

The Effect Of Risk Management Committee And Ownership Concentration On Firm Performance In Emerging Markets: Empirical Evidence From Malaysia

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Abstract:-

This study examines the effect of Risk Management Committee (RMC) and Ownership Concentration (OWC) on business performance measured by Return on Assets (ROA) and Tobin's Q. It also investigates whether OWC moderates the relationship between RMC and performance of the top 300 non-financial firms listed on Bursa Malaysia. Data was collected for the years 2016 to 2018, representing 807 firm-year observations. Panel-corrected standard error was used to analyse the data. The findings show that RMC has a positive and significant effect on the accounting performance (ROA) and the market performance (Tobin's Q). However, the result also indicates that OWC has a significantly negative direct relationship with both performance measures. This study supports the entrenchment argument that OWC has the motives and ability to manipulate financial indexes for private benefits which may eventually adversely affect prospective investors and may reduce the level of firm performance. The findings suggest that OWC has a significant negative moderating effect on the relationship between RMC and firm performance. This study extends to the theoretical perspective by providing full understanding of the impact of ownership concentration as a moderating factor on the effects between RMC and company's performance in emerging markets. These results are beneficial for policymakers, investors and regulators in raising the awareness of improving internal monitoring activities in Malaysia to protect minority shareholders and investors from large shareholders' domination.

Keywords: Risk Management Committee, Ownership Concentration, Firm Performance, Emerging markets.

1.0 Introduction

Businesses' performance is a significant instrument for economic growth and one of the most crucial financial performance indicators of its overall corporate success (Alkurdi, hamad, Thneibat, & Elmarzouky, 2021; Saeidi, Sofian & Rasid, 2014). However, a high level of firm's performance is usually associated with a high business' risk. To maintain organizational success, protecting investors, ensuring the rights of stakeholders, and decrease the potential of financial risk, it is important to establish and increasing knowledge of risk management mechanisms (Akindele, 2012; Ghazieh & Chebana, 2021). In general, the Risk Management Committee (RMC) and Ownership Concentration (OWC) are important corporate governance

measures. The practice of RMC provides an essential tool to minimizing financial risk (Abdullah & Said, 2019; Elamer & Benyazid, 2018; Jia et al., 2019). The RMC also as guidance and supports corporate boardrooms in decision making to increase investors' worth and organizational performance (Bhuiyan, Cheema, & Man, 2020).

According to agency theory, the RMC can play an essential function in reducing the likelihood of conflicts of interest between the company's management and its shareholders, which resulting in improved the value of shareholders and thus contributing in increasing firm performance (Elamer & Benyazid, 2018; Rimin et al., 2021). Hence, RMC is considered as an important channel to maintain and improve market return of

companies by increasing the assessment and monitoring of operational risk (Ghazieh & Chebana, 2021; Rimin et al., 2021).

Family businesses are widely common in emerging markets, most of these companies might expose high risks complexity that linked with business' activities, and traditional audit committee may not be inadequate for analyzing and monitoring financial and non-financial risk because members of audit committee do not have adequate experience and limit of resources, and it is necessary to separate risk committee RMC from the audit committee (Bozec & Dia, 2017; Rajverma et al., 2019; Rimin et al., 2021). Consistent with this, Malaysian regulatory authorities set a code of MCG 2017 and the recently updated MCG 2021 requires all business companies to establish a separate risk management committee (RMC) to enhance internal control system and advice the listed companies should operate with effectiveness of risk management mechanisms are able to prevent the manipulation of financial reporting (Securities Commission Malaysia [SCM]. 2017, 2021).

Recent studies provided additional evidence that the presence of a RMC and risk management disclosure improves internal monitoring mechanisms and also minimizing business risk which leads to enhance firm value and its performance (Bhuiyan et al., 2020; & Rimin et al., 2021). Based on Nabihah & Yasin (2017), despite the increasing worldwide attention and highly recommendation by Malaysian securities commission, companies are remained not broadly practices and its implementation is still at a weakly level, not higher than 30% among non-financial companies.

OWC is one of the most effective characteristics in ownership structure, and it indicates to the percentage of equity share controlled by single stockholders and block-holder investors (investors who own at least 5% of the company's equity) (Boyd & Solarino, 2016). Among others, Shah, Zuoping, Abdullah & Quresh (2019); Waheed & Malik (2019); Yahyazadehfar, Shababi, Hosseini, and Samira (2015) conclude that firms

with highly concentrated ownership is linked with increased managerial control, minimized in agency issues, and increased the effectiveness of board of directors. Meanwhile, when ownership holdings are concentrated, there is a greater motivation for managers to assert control over their organizations and maintain high levels of performance. Regarding the function of OWC, the scientific literature has a diversity of viewpoints. There has been studies demonstrates that OWC is an effective channel for reducing agency concerns and promoting investor confidence (e.g., Balsmeier & Czarnitzki, 2017; Nguyen, Locke, & Reddy, 2015). On the contrary, other scholars conclude that OWC contributes to ineffective internal governance structures, leading to conflicts between majority and minority shareholders, and thus reducing in the capacity of management to control internal operations (e.g., Al-Najjar & Kilincarslan, 2016; AlQadasi & Abidin, 2018; Qa'dan & Suwaidan, 2019; Zhuang, Edwards, & Capulong, 2001).

Malaysia's capital market is dominated by ownership concentration among families and individuals (Al-Jaifi, 2017; AlQadasi & Abidin, 2018; Amran & Ahmad, 2013; May, Fah, & Hassan, 2018; Yunus, 2011). Furthermore, most companies which are family-owned have a board of directors controlled by inside shareholders, which can lead to expense of minority investors and may minimize impacts of internal controlling mechanisms; thus ownership concentration remains in the hands of small number of shareholders may have a negative impact on the interests of other shareholders, which could contribute to increase in agency problems (Taufil-Mohd, Md-Rus, & Musallam, 2013). The presence of such concentrated owners along with weak legal system enforcement and high businesses' risk, negatively influence corporate performance (Aldhamari, Mohamad Nor, Boudiab, & Mas'ud, 2020; Aluchna & Kaminski, 2017; Tran & Le, 2020).

Business' companies in East Asia markets such as Malaysia are classified by highly concentration of ownership, partially leads to the conflict of interests between the minority and the majority

shareholders, which refers to type II agency problem (AlQadasi & Abidin, 2018; Bar-Yosef & Prencipe, 2013; Claessens and Fan, 2002). However, as compared to minority owners and large shareholders, the major shareholders have the benefit of having access to more confidential and valuable knowledge about the business's future profitability, which resulting in increased organizational performance (Chi, Hung, Cheng, & Lieu, 2015). In addition, the controlling mechanisms functions of the board of directors and its committees are generally stronger in companies with high concentrated ownership rather than business with low ownership concentration (Aguilera, 2005; Filatotchev et al., 2013; Leech, 2001). Moreover, the nature of business environment in developed countries such as the United States and the United Kingdom differs from that in Asia markets, where ownership is broadly dispersed among a significant number of shareholders, an established external corporate governance mechanism exists.

Studies of concentrated ownership on firm performance have been widely conducted around the world and had reported mixed results. One group of studies provide support for a positive effect of ownership concentration on performance (e.g., Al Ani & Al Kathiri, 2019; Chatterjee & Bhattacharjee, 2020; Kao, Hodgkinson, & Jaafar, 2018; Shahrier, Ho, & Gaur, 2020). On the other hand, another group of research found evidence for a negative effect of ownership concentration on performance (e.g., Altaf & Shah, 2018; Paramanatham, Ting & Kweh, 2018; Rajverma et al., 2019). At the same time, another group of scholars conclude for a non-linear relationship between the two variables (e.g., Al Farooque et al., 2019; Matinez-Garcia et al., 2020; Saidat et al., 2019).

