Enterprise Risk Management Adoption in Malaysia: A Disclosure Approach

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ABSTRACT

Manuscript type: Research paper
Research aims: This paper aims to identify Malaysian companies that had adopted Enterprise Risk Management (ERM) and to determine the intensity of risk disclosure practised before and after the implementation of the 2013 Bursa Malaysia Guidelines on Risk Management and Internal Control.
Design/ Methodology/ Approach: This study used a dual approach of content analysis followed by an online survey. In the first phase, content analysis was performed on the annual reports of 754 Malaysian public listed companies by using the common terms used in ERM. In the second phase, an online survey was circulated among 330 ERM adopters which were identified from the content analysis approach.
Research findings: Findings from the content analysis show that the overall level of risk disclosure before and after the current guidelines had increased by five (5) per cent. Findings from the online survey further suggest that 53 per cent of respondents confirmed that ERM is indeed an integral part of their organisation.
Theoretical contributions/ Originality: This study seeks to broaden current literature on risk disclosure by investigating the regulatory impact on disclosure practices. The second contribution lies in the use of dual approaches to data collection: content analysis and online survey, both of which enhance the accuracy of findings without adversely impacting on its generalisability and the costs of conducting this research.

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Practitioner/ Policy implications: The findings of the current study reflect on the true ERM adoption rate in this part of the region which is useful to practitioners who are still skeptical of ERM. Knowing that more than half of the public listed companies have implemented ERM may be the motivation for the non-adopters to implement ERM. Moreover, findings will encourage policy makers to introduce voluntary guidelines to regulate ERM implementation and disclosure practices in Malaysia.
Research limitations/ Implications: The use of keyword search to identify ERM adopters bears the conflict of substance over form, particularly when the common terms in the disclosure do not reflect the actual practices. Future research may need to address the conflicts by using a score method that can help to improve the scientific aspects of the methodology. A framework for the analysis of risk communication and an index to measure the quality of risk disclosure can further enhance the instrument.

Keywords: Annual Reports, Content Analysis, Disclosure, Keyword Search, Enterprise Risk Management
JEL Classification: M41

1. Introduction

During the East Asian financial crisis in 1997, one tenth of the 800 public listed firms on the Bursa Malaysia cited poor corporate governance and poor risk management as major contributors to their failures during the crisis (Jin, 2001). Part of the crisis has been attributed to the risky financial structures adopted by the corporations (Claessens, Djankov, & Lang, 1998) and this, inadvertently, has aroused the interest of cautious investors. They want to have knowledge of the risk management strategies adopted by those firms which they may be investing in and they also look for relevant information that can assist them in evaluating the adequacy of such strategies. Good risk disclosures adopted by corporations can provide insights for investors in assessing the quality and prospective volatility of the respective firm's earnings and cash flows. In that regard, it is pertinent for firms, particularly listed ones (Beretta & Bozzolan, 2004; Maingot, Quon, & Zeghal, 2013), to ensure higher risk disclosures. Thus, it is not surprising that risk management disclosure has become a top concern among regulators.

This paper takes a broad perspective of investigating the level of risk disclosure practices among Malaysian public listed firms before and after the implementation of the Statement on Risk Management and

Internal Control (Guidelines for Directors of Listed Issuers) (hereinafter referred to as 2013 Bursa Malaysia Guidelines). Using content analysis and online survey as an approach, a search was first made of the common enterprise risk management (ERM) terms (Gordon, Leob, & Tseng, 2009; Hoyt & Liebenberg, 2011; Lin, Wen, & Yu, 2012). This acts as a proxy to the adoption of ERM, the new holistic approach to risk management (Connair, 2013) as opposed to the silo-based approach. Studies made of ERM disclosures are few (Maingot et al., 2013), with only a handful investigating general risk disclosure practices (Elzahar & Hussainey, 2012; Ismail & Rahman, 2011; Lajili & Zéghal, 2005). However, no study to date have examined the impact of a new regulatory regime on the disclosure practices.

