Research Journal of Finance and Accounting
ISSN 2222-1697 (Paper) ISSN 2222-2847 (Online)
Vol.7, No.21, 2016

Oversee Risk Management as Newer and More Complex Risk Emerge in Corporate Sector

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Abstract
This research paper revolves around the basic concepts of risk management, corporate governance, and the strategic decisions of the board members of the firm. These three concepts are connected and correlated with each other. The good governance can lead a firm to avoid risk which can damage the firm. By reducing risk, a firm can manage its profit maximization and can maintain a healthy corporate environment. In addition, this paper also discusses the framework of the corporate governance, the problems faced by the board committee in managing risk, and the ways of reducing risk. Corporate governance can avoid the risk by practicing the suggested framework in their organization and can understand their responsibilities.
Keywords: Risk management, Complex Risk, Corporate Sector.
JEL Classification: G32, M10, O16

1. Introduction

Corporate governance refers as the processes, methods and guidelines by which the problems, affairs and the structure of the organization can be managed and direct. It is about how the information, credibility, accountability and transparencies can be maintained and this discloses the performance of the organization. Good corporate governance includes the board members and stake holder i.e. customers, staff, regulator, communities and suppliers. They all played a role in a good governance of the corporate.

Corporate governance is necessary for all sectors of organizations but it is mandatory in managing or reducing risk. Risk management defines as identification, assessment and prioritization of risk. Risk is directly related to the fluctuations in expected return and return from investment. These fluctuations reflect the earning profit of the organization, its capital structure and the financial performance of the firm. From the last few decades, companies met to a failure and the major problem which the analysts recognized is the poor performance of corporate governance in risk management. Such as in 2001 in UK the Marconi has collapsed and the reason behind it is the misguided strategy from the governance of the firm. So it is important for the board members to understand the risk management in order to avoid any failure. Risk management should not only focus on how to reduce risk, but it should also involve how to assess the risk from all sides which helps the corporate governance in their strategic planning.

Practically, it is not possible to avoid the total risk, but it can also b reduced or diverse. So the corporate government must understand the amount of risk their organization can handle and they can willingly accept it. There are many ways, methods and solutions by which the company board members and stake holders can oversee risk management includes they should have the same purpose and scope, empowerment of executive management and committees, active strategy of managing risk, shareholders and stake holders hold boards to account etc.

1.1 Objectives of research

The objective of this research is to define how we can manage risk in the corporate sector under the shelter of corporate governance. It also discusses the ways and methods by which the risk can be managed or reduced by the shareholders and stake holders. Moreover, we will found out what are the leading risk concern for the board members and how the board should review the adequacy of company’s risk management practices and the security measures can be done.

1.2 Methodology

In this research, deductive approach is used which includes to design a research strategy which is based on hypothesis develop by existing theory to avoid risk. The research is entirely literature-based in which conclusion is derived from selection and discussion of theoretical material and detailed comparison of theories in terms of their applicability.

2. Literature review

Risk and its uncertainty influence the decisions which effects the pay-offs of the organization. Risk management involves the ways to secure from harm and to maintain the share prices of the firm. So it is important to combine the finance and the marketing strategies of the firm to the market. A question arises that how the risk management can be done by its assessment, perceptions, attitudes to the market structure from the buying and selling side of the firm. With the passage of time, risk fluctuates in various forms especially in the financial and technological firms. Risk is also a critical part of food industries, where any unpredictable risk can notice which affects the supply and demand of products.

Organizations do risk management by assuming risk perception, risk attitudes or risk aversion. Risk perception and risk attitude can investigate simultaneously but dramatically it can vary up and down in the organization. To overcome the risk, many strategies can be used by the channels. (Pennings & Wansink, 2004).

Well there are many motivations to manage risk, but a noticeable way is to create board committee of the firm which involves the share holders. The corporate investor's decisions are more likely matters to manage risk because the corporate investors implement the corporate financing decisions such as taxes, information or conflict which directly affects the firm. Corporate governance of the firm must be able to mitigate, reduce or diverse risk to prevent the organization from imperfections. In the corporate world, it is important to understand the financing decisions which can directly affect the value of the firm. (Wu & Xu, 2005)

In the corporate governance, the structure of the board directors affects the company's performance. Good corporate governance consists of hiring, monitoring and compensating the management, and oversight of managers. (Perry & Shivdasani, 2005). Many researches show that good corporate governance plays role in reducing the risk and the problems of the firm. But the structure of the board governance effects the changes in the business environment. (Becher, Campbell II, & Frye, 2005).

2.1 Understanding risk to make strategic decisions

Strategic decision making is very easy to understand, but at the same time the strategic decision to overcome the risk is more complex because it requires the senior management to assess, predict and analyze the risk and then make decisions considering it. Effective decision making needs a solid understanding of risk what the firm faces. In firms, the central idea of the decision making is uncertainty. When the corporate governance analyzes the risk then it can take several steps to develop effective strategies for the firm which includes:

- There is no guarantee that future is full of achievements and will not involve any uncertainty. So the first step is to anticipate the future and make probabilities of uncertainties that the firm can face in future.
- The second step is to make alternative strategic decisions by imagination and intuitions to overcome the risk.
- Third step is to make decisions for effective adaptation of the environment by the organization as well as its individuals.