The present study examines the effect of RMC and concentrated ownership on firm performance. It is built upon earlier findings from Malaysia which suggest a positive effect of concentrated ownership and firm performance (Amran & Ahmad, 2013; Shahrier et al., 2020; Ting et al., 2017). These authors claim that concentrated owners would apply their knowledge and resources to enhance the monitoring mechanisms and thus, reduce the

agency conflict between the directors and shareholders, leading to improved firm performance (Ibrahimi, Ahmad & Albaity, 2019). Due to the inconclusive findings of the effect of concentrated ownership on firm performance to date, this study further examines whether ownership concentration moderates the effect of RMC on firm performance in Malaysia.

The rest of the paper is structured as follows: The literature review and hypotheses development are discussed in section two while the sample and data collection are presented in section three. In section four, the methodology of the study and the related models are addressed followed by the results and discussion in section five. Finally, the conclusion and recommendations for further research are presented in section six.

2.0 Literature Review and Hypotheses Development

2.1 Risk Management Committee and Firm Performance

In general, the failures of large companies around the world has increased attention for a stand-alone risk management committee to support the boardrooms in controlling and assess business' risks in order to maintain organizational performance and enhance investor relations (Rimin et al., 2021). According to the agency theory indicated that RMC is an important in reducing the conflicts of interests between owners and agents, which may contribute to increase shareholders' protection and improving firm value and its performance (Elamer & Benyazid, 2018). RMC is a board subcommittee which aim to supervise the risk management practises within an organization to reduce the effects of risks. A risk management system is also part of the corporate governance structure, which aims to maximize shareholder value and improve business performance (Ames, Hines and Sankara, 2018; Halim, Mustika, Sari & Anugerah, 2017; Kallamu, 2015). The idiosyncratic risk which include both financial or non-financial can expose losing of reputation and business relations refer to lack of guidelines and knowledge in business investment. Hence, most firms in emerging

markets are generally exposed to high level of risk due to absence of implement of risk mechanism, high degree of concentrated ownership, insufficient environment investment and legal system structure (Bozec & Dia, 2017; Ng, Boon Heng, San Ong & Soh, 2013; Rajverma et al., 2019).

Based on available studies indicated that, RMC can ensure and support managers in reducing investments' operational risk in order to enhance company's performance (Abdullah & Said, 2019; Elamer & Benyazid, 2018; Kallamu, 2015; Minton et al., 2014; Musallam, 2018). Failure to set up a separate risk management committee at board-level may result in considerable losses for businesses, reducing a company's ability to fulfill its ultimate objective and lowering shareholder value (Halim et al., 2017). Several studies demonstrated the function of internal control in reducing these risks (e.g., Abdullah & Said, 2019; Ames et al., 2018; Ghazieh & Chebana, 2021; Tao & Hutchinson, 2013), and avoiding financial crime in companies (Abdullah & Said, 2019). As a result, strong corporate governance structure requires an effective of risk management committee in improving investors relationship by lowering firm risk (Abubakar, Ado, Mohamed & Mustapha, 2018).

The presence of sperate risk management committee (RMC) with majority of independent directors to effectively monitor business risk management framework and related practices still remain voluntary and not mandatory in Malaysia, eventhough highly recommended by Securities Commission of Malaysia. Based on MCCG 2017 and the recently updated MCCG 2021 (Securities Commission, 2017, 2021), firms should create an independent RMC with sufficient number of independent directors. Most Malaysian companies still combine RMC functions with the audit committee, the traditional audit committee is unable to analyze and monitoring financial and non-financial risks (Kallamu, 2015; Nabihah & Yasin, 2017; Rimin et al., 2021), because, the audit committee with further responsibilities which has generally weakness in terms of resources such as time and experience required to effectively

supervise organizational risk management activities, and a separate risk mangment committee RMC is preferable thus that it can evaluate the purposed tasks for the firm (Aldhamari et al., 2020). As a result, many studies conclude that switch responsibilities to a separate RMC instead of a combined with audit committee which resulting in improving risk management practice (e.g., Abdullah & Said, 2019; Aebi, Sabato & Schmid, 2012; Bhuiyan et al., 2020).

Litertures in developing countries report a positive effect between RMC and company's performance. For instance, in Indonesia Halim et al.,(2017) provided empirical evidence that having RMC at board-level enhances the effectiveness of internal monitoring system and improves the financial reporting quality, and thus contrbutating to increase Return on Assets (ROA) to measure corporate performance. The study employed panel data regresstion from annual reports of 299 Indonesian's companies related to non-financial business listed on main market for the 2014 fiscal year. Another study was conducted in Malaysia by Aldhamari et al., (2020) who examined a sample of financial companies between 2004 and 2018 to determine the effect of RMC's effectiveness and firm performance through political connections.The finding reports that RMC was positively related to company's performance as assessed by Tobin's Q and Return on Assets (ROA). In addition, Musallam, (2020) suggests that the establish of RMC inside a firm can improve internal control and minmaze the asymmetry of information linked with agency problems, resulting in enhacing the performance of 31 companies belong to Palestinian non-financial sector for a seven-years period from 2010 to 2016.

In the european countries such as United Kingdom, France and Germany, a study of Ghazieh & Chebana; (2021) also highlighted that the presence of RMC has a significant positive influence on accounting and market performance, as measured by ROA, ROE, and Tobin's Q. Using sacandary data that was obtained from 320 companies listed on stock markets exchange over the period of ten-year between 2005 and 2014. Along the same line, Bhuiyan et al., (2020) investigated the effects of

stand-alone RMC on company's risk-taking and corporate value. By testing 1,901 firm-year data from Australian, stock market, during the period of (2001 - 2015). The results showed that firms with an independent RMCs have a greater opportunity to increase their company's value. According to authors, the existence of RMC improves internal governance structures, which lessens financial risks and enhances corporate value, thus increasing investors' protection.

In UK, Malik, Zaman and Buckby, (2020) conducted on 260 firm-year observations from 2012 to 2015, and regression analysis was employed to examine the hypotheses testing. The results found that effective RMC at board-level has positively and significant effect related to market performance as measured by Tobin's Q. Other researchers such as Aebi et al., (2012) and Gordon et al., (2009) report that the presence of a separate RMC declines a business' overall risk of financial distress and therefore, improves its performance, especially in companies with robust internal monitoring mechanisms. Moreover, another study also investigated the relationship between the existence of RMC in an organization and the quality of financial reporting companies listed on the Australian Stock Market during the period between 2001 and 2013. It has been demonstrated that RMC's lowering of discretionary accruals contributes to an improvement in financial reporting as a whole (Bhuiyan, Salma, et al., 2020).

However, other scholars suggest a negative and significant influence of RMC on company's performance, such as Aslam & Haron, (2020) found that the RMC was negatively and significantly related with company performance as assessed using ROA and ROE. In the eight years between 2008 and 2017, with final sample of 129 Islamic banks representing 29 various Islamic nations were utilized. Consistently, Elamer & Benyazid, (2018) report that the RMC has a significant negative effect on performance of 334 financial institutions listed in the FTSE-100 index in the United Kingdom between 2010 and 2014. The same negative result supported by Zemzem & Kacemb, (2014) who examined performance of 17 Tunisian financial institutions from 2002 to 2011, and found

that RMC has a negative impact on ROA, ROE, and Tobin's Q. Other group of studies also proved that no association between RMC and business' performance. For example, Ali, Besar and Mastuki, (2017) utilized a sample of 250 publicly traded companies listed on the Malaysian's main market for a ten-years period (2005 - 2015) and could not find any empirical evidence in supporting of RMC.

Based on the above, this study predicts that RMC will enhance firm internal governance, resulting in improved performance. Accordingly, the following hypotheses are proposed:

H1: The existence of RMC has positive effect on firm performance.