The exercise of identifying firms adopting ERM has been acknowledged as a major obstacle to empirical ERM-related research. Firms do not, in general, publicly announce the adoption of ERM. They also rarely disclose details of their risk management programmes (Hoyt & Liebenberg, 2011; Liebenberg & Hoyt, 2003; Pagach & Warr, 2010). The implementation of a state of the art risk management system carries little benefit for such firms and their stakeholders. This is so especially if there is no effective communication to all parties concerned, ranging from describing those risks that affect the firm's strategies and the actions ultimately taken by the management to leverage on the emerging risk opportunities and to minimise the risk of failures (Beretta & Bozzolan, 2004).

The 2013 Bursa Malaysia Guidelines, although voluntary on the part of the public listed firms under the purview of Bursa Malaysia, partly addresses this discrete disclosure practices. It also encourages firms to disclose how risks are being managed within their firms. Essentially, the 2013 Bursa Malaysia Guidelines is developed for the purpose of improving governance practices and eventually, to enhance transparency among firms, regulators, stakeholders and the public at large.

This study is built on the premise of agency theory and game theory, and posits the likelihood of firms enveloped in a competitive environment would seek to comply with voluntary disclosure requirements (Eccles & Mavrinac, 1995; Lev, 1992) and eventually, minimise agency costs (Hutajulu, 2002). Specifically, this study seeks to address the following research questions:

1. What is the impact of the current 2013 Bursa Malaysia Guidelines which is voluntary on the disclosures of the ERM activities?
2. What is the level of ERM adoption in Malaysia?

This study expects to broaden current literature on risk disclosure by investigating the new regulatory impact on disclosure practices. The second contribution lies in the use of dual approaches to data collection: content analysis and online survey, both of which enhance the accuracy of findings without adversely impacting on its generalisability and the costs of conducting this research. Finally, the current analysis which looks at the level of ERM adoption may be useful to academics and professionals who seek to expand their knowledge on ERM in Malaysia. The findings would enable them to reflect on the true ERM adoption rate in this part of the region and the effects of a voluntary disclosure guideline on ERM implementation and disclosure practices in Malaysia. According to an analysis of empirical studies on ERM conducted between 2003 to 2013, Togok, Isa, and Zainuddin (2014) find that 77 per cent of these were conducted in developed countries like the US, UK and Germany.

Thus, the applicability of these studies on developing countries may be restricted by the different social, cultural and economic conditions. Moreover, only 16 per cent of these studies on ERM were conducted in Asean countries with only seven (7) per cent done in Middle East countries and others. The current study seeks to address this gap in developing countries. Ultimately, it also seeks to offer useful insights to practitioners, researchers and policy makers from the Asean Economic Community that had been formalised recently during the 2015 Asean Summit in Malaysia (ASEAN, 2015).

The remainder of the paper is structured as follows: Section 2 focuses on the practices of risk management disclosure in Malaysia, section 3 discusses the literature review, and section 4 presents the procedure of data collection. The findings are explained and discussed in sections 5 and 6 respectively. Finally, section 7 concludes the paper.

2. Risk Management Disclosure in Malaysia

In January 2013, Bursa Malaysia[1] issued the 2013 Bursa Malaysia Guidelines. The 2013 Bursa Malaysia Guidelines superseded the Statement on Internal Control (Guidance for Directors of Public Listed Companies) issued in 2000 (hereinafter referred to as 2000 Bursa Malaysia Guidelines) and became effective for the financial year ending

[1] Bursa Malaysia is an exchange holding company and a fully-integrated exchange of listed firms in Malaysia, offering the complete range of exchange-related services including trading, clearing, settlement and depository.

on or after 31 December, 2012 (hereinafter referred to as the cut-off date). There are some distinctions between the 2000 and 2013 guidelines. The former emphasises solely on internal controls whereas the latter includes risk management practices (Bursa Malaysia, 2013).

In essence, the 2013 Bursa Malaysia Guidelines which is voluntary sets out the obligations of the management and board of directors with respect to risk management and internal control. The Guidelines provide guidance on the key elements needed in maintaining a sound system of risk management. It also describes the process that should be considered in reviewing the effectiveness of a system of risk management.

