards the same goal, their interests diverge less. Principals need fast and complete risk information to reduce information asymmetry to make decisions. Effective upward, downward, or horizontal risk information flow within the organisation helps principals judge using available information rather than relying on agents' few data points.

Dependent Variables: Existence of Risk Management Committees

Risk management is increasingly important in global business and finance. Risk management is essential for Chinese public-listed enterprises functioning in the complex interplay of national and international market forces. These corporations' risk management committees have garnered scholarly and practical attention. This literature study examines risk management committees in public Chinese enterprises (Loang, 2023). Risk management committees in Chinese enterprises must be understood from the corporate governance perspective in China. Corporate governance has changed as China's economy has shifted from state-controlled to market-oriented. Open, accountable, and investor-focused practices are replacing traditional hierarchical systems. Regulations and laws impact risk management committees.

Board Independence

Many legislation and best practices emphasise the need for independent directors on boards. The new Combined Code (2008) proposed a balancing board with executive and independent directors to avoid one party dominating decision-making. The NYSE Corporate Governance Rules (2003) recommended a majority of independent directors to improve board supervision and prevent opportunistic executive behaviour. MCGG (2007) also stressed board independence in Malaysia. Provision of best practice In Part 2 of the Code, AAIII recommends one-third independent directorship for the most effective and balanced board composition. In

2009, Bursa Malaysia recommended that all exchange-listed businesses have at least one-third independent directors on their boards.

CEO Duality

The company chairman leads the board of directors (Huse, 2007). The Chairman oversees board operations and shareholder communication. As the term implies, the CEO is a board-elected "agent" who manages the company's daily operations (Huse, 2007). A company's Chairman and CEO may be the same individual. Fosberg (2004) called this CEO duality or unitary leadership structure. When a corporation separated CEO and chairperson, it formed a dual leadership structure (Loang, 2023). Due to the lack of checks and balances, unitary leadership structure independence was controversial. The board oversees the CEO's performance to benefit shareholders. The same individual playing two roles allowed him to evaluate his performance. Thus, this powerful CEO/Chairman would influence the board and reduce its monitoring capacity (Fosberg, 2004; Braun & Sharma, 2007).

Board Size

Scholars had many contradictory theories concerning board size, as no size fits everyone. Small-board proponents said their firms performed better. According to Lipton and Lorch (1992), board sizes beyond seven or eight were prone to inefficiency and coordination issues. Small boards' shared ownership and purpose make their decision-making more real, coherent, and effective. Smaller boards had less social loafing, free-riding, and communication issues, according to Reeb and Upadhyay (2007).

Board Directorship

Though there is no ideal amount of directorships a director should have, some theories criticise overextended directors due to time constraints. Directors who served on numerous boards were unable to dedicate enough time and attention to each board, reducing their capacity to oversee management (Ferris, Jagannathan & Pritchard (2003), Young, Buchholtz & Ahlstrom (2003), Perry & Peyer (2005). Their monitoring failure hurt firm performance and shareholder wealth. Institutional investors and shareholder advocates have suggested limiting directorships to avoid overscheduling their time. In Malaysia, Section 15.06 of the Bursa Malaysia Listing Requirements (2009) specified that directors cannot hold more than ten public-listed directorships and 15 non-listed directorships.

Board Meeting

The Malaysian Association of the Institute of Chartered Secretaries and Administrators (MAICSA) published the Good Governance Guide in 2007 to strengthen AGM's best practices. While MCGG (2007) and Bursa Malaysia Corporate Governance Code (2007) urge regular board meetings, the latter suggests a minimum of six to eight per year for a standard board. The yearly report should also include directors' attendance and board meeting frequency. Similar disclosure criteria have been required by the NYSE since 2003. Boards and independent directors were to meet at least once a year in "executive session" without management under NYSE listing rules (2003).

Board Expertise

Due to a few accounting crises at famous businesses, SOX 2002 made board competence as vital as board independence in corporate governance. SOX (2002) mandates that audit committee directors have financial expertise. Financial experts are "a person who has the accounting-related educational background and prior experience as a public accountant,

auditor, financial controller or any other positions involving the performance of similar functions", according to the SOX—the SEC (2003) expanded the criteria beyond accounting expertise and experience to include experience directing relevant workers and financial statement production or appraisal.¹⁸ The new NYSE (2003) regulations required all audit committee members to be financially savvy and at least one to have accounting or financial management experience.

