International Business Research; Vol. 12, No. 1; 2019
ISSN 1913-9004 E-ISSN 1913-9012
Published by Canadian Center of Science and Education

Managing Risk Integration for Performance Orientation among Malaysian Firms

Michael Tinggi[1], Shaharudin Jakpar[1], Ng Kim Hui[1]

[1]Department of Accounting and Finance, Faculty of Economics and Business, Universiti Malaysia Sarawak, Malaysia

Correspondence: Michael Tinggi, Department of Accounting and Finance, Faculty of Economics and Business, Universiti Malaysia Sarawak, 943000, Sarawak, Malaysia.

Received: October 18, 2018 Accepted: December 18, 2018 Online Published: December 24, 2018

doi:10.5539/ibr.v12n1p119 URL: https://doi.org/10.5539/ibr.v12n1p119

Abstract

The study is potentially, to explore the effect of discounting for risk on performance of firms listed in Malaysian stocks' market. Risk management has been part of the corporate philosophy in maximizing shareholders' wealth and firms' profit. Managing risk cannot be done in isolation. Too often common risks pertinent to operation, liquidity and financing may be taken for granted by many firms. Risks exist on stand alone, but its implication may negatively severe firms' performance if not addressed or dealt with properly. Integrating and managing risks may potentially improve the quality of business processes, which may orientate towards attaining firms' performance at the corporate level. The 2007 global financial crisis has incidentally highlighted the importance of integrating and managing risk and its effect on business. Empirical evidences from the Panel Random Effect (RE) analysis of the above companies showed that the firm's ability to manage and integrate operating, liquidity, and financial risks steer the firms towards performance orientation.

Keywords: managing risk, integrating risk and performance orientation

1. Introduction

1.1 Background

Risk is quite often being associated with uncertainty of a future outcome. The risks that the firms encounter are often multifaceted, complex and interlinked. Managing risk cannot be done in isolation. Risks may exist on stand alone, but it may bring about severe negative bearing if not addressed properly. Board of directors and other senior executive managements of the company are expected to be responsible enough, to ensure that risks are being mitigated seriously. In the current turbulent business environment, there is a greater responsibility for risk management issue to be put in place properly. Risk is the possible outcome of uncertainty. Business activities are affected by factors such as strategic, operational and financial failures, market disruptions, environmental disasters, and regulatory violations. Firms would normally take appropriate level of risk in order to earn adequate returns. The more common type of risks are market risk and unsystematic risk including liquidity risk, financial risk, and operational risk that may be affecting business performance. The global financial crisis, which occurred in 2007-2008, highlighted the impact of ignoring risk, when US market and the worldwide financial system suffered biggest financial turbulence. The collapse of Bear Stearns and Fannie Mae and Freddie Mac, the fall out of the Lehman brothers and the disposal of Merrill Lynch have brought about much instability to the international financial market. The financial meltdown has highlighted the importance of risk management and its effect on business. Risk management is indeed a process of identifying, quantifying, and managing uncertainty. Essinger & Rosen (1991) and Mohsen, Arezoo, & Vahid (2011) define risk management as an effective tool to minimize any undesirable risky effects which may potentially maximize the benefits of the risky situations. Risk management is a relatively recent corporate philosophy with the objective of maximizing shareholder wealth while minimizing the uncertainty faced by the business. Excessive risk may increase business uncertainty, which will bring about lower returns or even cause corporate default to the organization. Therefore, firm should manage certain risk that is more or less corresponding to the firm strategic action in order to create value to its shareholders and the firms' performance.

The current global business environment is exerting more pressure on the need to continuously improve the corporate performance. No matter where and what type of business the industry is embarking on, the same