Other guidelines with regard to risk disclosure that is applicable to listed firms in Malaysia include the Malaysian Financial Reporting Standard (MFRS) 7 (Financial Instruments: Disclosures), MFRS 101 (Presentation of Financial Statements) and MFRS 132 (Financial Instruments: Presentation) issued by the Malaysian Accounting Standards Board (MASB), the accounting body in Malaysia that is responsible for setting the accounting standards. There are also guidelines related to risk management issued by Bank Negara Malaysia (BNM) which are made applicable only to financial institutions. Examples of the guidelines issued by BNM are "Risk Weighted Capital Adequacy Framework (RWCAF) – Disclosure Requirements (Pillar 3)" and "Guidelines on Financial Reporting for Banking Institutions".

MFRSs 101 and 132 spell out the risk disclosure requirements. They form part of the accounting standards for specific types of risks (interest rate risks, exchange rate risks, credit risks and market risks) which are more detailed and rigorous but not necessarily describing the general approach to risk management of the entity. For example, paragraph 105 (d) (ii) of MFRS 101 specifies the need for a firm to disclose notes to assist users in understanding the financial statement on the firm's financial risk management objectives and policies. Paragraph 105 (d) (ii) is specific to financial risks. These guidelines and accounting standards emphasise on risks which are more quantifiable such as financial and credit risks but not on operational risks. Unlike the guidelines issued by Bursa Malaysia which is voluntary in nature, MFRSs 101 and 132 are mandatory. Non-compliance of these standards can lead to qualification of accounts and a hefty penalty by relevant governing bodies.

3. Literature Review

The ISO 31000 defines ERM as coordinated activities that were developed to direct and control an organisation with regards to risk. The risk management process aids decision making by taking into account the uncertainty and the possibility of future events or circumstances (intended or unintended) and their effects on agreed objectives (ISO 31000, 2010). Indeed, risk management activities are no longer internal affairs but are of interests to external stakeholders. They serve as guidance for external stakeholders when evaluating the management's effectiveness in handling business volatility as well as environmental uncertainties (Beretta & Bozzolan, 2004; Lajili & Zéghal, 2005).

It has been widely acknowledged that the annual report is more of a public document than a private one. It serves as a means by which firms communicate with the various stakeholders. In a study which looks at annual reports from the various perspectives of research, Stanton and Stanton (2002) suggest that annual reports can be viewed from its legitimacy and accountability. They add that disclosures made in annual reports are driven by the concerns of external parties other than shareholders. On this note, a review of prior studies shows that voluntary disclosure practices made in annual reports are viewed positively by shareholders. They are also associated with good corporate governance (Utama, 2012; Zandi, Taib, & Ibrahim, 2010). The benefits that are linked to ERM as reflected in the increased performance of firms (Gordon et al., 2009; Lin et al., 2012; Nickmanesh, Zohoori, Musram, & Akbari, 2013; Pagach & Warr, 2010) should further motivate the management to make discretionary disclosures in relation to the risk activities held by the respective firms.

Thus far, it has been observed that literature on risk disclosure practices is limited. For example, an investigation looking at the determinants for the level of risk disclosure in interim reports in the UK (Elzahar & Hussainey, 2012) indicates that size and industry type are positively associated with the levels of narrative risk disclosures. Lajili and Zéghal (2005) find that risk disclosures in Canadian annual reports have been discretionary in nature. They thus call for a more formalised and comprehensive disclosure so as to minimise information asymmetries between firms and stakeholders.

The trend of risk disclosure in other parts of the world is increasing but the rate of disclosure in Malaysia is still low. A study by Ismail and Rahman (2011) on the annual reports of 124 top public listed firms based on market capitalisation ranking, reveals a mean score of only 50 per cent for voluntary risk management disclosure. This shows that there is room for improvement. The study which uses content analysis as an approach and adopts a scoring checklist developed based on the previous 2000 Bursa Malaysia Guidelines reports a negligible increase of less than 0.5 per cent in the level of risk management disclosure from the year 2006 to 2008.

This study applies agency theory to examine the tendency of firms in abiding to discretionary disclosure requirements. From the agency's perspective, firms appear to be the nexus of contracts between the principal and agent (Jensen & Meckling, 1976). According to Jensen and Meckling (1976), from the fundamentals derived from the agency theory, it appears that agency costs are borne by the principal as a way of monitoring undesirable agent behaviour. The agency costs, which can be the product of information asymmetry, increase the cost of capital of the firm and eventually, reduce profitability. On the same premise, it is argued that listed firms are motivated to disclose additional favourable information in order to minimise information asymmetry gaps and reduce agency costs.