H1a: There is positive effect of RMC and ROA.

H1b: There is positive effect of RMC and Tobin's Q.

2.2 Ownership Concentration and Firm Performance

Following the agency theory, there is a link between ownership structure and firm performance (Jensen and Meckling, 1976). Along the same line, Shleifer and Vishny (1997) conclude that the separation of ownership and management creates the agency problem which results in increasing agency problems between shareholders and management. Shareholders attempt to protect ownership structure by concentrating ownership in a few number of investor who may exert influence over operation management, thus reducing the agency conflicts and enhancing organization performance (Altaf & Shah, 2018; Colpan & Yoshikawa, 2012). Meanwhile, when high large-holders' ownership stakes raise, they may have a more incentive to maximize their performance and supervise corporate managers rather than disperse ownership. On the other hand, Yeh, (2019) suggests that when large shareholders strive to dominate the firm's resources and its operations, the agency cost and conflicts could be increased between minor and major shareholders (type II) instead of manager and owners (type I). Consequently, ownership concentration has two opposing conflicting known as the alignment impact and the entrenchment impact (Jensen and Meckling's, 1976).

According to the idea of the entrenchment impact is that ownership concentration encourages shareholders who have a higher proportion of equity share inside a firm to control the profits and how earnings are allocated and thereby, promoting them to abuse the minority shareholders' wealth. For instance, they might utilize their voting rights to further their own self-interest, at the expense of minority shareholders (Arthur, Chen, & Tang, 2019). In the case of the entrenchment behavior, the large shareholders have both the motivation and the opportunity to financial reports' manipulation in order to achieve personal interest, and creating raised information gap between the minority and the majority shareholders which could influence investors' perspective (Altaf & Shah, 2018; Claessens et al., 2002, 2005; Nguyen et al., 2015).

In Malaysia as emerging market, on other hand, companies are generally controlled by substantial shareholders who can significantly effect company's choices and strategies. These controlling shareholder can reduce the efficiency of the board performance by the selection of external directors as members (Al-Jaifi, 2017; AlQadasi & Abidin, 2018; Amran & Ahmad, 2013; Yunus, 2011). Besides, dominant shareholders may also use firm's resources for self interest especially in markets with quite low legal system enforcement for the minority shareholders' protection. A deficient legal structure could also impact the business' environment, and thus leading to inversely influence on company's ownership (Matinez-Garcia et al., 2020; Al Farooque et al., 2019). Therefore, the entrenchment impacts, ownership concentration seems to be negatively associated with performance of companies.

However, the alignment impact is based on the concept that the major and minor shareholders' interests are closely aligned. Consequently, the interest of dominant shareholder appears to be the same line with the companies' interests. Controlling shareholders are encouraged through the monitoring mechanisms to minimize agency costs and maximize the overall organization performance (Alkurdi et al., 2021; Bhagat & Bolton, 2019; Haider & Fang, 2016; Kao et al., 2018; Lepore, Paolone, Pisano, & Alvino, 2017; Shleifer & Vishny, 1997; Waheed & Malik, 2019). Therefore, the concentration of ownership provides an effective measure that large shareholders are not exploiting the other shareholders in their effort to enhance internal corporate effectiveness and efficiency (Edmans, 2009). In other words, companies with highly concentrated ownership are pushed to control of management in order to accomplish short and long-term business' success. They are motivated to control opportunistic managers' behavior in protecting the rights of shareholders instead of increasing their own personal gain (Arthur et al., 2019). The alignment impact assumes that ownership concentration is predicted to be positively linked with company's performance.

Studies in developed and developing nations provide empirical evidence of a positive effect of ownership concentration on firm performance. In other words, when ownership is highly concentrated, companies reduce agency issues since dominant shareholders afford the best controlling mechanism to monitor opportunistic managers (Altaf & Shah, 2018; Desoky & Mousa, 2013; Kao et al., 2018; Nguyen et al., 2015; Puni & Anlesinya, 2020; Shahrier et al., 2020). As legal enforcement is insufficient in general Asian markets, large shareholders provide the higher shareholders' protection (e.g., Bhagat & Bolton, 2019; Haron, 2018; Heugens, Van Essen, and Van Oosterhout, 2009; Waheed & Malik, 2019). Moreover, firms with high concentrated ownership especially family-controlled are highly motivated to increase corporate performance (e.g., Kao et al., 2018; Rajverma et al., 2019; Reddy, Locke, & Scrimgeour, 2010).

In Asia markets including Malaysia, it has been demonstrated that ownership concentration is highly concentrated in the hands of individuals or families (Al-Jaifi, 2017; AlQadasi & Abidin, 2018; Amran & Ahmad, 2013; Yunus, 2011). In Saudi Arabia, Al-Ghamdi and Rhodes, (2015) compared family and non-family firms, and reported that ownership concentration had a significant positive effect on the performance of family firms, using a sample of 792 firm-years from 11 industry groups for the years 2006–2013. Din et al., (2021) also support the same conclusion using data for the period 2003–2012 retrieved from Pakistan Stock Exchange (PSX) for 146 industrial enterprises. These findings are consistent with the agency theory's prediction that insider ownership concentration aligns shareholders' interests with those of managers, resulting in improved firm performance. This result also supports the study by Shyu, (2013) who examined a U-shaped relationship between insider ownership and business financial performance, implying that higher levels of insider ownership may increase firm performance.

In developed countries such as New Zealand, Gaur et al., (2015) concludes that ownership concentration may create agency issues, resulting

in poor performance. Also, in Poland, Aluchna and Kaminski, (2017) highlighted that concentrated owners attempt to increase their own personal gain at the abuse of minority shareholders, and thus leading to a negative impact of ownership concentration on company's performance. This result was collected based on a sample of 495 listed non-financial firms from 2005 to 2014, using panel data to test the hypotheses. Wang & Shailer, (2015) examined 42 listed corporations in 18 emerging markets from 1999 to 2010 and report a negative relationship across countries. The authors conclude that the absence of a well-developed institutional environment, corporations with majority shareholders result in block-holder expropriation.

In Malaysia, Ahmad et al., (2020) provide evidence that highly concentrated ownership negatively affect the firm sustainability based on the data of the top 200 Malaysian public listed companies for the period 2009 to 2015. Consistently, Altaf and Shah, (2018) also conclude that increasing ownership concentration negatively affect firm performance over a five-year period in 236 Indian manufacturing enterprises (2009–2014). They document that firms with highly concentrated owners have the capacity and power as controlling shareholders to abuse rights and maximize the level of expropriations at the expense of the minority shareholders.

Empirical results of non-linear relationship between concentrated ownership and firm performance have also been reported (e.g., Saidat et al., 2019; Tran & Le, 2020). In Jordan, Saidat et al., (2019) used a sample of non-financial firms listed on the Amman Stock Exchange from 2009 to 2015 to examine the relationship between corporate governance and financial performance. Likewise, in Vietnam Tran & Le (2020) analyzed 502 non-financial listed firms and found no relationship between ownership concentration and performance as measured by ROA and Tobin's Q.

Although the empirical results on the effect of concentrated owners on firm performance are mixed, this study predicts that high ownership concentration enhances the monitoring functions

and improve firm performance. Thus, the following hypotheses are proposed:

H2: Ownership concentration has a positive effect on firm performance.

H2a: There is positive effect of ownership concentration on ROA.

H2b: There is positive effect of ownership concentration on Tobin's Q.