Conceptual Framework

The following parts comprise the study's hypotheses. A conceptual model is created based on Chapter 1 Section 1.4 research questions. Figure 1 shows six board qualities as independent factors that the thorough literature research in earlier sections suggested may be related to RMC. Also, the same independent variables are utilised to analyse RMC kinds.

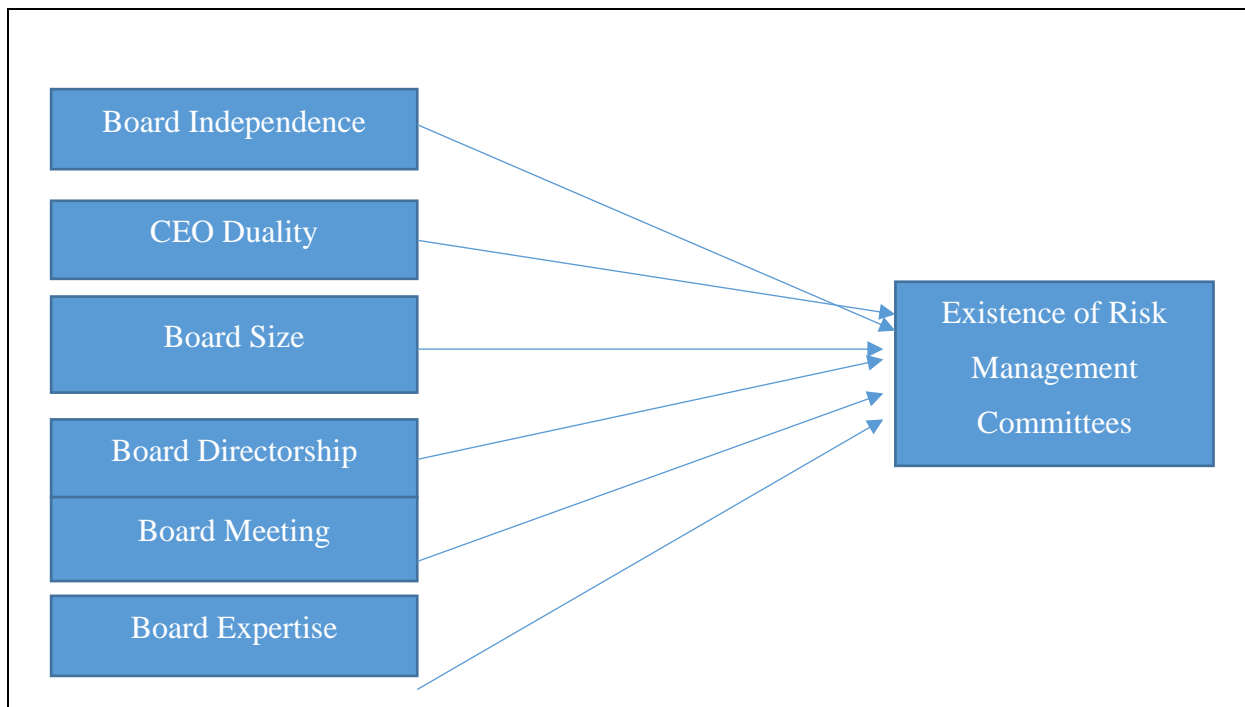


Figure 1: The Conceptual Model

Methodology

Research Design

This quantitative study examines how personality qualities, particularly conscientiousness and agreeableness, affect taxes and financial professionals. This section describes the study strategy, methodologies, data collecting, and analysis used to achieve the research goals. Positivist research emphasises impartiality, measurability, and rigorous quantitative data collecting (Xinning, Z., 2023). Positivism fits the research's goal of studying personality factors, taxation, and finance careers. Most research is descriptive and correlational. It describes professionals' conscientiousness and agreeableness and correlates them with ethical behaviour, professional development, and other results.