In this study, the rationale to be more vigilant in disclosing voluntary information in annual reports is also justified under the game-theoretic assumptions. Under the game theory or the prisoner's dilemma, each of the two (2) prisoners is in a dilemma, not knowing what the other is going to do. Each of them may adopt the dominant strategy to confess in return for lenient sentence, regardless of whether the other prisoner confesses or not. Eventually, both will likely be using the same reasoning and both could end up confessing to the crime (Picker, 1994). In the case of the current study, each of the public listed firm has the dominant strategy for voluntary disclosure requirements. Each enjoys the benefits drawn from the additional disclosure regardless of the other firms' disclosure practices. If every firm thinks in the same way, all the firms will ultimately submit to making additional risk disclosure on a voluntary basis.

Game theory is used to justify voluntary disclosure in a number of studies. Milgrom and Roberts (1986), for example, use the game theoretic setting to argue that in a buyer seller scenario, where all interested buyers have access to complete and verifiable information, sellers will disclose more information to influence the buyers' decision. As evidence, an examination into the information disclosure strategy of insiders in stock markets suggests that insiders will compete for liquidity by disclosing complete information (Huddart, Hughes, & Brunnermeier, 1999).

4. Method and Sampling

Review of prior literature suggests that there are three (3) methods of identifying ERM adopters and the level of adoption. They include (i) to rely on evidence of existence of ERM programmes such as the creation of a specialised managerial position i.e. Chief Risk Officer (CRO) who is tasked with implementing and coordinating ERM programmes (Kleffner, Lee, & McGannon, 2003; Pagach & Warr, 2007); (ii) to use the survey method (Wan Daud, 2011; Wan Daud, Haron, & Ibrahim, 2011); and (iii) to search for evidence of ERM activities in financial reports, newswire or any other media (Gordon et al., 2009; Hoyt & Liebenberg, 2011; Lin et al., 2012).

Each of these methods has its own shortcomings. The first method suffers from the lack of mandatory disclosure requirement for CRO appointment as stated under Rule 9.04 of the Listing Requirements (LR) by Bursa Malaysia. Moreover, Rule 9.04 of the LR states that change of management should be disclosed accordingly. Often times, the CRO is not considered as part of the management team as defined under Rule 9.04. On the other hand, the survey method can have little value if the response rate is low. Baruch and Holtom (2008) analysed survey driven studies published in the years 2000 and 2005 in 17 refereed academic journals, and find that the average response rate for studies that utilised data collected from organisations is only 35.7 per cent which is rather low and widely varied. Likewise, the third method needs to be used with caution owing to the fact that disclosure on ERM is more voluntary than mandatory in most countries (Hoyt & Liebenberg, 2011; Liebenberg & Hoyt, 2003) including Malaysia.

Taking into account the strengths and shortcomings of each method, content analysis and online survey are specifically chosen to match the different requirements of the data collection and analysis. The main motivation for using content analysis to identify the firms that adopted ERM is the ease of access to the annual reports. This method allows researchers the option to include all Malaysian public listed firms whose annual reports are available. Content analysis is also commonly used in organisational studies. It has been widely applied in accounting research on corporate governance disclosure (Sulaiman, Majid, & Ariffin, 2015) and risk management (Elzahar & Hussainey, 2012; Ismail & Rahman, 2011; Lajili & Zéghal, 2005). In the current study, the content analysis approach is further complemented by an online survey (Beasley, Clune, & Hermanson, 2005; Wan Daud, 2011; Wan Daud et al., 2011; Yazid, Hussin, & Wan Daud, 2011). Here, firms with evidence of ERM adoption were invited to participate in the online survey so as to determine the level of ERM adoption in the respective firms (see Appendix 1).