2.3 Risk Management Committee, Ownership Concentration and Firm performance

According to Jensen and Meckling's (1976) the separation of ownership and control generates an agency issue where managers' decisions are guided by their own self interests rather than that of the shareholders. Effective internal control mechanisms function to reduce business risk and avoid poor performance. Ownership structure represents one of the corporate governance characteristics and it may differ among different capital markets. Corporate governance is designed to protect the stakeholders by reducing the agency problems due to conflicts of interest between managers and shareholders (type I) or between the minority shareholders and significant shareholders (type II) such as misappropriations of firm resources (S. Shatnawi, M. Hanefah, A. Adaa & M. Eldaia, 2019). Generally, dispersion of ownership is associated with developed countries while concentrated ownership is common in the East Asian nations (Bar-Yosef & Prencipe, 2013; Claessens & Fan, 2002).

Poor legal system enforcement and low institutional structure in business' environment along with concentrated ownership may lead to reduce the effectiveness of RMC and firm's managers to enhance performance of these companies (Aldhamari et al., 2020). Insufficient risk management mechanisms might contribute to firm losses and lessen business capacity to increase shareholders' wealth (Halim et al., 2017). Besides, most companies in emerging economics are controlled by significant shareholders or family-owned which frequently associated with high financial risk, leading to financial losses for a

company and limit its ability to increase the value of its shareholders (Rajverma et al., 2019).

Firms in Malaysia are characterized by high ownership concentration, mostly among insiders and relatively weak corporate governance system (AlQadasi & Abidin, 2018; Bar-Yosef & Prencipe, 2013; Claessens et al., 2002). Aguilera, (2005) and Filatotchev et al., (2013) found that the board's monitoring role of management is not effective in firms with concentrated owners compared to those with dispersed ownership. Further, Waheed and Malik, (2019) document that companies in East Asia with high ownership concentration provide motivations for controlling shareholders to expropriate firms' resources and thus, unable them to satisfy the interests of multiple shareholders (Waheed & Malik, 2019). As a result conflict of interests between minority and majority shareholders may arise (AlQadasi & Abidin, 2018; Claessens et al., 2002; Yunos, 2011). In contrast, other scholars argue that when ownership is highly concentrated, the controlling shareholder's interests appear to align with the firms' interest, and therefore, increase firm performance (e.g., Arthur et al., 2019; Shahrier et al., 2020). Empirical results document that most Malaysian companies with ownership concentration are dominated by small number of anonymous nominees and company' performance is directly influenced by these substantial shareholdings (Yunos, 2011).

Studies to date, indicate gaps in the findings due to several factors. For example, in developing countries, firms owned by large shareholders have the ability to control the misalignment of firms' managers and expropriation of minority shareholders' wealth through RMC. According, the present study examines the moderating effect of concentrated ownership on the effect of RMC on firm performance. The following hypotheses are proposed based on the above discussion:

H3: Ownership concentration moderates the effect of RMC on firm performance.

H3a: Ownership concentration moderates the effect of RMC on ROA.

H3b: Ownership concentration moderates the effect of RMC on Tobin's Q.

3.0 Methodology

3.1 Sampling and Data collection

This study uses data from 2016 to 2018 of non-financial firms listed on Bursa Malaysia's Main Market. The top 300 companies based on market capitalization form the sample of the study and a panel data analysis was employed. Financial firms were excluded in this study since they operate under a different regulatory framework. Data was gathered from the company's annual reports accessible from the Bursa Malaysia website and business financial data from the DataStream. The final sample consists of 269 firms, with a total of 807 observations across the sample period. These years were chosen because the new code of corporate governance which was introduced by the Malaysian Securities Commission in 2012 was revised in 2017. The study focusses on the listed firms since these companies are publicly owned and must comply with the prevailing reporting standards and governance practices. Table 1 presents the sample selection procedures

Table 1: Study sample

| Panel A: Sample selection | |
|------------------------------------------------------------------------|-----|
| Observation of top 300 non-financial firms listed (300 firms *3 years) | 900 |
| Less: | |
| Financial firms (12 firms *3 years) | 36 |
| Firms with missing data (19 firms *3 years) | 57 |
| Final study sample observation (269 firms *3 years) | 807 |

3.2 Variables and Measurements

The following sub-sections discuss the research variables and the measurements used in this study:

3.2.1 Dependent variables:

Two types of firm performance are measured. The first is the accounting performance which is proxied by ROA and the second is market-based performance which is assessed by Tobin's Q. These variables are frequently used in previous studies (e.g., Kenga, S. T., Nzulwa, 2018; A. W. Khan & Abdul Subhan, 2019; Li & Roberts, 2018; Mishra & Kapil, 2017). ROA is defined as net income over total assets at the end of the year. On the other

hand, Tobin's Q is defined as the sum of market value of equity and the book value of total liabilities divided by the book value of total assets (e.g., Assenga et al., 2018; Puni & Anlesinya, 2020; Rajverma et al., 2019; Rashid, 2020; Tran & Le, 2020; Waheed & Malik, 2019).

3.2.2 Independent variables:

RMC in this study can be a stand-alone committee or a joint committee with the audit committee. Following Halim et al., (2017) and Nabihah & Yasin (2017), firms with stand-alone or a joint RMC is coded as 1 while a non-existence of RMC is coded as zero. The second variable which is ownership concentration (OWC) represents the level of concentrated ownership in the firm. Similar to previous studies, this research measures ownership concentration by the share of substantial shareholders who hold at least 5% of the company's share (e.g., AL-Qadasi et al., 2018; AlQadasi & Abidin, 2018; B. Ghaleb, H. Kamardin & A. Al-Qadasi, 2020; Yunos, 2011).

3.2.3 Control variables:

The following control variables are included in this study: business size, leverage, liquidity, firm growth, and board independence. The logarithms of the book value of total assets were used to determine firm size (SIZE) while leverage (LEV) was calculated as the ratio of a company's total debt to total assets (e.g., Nguyen, Locke and Reddy, 2014; Yu & Ashton, 2015; Waheed and Malik, 2019; Dzingai & Fakoya, 2017). Liquidity (LIQ) is defined as the ratio of current assets to current liabilities (e.g., Alkurdi, et al., 2021) and the ratio of capital expenditures to revenues was used to proxy firm growth (FG) following Poutziouris, Savva, & Hadjielias (2015). Finally, the proportion of independent directors on the board of directors (BODIND) is used to determine board independence (e.g., Assenga et al., 2018; Yu & Ashton, 2015). Table 2 presents study's variables measurements which are used in research model.

Table 2: Variables Measurement in the Research Model

| Variable | Symbol | Measurement | Data Source |
|-------------------------------------|--------|------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|
| Return on Assets | ROA | Net income divided by total assets at the end of the year. | Financial statements (Data Stream) |
| Tobin's Q | TQ | Market value of equity plus book value of total liabilities divided by book value of total assets | Financial statements (Data Stream) |
| Risk Management Committee Existence | RMC | RMC is classified into two separate RMC and RMC combining with the audit committee, will be used "1" and non-existence will be used "0". | Annual report |
| Ownership Concentration | OWC | Proportion shares of substantial shareholders who hold at least 5 percent of company's shares. | Annual report |
| Firm Size | FSIZE | Logarithm of the book value of total assets. | Financial statements (Data Stream) |
| Leverage | LEVE | Ratio of the firm's total debt to its total assets. | Financial statements (Data Stream) |
| Liquidity | LIQU | Current ratio of current assets over current liabilities. | Financial statements (Data Stream) |
| Firm Growth | FG | Ratio of capital expenditures over revenues. | Financial statements (Data Stream) |
| Board Independence | BODIND | Percentage of independent directors on the board. | Annual report |

3.3 Model specification

ROA and Tobin's Q are used to measure the dependent variable which is firm performance using the following regression equations:

$$ROA_{it} = \alpha + \beta1RMC_{it} + \beta2OWC_{it} + \beta3SIZE_{it} + \beta4LEV_{it} + \beta5LIQ_{it} + \beta6FG_{it} + \beta7BODIND_{it} + error\ terms_{it} \tag{1}$$

$$Tobin's\ Q_{it} = \alpha + \beta1RMC_{it} + \beta2OWC_{it} + \beta3SIZE_{it} + \beta4LEV_{it} + \beta5LIQ_{it} + \beta6FG_{it} + \beta7BODIND_{it} + error\ terms_{it} \tag{2}$$

RMC and OWC represent the primary independent variables while firm size (SIZE), leverage (LEV), liquidity (LIQ), firm growth (FG), and independent directors (BODIND) are the control variables. To evaluate the models, panel-corrected standard error (PCSE) estimation was employed to solve the problem of heteroscedasticity and autocorrelation in the data.