Research Paradigm

Social science researchers' perspectives, techniques, and interpretations are shaped by their research paradigms. This quantitative study uses positivist research to examine how personality

factors affect taxes and finance professionals (Dub, B., 2021). Based on empiricism and objectivity, the positivist paradigm fits the study's goal of measuring the correlations between personality qualities like conscientiousness and agreeableness and taxes and finance professional results. Positivism seeks to examine and measure occurrences without researcher bias. The study uses standardised tools and systematic data gathering to collect objective, impartial data. Positivism appreciates empirical evidence through systematic observation and measurement. Using quantitative survey and questionnaire data provides empirical evidence to substantiate research inquiries and hypotheses. Positivism prefers quantitative approaches for numerical data analysis (Bu, A., Azizkhani, M. and Jiang, A., 2023). Quantifying personality characteristics and professional results using statistical methods provides quantifiable proof. Positivism promotes hypothesis-driven research. Research questions generate hypotheses evaluated through statistical analysis to determine connection strength and significance.

Instrumentation

Research relies on selecting and using methods and equipment to collect data methodically and effectively (Koss, D., 2023). In this quantitative study on the effects of personality traits on taxation and finance professionals, several instruments measure conscientiousness, agreeableness, ethical behaviour, and professional development.

Conclusion

This study addresses the increasing significance of risk management committees (RMCs) within the corporate governance framework of Chinese publicly listed companies. With the growing attention towards financial and non-financial risk management following various corporate disasters, the establishment of RMCs has emerged as a pivotal mechanism for enhancing board-level oversight and risk governance. This research endeavors to investigate the factors influencing the creation and effectiveness of RMCs in Chinese corporate settings, thereby contributing to the enhancement of risk management practices and corporate governance standards.

In the contemporary corporate landscape, effective risk management is imperative for ensuring the stability, sustainability, and resilience of publicly listed companies. Against the backdrop of China's rapidly evolving economy and its increasing integration into global financial markets, the role of RMCs in addressing the unique challenges faced by Chinese firms becomes paramount. As such, this study seeks to provide comprehensive insights into the development, functionality, and impact of RMCs on risk management and corporate governance within the Chinese context. The introduction of RMCs reflects a global trend in corporate governance aimed at enhancing risk identification, assessment, and mitigation processes amidst the complexities of modern business environments. These committees play a crucial role in safeguarding shareholder value and ensuring long-term organizational viability, particularly in the face of globalization, regulatory changes, and market uncertainties. In China, where businesses are aggressively embracing international corporate governance standards to foster openness, accountability, and investor trust, the establishment of effective RMCs is seen as instrumental in achieving these objectives and aligning with global best practices.

Despite the growing importance of RMCs in Chinese corporate governance, there remains a dearth of comprehensive research on the prevalence, composition, and effectiveness of these committees. This study aims to bridge this gap by examining the indicators that influence the establishment and functioning of RMCs in Chinese publicly listed companies. By investigating factors such as board size, independence, CEO duality, directorship, and competence, the

research seeks to elucidate the determinants of RMC formation and operation within the Chinese corporate landscape.

The research methodology employed logistic regression analysis using data from the annual reports of 797 firms listed on Bursa China's Main Market for the 2009 financial year, excluding financial institutions subject to different regulatory frameworks. The findings reveal positive correlations between the presence of RMCs and board characteristics such as size, independence, and directorship, suggesting that larger boards with more independent directors are more likely to establish RMCs for enhanced risk governance. These findings align with governance theory, particularly agency theory, indicating that board monitoring plays a critical role in aligning the interests of principals and agents.

Implications and Limitations

The implications of the study extend beyond academic discourse to practical considerations for regulators, policymakers, and stakeholders involved in corporate governance and risk management in China. By shedding light on the factors influencing RMC creation and operation, the research provides valuable insights for strengthening risk management reporting standards and fostering a culture of effective risk oversight within Chinese publicly listed companies. Furthermore, the findings underscore the importance of RMCs as governance support tools for enhancing transparency, accountability, and responsible decision-making in risk management practices.

The study contributes to advancing understanding of risk management committees' indicators among Chinese publicly listed companies, thereby facilitating improvements in corporate governance and risk management practices. However, it is essential to acknowledge the limitations of the study, such as its reliance on data from a single financial year and its focus on specific board characteristics, which may limit the generalizability of the findings. Nonetheless, the research provides a foundation for further exploration and refinement of risk management practices within the Chinese corporate governance framework, ultimately promoting greater transparency, accountability, and investor confidence in Chinese markets.

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