Specifically, this study seeks to identify firms which have adopted the ERM programmes. This is conducted by using keywords disclosed in the annual reports as a proxy for ERM adoption. The keywords used as evidence of ERM adoption are "enterprise risk management", "strategic risk management", "corporate risk management", "consolidated risk management", "holistic risk management", "integrated risk management", "risk management committee", "risk committee", and "chief risk officer" (Gordon et al., 2009; Hoyt & Liebenberg, 2011; Lin et al., 2012). Based on the preliminary review of the annual reports, two (2) additional key terms namely "group risk management department" and "group-wide risk management" were further added to the list. The above keywords reflect the consolidated and centralised approach to managing risks instead of the traditional approach of a silo-based perspective. This is demonstrated in the usage of adjectives such as "enterprise", "strategic", "consolidated", "holistic" and "integrated" which describe the risk management activities in the entity. Similarly, keywords like "risk management committee", "risk committee" and "chief risk officer" would generally imply the presence of a dedicated unit or role to oversee all the risk topics in the organisations.

There were 754 firms listed on the main board of Bursa Malaysia with annual reports available on the Bursa Malaysia website as of August 2015. All were included in this study. The annual reports for the financial year ending on or after 31 December 2012 were taken as "after" the current 2013 Bursa Malaysia Guidelines while the reports for the financial year ending prior to 31 December 2012 were taken as the annual reports "before" the 2013 Bursa Malaysia Guidelines came into effect. A comparative content analysis of 1,508 (754 x 2) annual reports for the financial year ending "after" and "before" the cut-off date was performed.

A content analysis search was employed to look for the keywords in those documents. The report generated by the search would display the sentences where the keywords were detected. A couple of measures which address the possible measurement errors of using keyword search to identify ERM adopters were also undertaken in the identification process. In order to address the Type I measurement error whereby non-adopters could be misidentified as ERM adopters should such firms disclose that one of the board members had previously been a chief risk officer of another firm, the extracted sentences were analysed in order to further ensure that the keywords were used to imply ERM implementation in the organisation under study. Where there was ambiguity, reference to the original annual report was made.

The approach adopted in this study may also suffer from the measurement error of failure to identify ERM adopters when the firm's ERM practices were not disclosed when using the keywords defined in this paper (i.e., Type II error). To overcome this, non-adoption was verified through telephone enquiries with a sample of 20 firms taken from the pool of 341 non-adopters (based on the annual reports after the cut-off date). Verification enquiries performed on a sample of 20 non-adopters is consistent with the non-adoption status.

Once the list of ERM adopters has been established, an online survey was circulated to 330 out of the 413 firms which showed evidence of ERM adoption based on disclosure approach after the implementation of 2013 Bursa Malaysia Guidelines and which were willing to participate in the survey. The remaining 83 adopters were either uncontactable or declined upfront to participate in the survey.

A link to the web-based survey which was hosted on Surveygizmo was then circulated to the CRO, the chief internal auditors (CIA) or chief financial officers (CFO) of the respective firms. The aim of the survey is to further confirm the firms' ERM adoption status and to determine its level of adoption.

From the survey, a total of 186 completed questionnaires were received. Of these, 30 had multiple respondents from the same firm, and the rest with single informants. Where there were multiple respondents, only one response was used based on the following rank, CRO over CIA and CFO, and CIA over CFO. Thus, the total usable questionnaires was 156 which provided a response rate of 47 per cent. Table 1 illustrates the breakdown of the adopters after the 2013 Bursa Malaysia Guidelines and the breakdown of the firms which responded to the online survey while Table 2 tabulates the response rate.

Table 1: Breakdown of Firms Which Completed Questionnaire by Industry.

Industry	No. of firms	No. of firms with evidence of ERM adoption after 2013 Guidelines	Potential no. of firms for online survey	No. of firms with completed survey
Industrial Products	246	148	122	55
Trade/Services	163	85	71	27
Consumer Products	106	50	40	24
Properties	83	39	33	16
Constructions	46	29	23	12
Plantations	38	20	14	7
Finance	29	20	15	7
Technologies	23	12	8	6
REIT	11	6	1	1
IPC / Mining / Hotel	9	4	3	1
	754	413	330*	156

*83 of the 413 firms could not be contacted or declined to participate.