To examine the interaction effect of OWC on the effect of RMC on firm performance, this study applies the following estimation models:

$$ROA_{it} = \alpha + \beta1RMC_{it} + \beta2OWC_{it} + \beta3RMC_{it} * \beta3OWC_{it} + \beta3SIZE_{it} + \beta4LEV_{it} + \beta5LIQ_{it} + \beta6FG_{it} + \beta7BODIND_{it} + error\ terms \tag{3}$$

$$Tobin's\ Q_{it} = \alpha + \beta1RMC_{it} + \beta2OWC_{it} + \beta3RMC_{it} * \beta3OWC_{it} + \beta3SIZE_{it} + \beta4LEV_{it} + \beta5LIQ_{it} + \beta6FG_{it} + \beta7BODIND_{it} + error\ terms \tag{4}$$

In models 3 and 4, the interaction effect of RMC and ownership concentration (RMC×OWC) was examined for both the accounting and market performance. If ownership concentration is harmful to a corporation and RMC plays an important role in monitoring and thus, improving firm performance, a positive coefficient is expected for the interaction effect. To account for heteroskedasticity, autocorrelation, and cross-sectional dependence, we use panel-corrected standard error (PCSE) estimation.

4.0 Empirical Results

4.1 Summary of Statistics

Table 3 shows the descriptive statistics for the variables examined in this study. The findings reveal that the mean value for the accounting performance (ROA) is 7.0938, with a maximum of 30.39 and a minimum of -8.48. These figures demonstrate a broad range of ROA in Malaysia, with a high standard deviation of 7.188. These numbers show that there is a significant gap in performance across firms. The mean value for Tobin's Q which represents the average market performance is 1.5282, suggesting that these firms are performing very well during the study period.

Table 3: Descriptive statistics (N = 807)

| Variable | Mean | Median | Min | Max | Sd | Skewness | Kurtosis |
|-----------|--------|--------|-------|-------|--------|----------|----------|
| ROA | 7.0938 | 5.57 | -8.48 | 30.39 | 7.188 | 1.056 | 5.178 |
| TOBIN'S Q | 1.5282 | 1.0750 | 0.486 | 6.53 | 1.251 | 2.520 | 9.509 |
| RMC | 0.5154 | 1 | 0 | 1 | 0.500 | -0.062 | 1.004 |
| OWC | 56.032 | 56.69 | 7.06 | 86.62 | 15.616 | -0.442 | 2.739 |
| FSIZE | 14.550 | 14.332 | 11.69 | 18.66 | 1.424 | 0.653 | 3.157 |
| LEVE | 21.011 | 17.950 | 0 | 67.94 | 17.53 | 0.568 | 2.362 |
| LIQU | 2.5525 | 1.9103 | 0.369 | 9.35 | 1.965 | 1.706 | 5.799 |
| FG | 8.5630 | 4.01 | 0.14 | 58.85 | 11.761 | 2.618 | 9.382 |
| BODIND | 0.4620 | 0.444 | 0.20 | 1 | 0.124 | 0.478 | 3.016 |

Note. ROA = Return on Assets; TQ = TOBIN'S Q (Market Performance); RMC = Risk Management Committee; OWC = Ownership Concentration; FSIZE = Firm Size; LEVE = Leverage; LIQU= Liquidity; FG = Firm Growth; BODIND = Board Independence.

Regarding RMC, the mean value is 0.515 with a standard deviation of 0.5000. This percentage indicates that only 51 percent of the top firms on Bursa Malaysia have either a separate or combined RMC and the balance 49% are operating without RMC. Additionally, the ownership concentration (OWC) shows a high mean value of 56.032, which

is almost identical to the reported mean value of 54.55 percent, 53.55 percent and 54.19 percent for OWC in Malaysia (e.g., Al-Jaifi, 2017; AlQadasi & Abidin, 2018; Yunos, 2012). Thus, this study provides additional evidence of high level of ownership concentration in Malaysia. The lowest and the highest levels of ownership concentration were 7.06 percent and 86.62 percent, respectively. The natural log of total assets (FSIZE) shows a mean value of 14.55 percent for the control variables, indicating that the sample involved relatively large firms. Meanwhile, the mean for financial leverage (LEV) is 21.01 percent, the average liquidity (LIQ) is 2.55, and the firm's growth is 8.56 percent. The results indicates a medium level of board independence (BODIND) with an average mean of 0.4620 percent, a minimum value of 0.20 and a maximum of 1.00.

The normality test was performed on both skewness and kurtosis to confirm that they were between ± 3 and ± 10 , as shown in Table 3. Thus, the data can be considered as normal (Kline, 2015). In this study, the range for skewness is within -0.0620 to 2.618. While, the range for kurtosis is 1.004 to 9.382.

4.2 Diagnostic Tests

This study uses the panel data analysis to test the hypotheses. This methodology accounts for unobserved firm-level heterogeneity, to handle data unpredictability, allows for additional degrees of freedom, and generates more efficient and consistent findings (Alkurdi, hamad, et al., 2021; Fraile & Fradejas, 2014; Ghaleb, Kamardin, & Tabash, 2020; Hsiao, 2014). Robustness tests are employed to determine if there is any variance between regressions. The Hausman specification test was applied to assess if the fixed or random effect model should be used. The random effects model was selected in the ROA model based on the test results since the p-value was insignificant = $0.2803 > 0.05$. On the other hand, the p-value of Tobin's Q model was significant at the 5% level and thus, the fixed effect model was selected.

Other tests were used to check if heteroscedasticity and autocorrelation were present. The Wooldridge

test was applied to detect possible autocorrelation between variables, with the result of the test ($F = 3.136$, p-value = 0.077 and $F = 4.77$, p-value = 0.029) for both ROA and TQ, respectively. These findings reveal that the dataset has a problem with autocorrelation. Heteroscedasticity test was employed using the Breusch-Pagan/Cook-Weisberg. The test rejects the null hypothesis that the error terms' variance is due to a heteroskedasticity problem ($X^2 = 52.90$, p-value = 0.000 for the ROA model and $X^2 = 64.95$, p-value = 0.000 for the Tobin's Q model) with p-value = 0.000. Finally, to correct for heteroskedasticity, autocorrelation and cross-sectional dependence, the panel-corrected standard error (PCSE) estimation was employed as shown by Beck & Katz (1995) and other studies (Ghaleb et al., 2021; Ghaleb, Kamardin, & Al-Qadasi, 2020; Kouaib & Jarboui, 2016). Also, all continuous variables at the top and bottom 1% of the distribution have been winsorized to limit the impact of outliers on the results.

4.3 Correlation Analysis

The associations between RMC, concentrated ownership, firm performance as proxied by ROA and Tobin's Q, and control factors were examined using the Pairwise correlation test, as shown in Table 4.

Table 4: Pairwise Correlation Matrix for the study variables

| VARIABLES | ROA | TOBIN'S Q | RMC | OWC | FSIZE | LEV | LIQU | FG | BODIND | VIF |
|-----------|-----------|-----------|----------|-----------|-----------|-----------|-----------|--------|--------|-------|
| ROA | 1.000 | | | | | | | | | |
| TOBINSQ | 0.601*** | 1.000 | | | | | | | | |
| RMC | -0.054 | 0.068* | 1.000 | | | | | | | 1.092 |
| OWC | -0.080** | -0.099*** | 0.015 | 1.000 | | | | | | 1.036 |
| FSIZE | -0.280*** | -0.232*** | 0.122*** | 0.261*** | 1.000 | | | | | 1.359 |
| LEV | -0.316*** | -0.214*** | -0.060* | 0.108*** | 0.399*** | 1.000 | | | | 1.416 |
| LIQU | 0.132*** | 0.044 | 0.032 | -0.093*** | -0.215*** | -0.365*** | 1.000 | | | 1.202 |
| FG | -0.066* | -0.035 | -0.069** | -0.035 | 0.155*** | 0.200*** | -0.104*** | 1.000 | | 1.048 |
| BODIND | 0.028 | 0.018 | -0.018 | 0.148*** | 0.109*** | -0.035 | -0.051 | -0.030 | 1.000 | 1.042 |

Notes: This table presents pair-wise correlation coefficients and VIFs based on the common sample of 807 firm-year observations. The variables are as defined in section 3.2. Asterisks indicate significance at 10 (*), 5% (**), and 1% (***) *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Table 4 indicates that the RMC is negative with ROA but significantly positive with Tobin's Q, while OWC is negative and significant with ROA and TQ. According to Field (2009), the coefficient

of correlation between independent variables should not be more than 0.80 if there is no serious multicollinearity problem between the variables. As evidenced in the table, all of the correlations are less than 0.80, and the VIF values vary from 1.036 to 1.416, all of which are less than 10. Thus, multicollinearity issue among the independent variables is not significant in this study (Hair et al., 2014).

5.0 Regression Analysis

The regression results presented in Table 5 are based on PCSE, which corrects the heteroscedasticity and serial correlation issue. Models 1 and 2 indicate significant relationship between RMC, ownership concentration and firm performance as evaluated by ROA and TOBIN'S Q.

Table 5: PCSE Regression results for the relationship between Risk Management Committee (RMC), Ownership Concentration (OWC) and Firm Performance (ROA and Tobin's Q).

| Variables | Coef. | Model (1) ROA | | Model (2) Tobin's Q | | |
|----------------|---------|---------------|----------|---------------------|---------|----------|
| | | z-value | p-value | Coef. | z-value | p-value |
| RMC | 0.7212 | 3.48 | 0.000*** | 0.3618 | 8.17 | 0.000*** |
| OWC | -0.0140 | -2.26 | 0.024** | -0.0035 | -3.59 | 0.000*** |
| FSIZE | -1.0838 | -13.43 | 0.000*** | -0.1708 | -14.71 | 0.000*** |
| LEVE | -0.0578 | -7.25 | 0.000*** | -0.0053 | -4.21 | 0.000*** |
| LIG | 0.0782 | 0.59 | 0.556 | -0.0136 | -1.21 | 0.227 |
| FG | 0.0011 | 0.41 | 0.682 | 0.0005 | 1.22 | 0.222 |
| BODIND | 4.0153 | 3.67 | 0.000*** | 0.3324 | 1.76 | 0.078* |
| Constant | 22.161 | 12.77 | 0.000*** | 4.0247 | 22.68 | 0.000*** |
| Industry | | Yes | | Yes | | |
| Year | | Yes | | Yes | | |
| R-squared | | 0.1705 | | | | 0.1889 |
| Prob > F | | 0.000*** | | | | 0.000*** |
| Number of Obs. | | 807 | | | | 807 |

Notes: ROA = Return on Assets; TQ = TOBIN'S Q (Market Performance); RMC = Risk Management Committee; OWC = Ownership Concentration; FSIZE = Firm Size; LEVE = Leverage; LIQU = Liquidity; FG = Firm Growth; BODIND = Board Independence. Significance level *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Regression Model 1 and Model 2 of Table 5 present the estimation results of the effects of RMC on firm accounting-performance (ROA). The results show that RMC has a positive and significant effect ($\beta = 0.7212$, z-value: 3.48, p-value: 0.000) with probability value of 1% ($p > 0.01$) and thus, provides support for H1a. Similarly, in Model 2, RMC shows statistically

significant positive effect on firm market performance measured by Tobin's Q at 1% ($\beta = 0.3618$, z-value: 8.17, p-value 0.000). Therefore, H2a is also supported.

These findings are similar to Aldhamari et al., (2020), Rimin et al., (2021) and Halim et al., (2017). Accordingly, this study suggests that RMC helps firms to enhance the internal control in order to manage and control operational risks (financial and non-financial), improving firm accounting and market performance. Furthermore, the findings support the agency theory's claim that an effective RMC plays a critical role in controlling and minimizing conflicts of interest between owners and agents, potentially leading to increase corporate performance.

However, the results in Model 1 also reveal that the level of OWC has a negative and significant effect on accounting performance (ROA) at 5% ($\beta = -0.0140$, z-value: -2.26, p-value: 0.024). It is also consistent with the findings of studies conducted in other emerging markets (e.g., Aluchna & Kaminski, 2017; Hegde et al., 2020; Konak & Kendirli, 2016; Le Duc Toan et al., 2020; Vasilić, 2018), which show that dominant shareholders who have more control and decision space are more likely to exploit private benefits, which can decrease company performance. The result does not support hypothesis H2a, indicating that the entrenchment effect exists. This finding supports the concept that when ownership is more concentrated, the conflict between the majority and the minority shareholders will be more entrenched. Moreover, the entrenchment effect may also dominate the benefits of monitoring in the absence of external mechanisms, resulting in inadequate investor protection. Hence, less established institutions may enhance risk by encouraging large owners to focus on private gains rather than the company's total worth, especially if the firm's governance structure is ineffective.

Model 2 of Table 5 reveals that OWC also has a negative and significant effect on Tobin's Q at 1 percent ($\beta = -0.0035$, z-value: -3.59, p-value: 0.000). Therefore, hypothesis H2b is rejected. This result supports the view that large

shareholders are not focused on strategic capital-market decisions and investors might consider such firms to have high possibility of managers' opportunism and survival at the expense of other shareholders. This in turn, decreases the market value of firm. The outcome is in line with evidence reported by Bano et al., (2018); Saidat et al., (2019); Hu et al., (2010). However, the findings are in contrast to the results reported by Altaf & Shah, (2018); Kao et al., (2018), & Shao, (2019) which suggest that significant shareholders concentrate on critical capital-market choices and use their authority to expand their holdings, potentially increasing the firm's market value.

The results related to the control variable, the coefficient of firm size (FSIZE) is statistically significant and has a negative sign ($\beta = -1.0838$; $p < 0.01$), based on the accounting measure of performance (ROA). Firm size also has a significant negative sign ($\beta = -0.1708$; $p < 0.01$) based on the market measure (TQ). These findings are also in line with evidence inducted by Alkurdi, hamad, et al., (2021), Dony et al., (2019) and Chandren et al., (2021). This explains when businesses have larger size, it may not be easy to manage their resources and operate inefficiently. Larger firms, on the other hand, contribute less to operating performance than smaller businesses. Furthermore, the coefficients of leverage ($\beta = -0.0578$, z -value -7.25 , p -value: 0.000) and ($\beta = -0.0053$; $p < 0.01$) showed a negative and highly significant relationship in model 1 and 2 with both accounting and market performance (ROA and Tobin's Q), which are similar to those of Kao et al., (2018) Chandren et al., (2020) and Chandren et al., (2021) and Waheed & Malik, (2019).

In contrast, in Model 1, the positive effect of liquidity (LIQ) on ROA implies that firms with high liquidity are more likely to have more financing funds to invest in profitable projects in order to improve firm efficiency, as in a similar study by Alkurdi, hamad, et al., (2021), but an insignificantly negative relationship with Tobin's Q, In Model 2, which is consistent with Batten & Vo, (2019). Model 1 (p -value: 0.682) and Model 2 (p -value: 0.222), show that firm growth (FG) has a positive relationship with firm performance.