Table 2: Response Rate

Survey details	Total	(%)
Total number of Firms invited in the online survey	330	100
Firms which submitted complete questionnaire	156	47

5. Findings

There are three (3) major findings from this study. The first major finding is with regards to the increase in the level of ERM adoption among Malaysian firms after the 2013 Bursa Malaysia Guidelines took effect. As shown in Table 3, more than half (i.e. 55 per cent) of the firms included in the analysis show evidence of ERM adoption as compared to only 50 per cent before the 2013 Bursa Malaysia Guidelines came into effect. The three (3) industries with the highest percentage of firms using the ERM terms in their annual reports are the finance, construction and industrial products industries. More than 60 per cent of the firms in these three (3) industries have ERM keywords in their annual reports. The

Table 3: ERM Adoption (Based On Keyword Search) in Malaysian Firms Listed on the Main Board of Bursa Malaysia

Industry	No. of firms	No. of firms with evidence of ERM adoption		No. of firms with evidence of ERM adoption (% of industry total)		No. of firms with evidence of ERM adoption (% of total, n=754)	
	After/ Before	After	Before	After	Before	After	Before
Finance	29	20	16	69	55	3	2
Construction	46	29	27	63	59	4	4
Industrial Products	246	148	135	60	55	20	18
Technologies	23	12	13	52	57	2	2
REIT	11	6	4	55	36	1	1
Trade/Services	163	85	83	52	51	11	11
Plantations	38	20	17	53	45	3	2
Consumer Products	106	50	45	47	42	7	6
Properties	83	39	36	47	43	5	5
IPC/Mining/Hotel	9	4	4	44	44	1	
	754	413	380			55	50

finance industry tops the list with 69 per cent disclosing the ERM terms. This is followed by the construction industry with 63 per cent and the industrial products industry with 60 per cent. This could be due to the highly regulated nature of the finance industry and the high risks nature of the construction and industrial products industries. On the other hand, the industries with the lowest percentage of firms having ERM keywords in their annual reports are the IPC/mining/hotels industry (44 per cent), properties industry (47 per cent) and consumer products industry (47 per cent). Overall, these findings are consistent with the existing empirical studies made by Beasley et al. (2005), Collquit, Hoyt, and Lee (1999), Kleffner et al. (2003) and Soltanizadeh, Rasid, Golshan, Quoquab, and Basiruddin (2014) which find that ERM implementation level varies according to industries.

Majority of the respondents (98 per cent) indicate some form of ERM implementation ranging from partial to complete and integral ERM implementation as shown in Table 4 which tabulates the results from the online survey. 53 per cent of the respondents have ERM as an integral part of the organisation, 30 per cent in the process towards an integral framework, ten (10) per cent are at the stage of planning for the integration while the remaining five (5) per cent of the respondents are considering implementing a complete ERM in the organisation.

Only three (3) respondents indicate that they have no plans to implement ERM. Further investigation into the Statement of Risks and Internal Control of these three (3) firms reveals that there is an increase in the level of risk disclosure information after the 2013 Bursa Malaysia Guidelines which may have led to the misidentification. In two (2) of the firms, the description of the risk management framework in the Statement of Risk and Internal Control in their annual reports, which include risk management activities and processes are more detailed after the 2013 Bursa Malaysia Guidelines were implemented. Such an increase in disclosure implies two (2) possibilities. First, the respondents are oblivious to the ERM implementation in their entities. Second, they do not associate ERM with their newly integrated approach to managing risks. In this regard, they have thus failed to respond to the survey questions appropriately. The reliance on the term "risk management committee" in the annual reports as the only indication of ERM adoption may be the reason for the misidentification. The presence of a "risk management committee" may not necessarily imply ERM implementation particularly when such an establishment is merely a compliance or "tick in a box" exercise to please the shareholders. It is to be noted that there is no ERM keywords other than "risk management committee" in those annual reports.

Table 4: Level of ERM Adoption (Based on Survey Findings)

Categories	Frequency	%
A. No plans to implement ERM.	3	2
B. Considering to implement a complete ERM.	10	5
C. Planning to implement a complete ERM.	15	10
D. In the process of implementing a complete ERM.	46	30
E. ERM is an integral part of the organisation.	82	53
Total	156	100

The second major finding of this study is the common terms used for ERM in the annual reports (see Table 5). As is shown, the term "risk management committee" accounted for 71 per cent of the total number

Table 5: Intensity of Disclosure on ERM in the Annual Reports of Malaysian Firms Listed on the Main Board of Bursa Malaysia