Additionally, Table 5 also demonstrates that board independence (BODIND) is positively and significantly associated with both the ROA and TQ measures of performance, implying that companies with a large number of independent directors are more likely to improve performance. This result is also consistent with Surya Bahadur, (2016) & Qadorah & Fadzil, (2018).

Table 6 shows the regression findings for the moderating effect of OWC on the link between RMC and firm performance. As shown in Models 3 and 4 of Table 6, the study adds the interaction term $RMC \times OWC$ in the regression model to examine the moderating effect of ownership concentration on the relationship between RMC and firm performance (ROA and Tobin's Q). The coefficient of the interaction term is negative and significant with ROA ($\beta = -0.0797$, z -value -3.20 , p -value: 0.001) at the 1% level, as shown in Models 3 of Table 6. The results support hypothesis H3a. Consistently, the interaction coefficient is also inducted statistically significant and negative with TQ ($\beta = -0.041$, z -value -6.67 , p -value: 0.000) at the 1% level, as shown in Models 4 of Table 6. As a result, hypothesis H3b is supported.

Table 6: PCSE Regression results for the moderating effect of Ownership Concentration (OWC)

| Variables | Model (3) ROA | | | Model (4) Tobin's Q | | |
|------------------|---------------|---------|----------|---------------------|---------|----------|
| | Coef. | z-value | p-value | Coef. | z-value | p-value |
| RMC | 4.8028 | 2.22 | 0.027** | 2.8562 | 6.98 | 0.000*** |
| OWC | 0.0275 | 1.07 | 0.283 | 0.0198 | 4.82 | 0.000*** |
| $RMC \times OWC$ | -0.0797 | -3.20 | 0.001*** | -0.0371 | -7.03 | 0.000*** |
| FSIZE | -1.0673 | -12.34 | 0.000*** | -0.161 | -14.95 | 0.000*** |
| LEVE | -0.0570 | -7.39 | 0.000*** | -0.0048 | -4.71 | 0.000*** |
| LIQ | 0.0702 | 0.52 | 0.600 | -0.0180 | -1.51 | 0.132 |
| FG | 0.0014 | 0.59 | 0.554 | 0.0007 | 1.56 | 0.119 |
| BODIND | 3.8610 | 3.41 | 0.001*** | 0.1332 | 0.75 | 0.452 |
| Constant | 19.722 | 7.27 | 0.000*** | 2.8538 | 10.16 | 0.000*** |
| Industry | Yes | | Yes | | | |
| Year | Yes | | Yes | | | |
| R-squared | | 0.1706 | | | 0.1984 | |

Notes: ROA = Return on Assets; TQ = TOBIN'S Q (Market Performance); RMC = Risk Management Committee; OWC = Ownership Concentration; $RMC \times OWC$ = interaction variable; FSIZE = Firm Size; LEVE = Leverage; LIQU = Liquidity; FG = Firm Growth; BODIND = Board Independence. Significance level *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

This research shows that increased ownership concentration can affect the effectiveness of RMC in the monitoring role and reduce firm accounting performance and market performance (ROA and

TQ). The negative and significant moderation is due to the high level of ownership concentration (OWC) in the Malaysian context. As a result, this finding supports the hypothesis that ownership concentration moderates the relationship between the risk management committee and business performance (ROA and Tobin's Q).

5.1 Robustness Analysis

Additional analysis was performed to support the credibility of the main results of this study, as indicated in earlier models. To evaluate the hypothesis in the current study, PCSE regression was employed in the main analysis. Feasible Generalized Least Square (FGLS) estimate, on the other hand, handled the heteroscedasticity and contemporaneous correlation across companies. The FGLS model was applied to double-check the main analysis (Ghaleb et al., 2021; Ghaleb, Kamardin, & Tabash, 2020; Wooldridge, 2010). Furthermore, to ensure the robustness of the main results, the Ordinary Least Squares OLS regression was also performed using robust standard errors.

The data, shown in Table 7 provide additional support for the main findings, indicating that ownership concentration (OWC) has a negative and significant effect on ROA and TQ. Similarly, the RMC shows a positive and significant effect on the accounting and market performances (ROA and TQ).

Table7: Alternative’s regression estimation results for the relationship between Risk Management Committee (RMC), Ownership Concentration (OWC) and Firm Performance (ROA and Tobin’s Q).

| Variables | Model (1) ROA | | | Model (2) Tobin's Q | | |
|--------------|------------------------|----------------------|----------------------|------------------------|----------------------|----------------------|
| | PCSE | FGLS | OLS | PCSE | FGLS | OLS |
| | Coef.SE | Coef.SE | Coef.SE | Coef.SE | Coef.SE | Coef.SE |
| RMC | 0.7212*** (0.2069) | 0.571*** (0.203) | 0.582*** (0.206) | 0.3618*** (0.0442) | 0.279*** (0.066) | 0.279*** (0.069) |
| OWC | -0.0140** (0.0062) | -0.038** (0.017) | -0.038** (0.017) | -0.0035*** (0.0009) | -0.006*** (0.002) | -0.006*** (0.002) |
| FSIZE | -1.0838*** (0.0806) | -0.975*** (0.212) | -0.975*** (0.213) | -0.1708*** (0.0116) | -0.163*** (0.026) | -0.163*** (0.029) |
| LEVE | -0.0578*** (0.0079) | -0.116*** (0.018) | -0.116*** (0.018) | -0.0053*** (0.0013) | -0.012*** (0.002) | -0.012*** (0.002) |
| LIG | 0.0782 (0.1328) | 0.018 (0.168) | 0.018 (0.169) | -0.0136 (0.01127) | -0.037 (0.02) | -0.037 (0.023) |
| FG | 0.0011 (0.0026) | 0.008 (0.031) | 0.0011 (0.002) | 0.0005 (0.0004) | 0.008 (0.004) | 0.008 (0.004) |
| BODIND | 4.0153*** (1.0926) | 3.471*** (0.908) | 2.329 (2.147) | 0.3324* (0.1883) | 0.128 (0.259) | 0.128 (0.241) |
| Constant | 22.161*** (1.7351) | 24.6*** (3.061) | 24.6*** (3.076) | 4.0247*** (0.1774) | 4.327*** (0.37) | 4.327*** (0.42) |
| R-squared | 0.1705 | - | 0.1674 | 0.1889 | - | 0.2131 |
| Prob. > chi2 | 0.000*** | 0.000*** | 0.000*** | 0.000*** | 0.000*** | 0.000*** |
| Wald Chi2 | 5849.44 | 126.12 | - | 1393.88 | 123.89 | - |

Notes: ROA = Return on Assets; TQ = TOBIN’S Q (Market Performance); RMC = Risk Management Committee; OWC = Ownership Concentration; FSIZE = Firm Size; LEVE = Leverage; LIQU= Liquidity; FG = Firm Growth; BODIND = Board Independence. Significance level *** p<0.01, ** p<0.05, * p<0.1.

The coefficient for the interaction term (RMC×OWC) is also negative and statistically significant for both ROA (-0.0714 and -0.0780 at p < 0.05) and Tobin's Q (β = -0.0230 and -0.0262 at p < 0.01). As indicated in Table 8, the results are identical to the main analysis with additional regression estimations.