	Number of appearance				% Increase
	After		Before		
	No. of appearances	%	No. of appearances	%	
risk management committee	1,769	71	1,226	69	44
enterprise risk management	309	12	287	16	8
risk committee	262	11	136	8	93
corporate risk management	47	2	29	2	62
chief risk officer	41	2	25	1	64
integrated risk management	34	1	37	2	-8
others *	21	1	37	2	-43
	2,483	100	1,777	100	40

* Others include Holistic Risk Management, Strategic Risk Management, Group Risk Management Department and Group-Wide Risk Management.

of times the key terms appeared. This is followed by the term "enterprise risk management" which appeared in 12 per cent of the total number of ERM terms appearances. This occurrence implies that both the terms, "risk management committee" and "enterprise risk management" are among the most common terms applied to describe this new approach in managing risks as compared to other terms such as "risk committee", "corporate risk management", "chief risk officer", and "integrated risk management". The results further show a low usage of terms such as "integrated risk management", "holistic risk management", "strategic risk management", "group risk management department" and "group-wide risk management". Additionally, this study finds that the term "consolidated risk management" was not used at all in describing risk management practices in Malaysian listed firms.

The third finding is the intensity of the disclosure before and after the implementation of the 2013 Bursa Malaysia Guidelines. Based on the comparative analysis of the number of times the terms appeared in the annual reports of the 754 firms, there is a significant 40 per cent increase in the number of times the terms appeared in the annual reports after the cut-off date. This occurrence suggests the effectiveness of the current 2013 Bursa Malaysia Guidelines and the Malaysian firms' compliance attitude.

Additionally, this study finds that the mention of chief risk officer (CRO) in the annual reports is low, an indication of the lack of its presence in Malaysian listed firms. Specifically, the term "chief risk officer" only appeared 25 times and 41 times in the annual reports before and after the cut-off date respectively, representing two (2) per cent of the total terms used.

Table 6 tabulates the results of the independent sample *t*-test which was conducted to compare the number of times the terms appeared in the annual reports before (Mean = 2.357) and after (Mean = 3.265) the cut-off date. There is a significant increase in the overall use of ERM common terms in total ($p < 0.01$). In addition, the use of the term "risks management committee" after (Mean = 2.346) and before (1.626) the

Table 6: T-test on the Number of Times the Terms Appeared in the Annual Reports Before and After the Cut-Off Date.

(n=754)	Mean	SD	T-test for equality of means	p-value
Total				
After	3.265	6.4304	3.084	0.000***
Before	2.357	4.9075		
Risk Management Committee				
After	2.346	5.0145	3.129	0.000***
Before	1.626	3.8468		
Enterprise Risk Management				
After	0.410	1.2594	0.476	0.545
Before	0.381	1.1171		
Risk Committee				
After	0.347	3.0752	1.193	0.233
Before	0.180	2.3104		
Corporate Risk Management				
After	0.062	0.5479	1.015	0.310
Before	0.038	0.3416		
Chief Risk Officer				
After	0.054	0.6063	0.866	0.387
Before	0.033	0.2919		
Integrated Risk Management				
After	0.045	0.5003	-0.15	0.881
Before	0.049	0.5296		
Others *				
After	0.028	0.2138	-1.132	0.258
Before	0.049	0.4684		

* Others include Holistic Risk Management, Strategic Risk Management, Group Risk Management Department and Group-Wide Risk Management.
*** The mean difference is significant at 0.01 level.

cut-off date, p=0.000 (two-tailed) is also significant. The independent T-test results however, do not indicate any significant difference in the use of less common terms such as “enterprise risk management”, “risk committee”, “corporate risk management”, “chief risk officer”, and “integrated risk management”.

6. Discussions

The increase in the risk disclosure practices after the implementation of the 2013 Bursa Malaysia Guidelines albeit its voluntary nature certainly brings good news to investors.

Specifically, the year on year improvement in the level of risk disclosure from 50 per cent (“before”) under the previous 2000 Bursa Malaysia Guidelines to 55 per cent (“after”) under the current 2013 Bursa Malaysia Guidelines illustrates a five (5) per cent increase in the voluntary risk disclosure practices of Malaysian public listed companies as opposed to the 0.5 per cent increase during the period from 2006 to 2008 when the 2000 Bursa Malaysia Guidelines was in effect (Ismail & Rahman, 2011).

Such evidence of compliance to the voluntary risk disclosure requirements corroborates with agency theory which emphasises on the need to close information asymmetry gaps as a means of minimising agency costs. Essentially, it can be said that transparency generates perfect information, improves the level of confidence among investors in the public institutional reporting and minimises the agency costs of monitoring management (Jensen & Meckling, 1976).

This increase in disclosure practices after the implementation of a new guideline is also consistent with game theory which states that in a competitive environment, each organisation chooses to abide to the requirements for fear that their peers might outdo them in this regard and may, eventually, benefit from the value-creation (Ghazali & Abdul Manab, 2013), improved organisational performance (Nickmanesh et al., 2013) as well as the comprehensive risk database (Banham, 2004). The other finding which is equally important is the knowledge of the true ERM adoption rate. Such knowledge is certainly useful to investors in general, the relevant regulators as well as statutory bodies in particular prompting for further investigation into the possible deterrents to ERM implementation.

Consistent with prior studies, the importance of a regulatory landscape to institutionalise and regulate the market (solvency and corporate governance) is evidenced in the current study. Without strong enforcement by regulators, companies might not have implemented ERM or at least, not in such a speedy manner (Acharyya & Johnson, 2006). This is reflected in the practice of the finance industry which is known for its stringent regulations, tight regulatory environment and a relatively more stable ERM practice as compared to other industries (Beasley et al., 2005; Liebenberg & Hoyt, 2003; Pagach & Warr, 2007; Wan Daud, 2011; Wan Daud et al., 2011) as concluded in the current results that the finance industry had recorded the highest number of ERM adopters.

Nonetheless, the findings of this study had also raised some concerns over the few mentions of the term CRO in the annual reports. This finding may be due to the fact that the appointment of CRO in non-financial services company is not made mandatory. It may also be due to the possibility of the CRO role being outsourced to external consultants. Alternatively, it could be that the CRO role is supported by another role within the organisation such as the chief internal audit or chief financial officer.

7. Conclusion

The overall results of this study reflect the compliance behaviour of public listed firms towards regulatory measures regarding better corporate governance. This is in respect of ERM disclosure practices seen from the lens of the regulatory bodies, businesses and academic domains. From the regulatory standpoint, it appears that the increase in the disclosure practices may indicate the effectiveness of the 2013 Bursa Malaysia Guidelines. While there is still much to be done to increase transparency in disclosing risk information, the Guidelines albeit a voluntary one, have indeed proven to be the catalyst in driving the increased disclosure practices. Practitioners, regulators as well academicians will also benefit greatly from empirical studies which look at the motivation to generate greater transparency and abidance to guidelines which are voluntary in nature.

Notwithstanding the above, the method used in this study to identify ERM adopters which was through the usage of ERM common terms in annual reports, bears the conflict of substance over form, particularly when the usage of common terms in the disclosure does not reflect the actual practise. That said, future research may need to address the conflicts by using a score method that can help to improve the scientific aspects of the methodology. A framework for the analysis of risk communication and an index to measure the quality of risk disclosure can further enhance the instrument. In addition, it may be useful to examine the impact of the increase in the disclosure on the firm's value or performance.

Finally, without belittling the role of annual report as an important mode of communication to convey an appropriate message to stakeholders (Jones, 1996), it would seem that there is an obvious need to go beyond disclosure practices if one were to uncover more ERM practices in the organisational context it operates. In other words, future studies ought to be designed as a case study so as to gain insights into actual ERM practices in real organisational settings as a way of identifying factors that deter ERM implementation.

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Appendix 1: Measurement Instrument

The following questions relate to ERM implementation in your organisation

Please choose the statement which best described your organisation in respect to ERM implementation. Choose only one answer by indicating (√) in the relevant box provided.

A. We identify, assess, and control strategic, financial, operational, and compliance risks; ERM is an integral part of the (strategic) planning & control cycle. ☐

B. We identify, assess, and control strategic, financial, operational, and compliance risks; we are in the process of implementing a complete ERM. ☐

C. We identify, assess and control risk in specific area; we are planning to implement a complete ERM. ☐

D. We actively control risk in specific areas (e.g. health & safety, financial risk); we are considering to implement a complete ERM. ☐

E. Risk management is mainly incident-driven; no plans exist to implement ERM. ☐