Table 8: Alternative’s regression estimation results for the moderating effect of Ownership Concentration (OWC)

| Variables | Model (1) ROA | | | Model (2) Tobin's Q | | |
|----------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| | PCSE | FGLS | OLS | PCSE | FGLS | OLS |
| | Coef.SE | Coef.SE | Coef.SE | Coef.SE | Coef.SE | Coef.SE |
| RMC | 4.8028** (2.1672) | 4.5581** (2.1937) | 4.7552** (1.9659) | 2.6562*** (0.3803) | 1.5712*** (0.2340) | 1.7605*** (0.2239) |
| OWC | 0.0275 (0.0256) | 0.0214 (0.0287) | 0.0159 (0.0259) | 0.0198*** (0.0041) | 0.0074** (0.0030) | 0.01128*** (0.0026) |
| RMC × OWC | -0.0797*** (0.0360) | -0.0714** (0.0374) | -0.0780*** (0.0338) | -0.0371*** (0.0061) | -0.0230*** (0.0040) | -0.0262*** (0.0038) |
| FSIZE | -1.0674*** (0.0865) | -0.8498*** (0.2352) | -0.784*** (0.2351) | -0.161*** (0.0108) | -0.1607*** (0.0251) | -0.1281*** (0.0262) |
| LEVE | -0.0570*** (0.0077) | -0.0948*** (0.0206) | -0.096*** (0.0181) | -0.0048*** (0.0012) | -0.0118*** (0.0021) | -0.0072*** (0.0020) |
| LIG | 0.0702 (0.1341) | 0.0255 (0.1872) | 0.0640 (0.1973) | -0.0180 (0.0119) | -0.0384 (0.0199) | -0.0206381 (0.0218) |
| FG | -0.0014 (0.0024) | -0.03206 (0.03482) | -0.0239 (0.0292) | 0.0007 (0.0004) | 0.0084 (0.0036) | 0.039176 (0.00297) |
| BODIND | 3.661*** (1.072) | 3.32654 (2.3661) | 2.756 (2.091) | 0.1332 (0.1772) | 0.0929 (0.3868) | 0.2205 (0.2212) |
| Constant | 19.722*** (2.713) | 18.342*** (3.748) | 18.027*** (3.601) | 2.6538 (0.2612) | 2.742*** (0.6127) | 2.841*** (0.4311) |
| R-squared | 0.1706 | - | 0.1720 | 0.1984 | - | 0.2563 |
| Prob. > chi2 | 0.000*** | 0.000*** | 0.000*** | 0.000*** | 0.000*** | 0.000*** |
| Wald Chi2 | 25323.24 | 167.59 | - | 8225.10 | 278.15 | - |
| Number of Obs. | 807 | | | 807 | | |

Notes: ROA = Return on Assets; TQ = TOBIN’S Q (Market Performance); RMC = Risk Management Committee; OWC = Ownership Concentration; RMC×OWC= interaction variable; FSIZE = Firm Size; LEVE = Leverage; LIQU= Liquidity; FG = Firm Growth; BODIND = Board Independence. Significance level *** p<0.01, ** p<0.05, * p<0.1.

To support the result for the ROA, a second test was carried out using an alternative measurement of ROA based on the ratio of earnings before interest and taxes to total asset (e.g., Musallam, 2020; Tran & Le, 2020). The percentage of shares held by the top five shareholders was calculated as a dummy variable "1" if the ownership concentration was greater than 50%, and "0" otherwise, to provide additional evidence of the effect of different levels of ownership concentration on firm performance (Waheed &

Malik, 2019). Ownership concentration shows a significant negative relationship with ROA, as well as a negative but insignificant relationship with TQ, as shown in Table 9. The results in Table 9 are in the same directions as those indicated in Table 5 for the main analysis.

Table 9: PCSE Regression results for the relationship between Risk Management Committee (RMC), Ownership Concentration (OWC) and Firm Performance (ROA and Tobin's Q), using alternative ROA and OWC measurements.

| Variables | Model (1) ROA | | | Model (2) Tobin's Q | | |
|----------------|---------------|----------|----------|---------------------|---------|----------|
| | Coef. | z-value | p-value | Coef. | z-value | p-value |
| RMC | 0.2320 | 1.10 | 0.027** | 0.2854 | 7.37 | 0.000*** |
| OWC | -0.4449 | -1.74 | 0.082** | -0.0178 | -0.58 | 0.560 |
| FSIZE | -0.7604 | -8.99 | 0.000*** | -0.1392 | -19.06 | 0.000*** |
| LEVE | -0.0810 | -11.19 | 0.000*** | -0.0071 | -10.64 | 0.000*** |
| LIG | 0.0642 | 1.37 | 0.172 | -0.0190 | -2.97 | 0.003*** |
| FG | 0.0164 | 1.00 | 0.319 | 0.0034 | 0.97 | 0.333 |
| BODIND | 1.6475 | 2.38 | 0.017** | 0.0730 | 0.40 | 0.691 |
| Constant | 18.919 | 17.61 | 0.000*** | 3.5852 | 22.95 | 0.000*** |
| Industry | Yes | | | Yes | | |
| Year | Yes | | | Yes | | |
| R-squared | | 0.1719 | | | | 0.2098 |
| Prob > F | | 0.000*** | | | | 0.000*** |
| Number of Obs. | | 807 | | | | 807 |

Notes: ROA = Return on Assets; TQ = TOBIN'S Q (Market Performance); RMC = Risk Management Committee; OWC = Ownership Concentration; FSIZE = Firm Size; LEVE = Leverage; LIQU= Liquidity; FG = Firm Growth; BODIND = Board Independence. Significance level *** p<0.01, ** p<0.05, * p<0.1.

6.0 Summary and Conclusion

This study examines the effects of RMC and ownership concentration on firm performance. It also investigates the effect of concentrated ownership as a moderator in the relationship between RMC and performance. Panel data from the top 300 non-financial companies listed on the Malaysian stock exchange from 2016 to 2018 was utilized in this study. Based on the panel data analysis, the findings provide support that RMC has a significant positive effect on both the accounting and market performance, as measured by ROA and Tobin's Q.

The findings indicate that RMC appears to be an effective and beneficial channel for enhancing firm performance. Hence, our study empirically supports the perspective of the agency theory that the probable benefits of RMC are improved internal control system to manage business risk and improve performance while OWC has a

significant negative association with business performance as assessed by ROA and Tobin's Q.

The study supports the entrenchment effect that firms with large shareholders may use their voting rights to advance their own personal interests at the detriment of other shareholders who may have an influence on the company's success. Furthermore, the level of ownership concentration appears to be a moderating factor in the relationship between the existence of a risk committee and company's performance. These findings indicate that interaction term (RMC*OWC) can mitigate the RMC effectiveness in the controlling activities. This shows that concentrated ownership in firms is a determinant that can influence the role of the RMC and consequently, lower firm performance. Thus, significant shareholders are not able to fulfil the multiple shareholders' interests.

The results also support the agency theory's argument which states that large shareholders' power and interests should be received more attention, as well as strengthening the monitoring mechanisms to protect investors and minority shareholders from large shareholders' domination. This study is useful for both practitioners and academics, as well as regulatory organizations. Security market regulators should establish the appropriate legislations of law, which ensures shareholders' wealth and generating balance between large and small shareholders through improving corporate governance mechanisms to minimize dominant shareholders' authority and enhanced the levels of performance in the future as well.

The current study has the following limitations. Firstly, this study focusses only on the effect of the presence of RMC and ownership concentration on company performance and exclude other corporate governance factors such as the chairman's characteristics (age, title, tenure, and ownership) which may also contribute to firm performance. Secondly, the OWC in this study only covers the top 300 publicly traded companies and thus, the findings may not apply to all publicly traded companies. Since the Malaysian capital market is characterized by large controlling shareholders, the

findings may not be applicable to markets with lower levels of ownership concentration.

Future studies should also examine the RMC characteristics (such as RC size, RC independence, qualification, overlap, and gender) as well as the influence of political connections on the financial reporting quality. Finally, it is also interesting to further investigate the effect of family ownership concentration (FMOC) on the link between RMC characteristics and firm performance.

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