Effective strategic decision making is necessary for the firm's value and for the evolution of the organization. By implementing these steps on decision making, corporate governance can reduce the future risk and can have the ability to create more effective decisions for the organization. (Hatch, 2011).

2.2 Leading risk for board members

From the age of corporation emerges, there are many elements which emphasizes the determination of profit to the organization. But now the owners, creditors, investors, government all focuses on the financial accounting of the firm.

2.2.1 Reputational risk

The reason for good corporate governance is to safeguard the reputation of the organization and getting enough information about the investors and regulators of the firm. Over the last 500 years, accouters have used the accounting reporting model, which is updated only in the Industrial revolution. The information from this model is not enough and thus caused many failures in the corporate world. It is important for the investors to have full knowledge and information about the financial performance of the firm to ensure the reputation of the firm and that their investments are properly managed. To avoid the reputation risk, the corporate governance requires the provision of:

- past and future-oriented information
- financial and non-financial information
- profit and socially responsible information
- accurate and timely information
- motivational information
- Strategic and control information

The workers of the organization i.e. white collar or blue collar tend to have more information rather than others. The role of corporate governance is to manipulate the available data and information into the new measures demanded to avoid the reputational risk. (Ratnatunga & Vincent, 2007).

2.2.2 Cyber security risk
In this technological world, everything becomes easier, precise and wireless through which the information can gather and transfer easily. But where the technologies give advantage to us, on the other side it can harm us too. The second leading risk now a day organizations face is Cyber security risk. Cyber crime become easier as the technology becomes advanced. The evolving use of internet and connected information system of the corporate governance face challenges to government, private sectors and individuals through all around the world. Nearly daily the newspaper and television announces the cyber breeches of major organizations in the US. The cyber challenges become greater in the technological world where only few professionals and technical resources are there to protect organizations from cyber security risk. (Bisong & M. Rehman, 2011). Wireless gives advantages to improve productivity, accessibility to information, precise information data, and secure the information from external threats. Network connection is easier, faster and up to date and less expensive. But wireless network has also created new challenges, threats and risk which are not ignorable. The security objective remains same with the cyber network because it can be hacked, and confidential information can leak out. Cyber network is the sign of technological advancement of the world which is convenient, easy to use, cut cost and integrate easier with the other networks.

2.3 Cyber security attacks
2.3.1 Accidental association
Individuals can get easy access to the company's wireless and network connection from different methods. When an individual turns on the computers and links with the wireless access point, from which the other company's network is also linked, the user may know that the connection has occurred with the neighboring company's network and can get easy access to its information and data. Although this is a breach of cyber rules, but this is a way through which the company should aware of.
2.3.2 Ad-hoc networks
These networks are connected between wireless computers through peer to peer networks, it does not share the same access point but the information from these networks can share easily.
2.3.3 Non-traditional networks
Non-traditional networks are not computer based but from the devices as Bluetooth which is not safe for cracking and should be regarded as security risk. The other cyber attacks are as follows:

- Identify theft (MAC spoofing)
- Man-in-the-middle attacks
- Malicious association
- Denial of service
- Network injection
- Caffe latte Attack

2.4 Securing cyber security risk
Cyber security risk can be avoided by making the wireless connection more difficult to locate and intercepts the wireless signals. The second method is use of encryption to protect confidential information. It is mandatory for organization to make it more difficult to access its data point network. The easiest way which is cost cutting and less expensive is to turn off the service set identifier (SSID). It reduces strong signals to its lower level that still provide the network within the building but not outside the walls. The other method is to encrypt all wireless traffic which prevents the transfer of information from one to another network. Countermeasures can also be made to reduce the risk of such attacks. Weak and poorly configured access point of network can become strong by

- Elimination of rogue access point
- Configuring all access points properly
- Authentication of devices by using 802.1x

Cyber networking is beneficial for the organization because it is cost cutting, less expensive, easy to use, increase opportunities and productivities of the organization. But it also reflects the security risk, although it is impossible to eliminate the cyber security risk but risk can reduce by implementing all the various ways to secure information through the network. Countermeasures can be done to mitigate or transfer the risk. (choi, John Robles, Hong, & Kim, 2008).

3. Challenges faced by the board committee in managing risk
There are five challenges which the board committee has faced in managing risk. They are:

3.1 General Challenges

It includes the selection of appropriate frame work of risk and its implementation in the organization. Some frameworks are good for firm such as workbook material and display sides which shows the implementation process. Auditors of the firm can help to select the framework which is best in the favor of organization. Technological part is important in organization as the technological world get advanced. Many methods in security risk management do not based on framework.

3.2 Human errors

Human factor is the only factor which cannot ignore or predict. To ensure the framework suits the organization, the human factor should be minimized. Humans are necessary in the implementation of the plans and strategies. The risk management team needs to agree on the same risk definition, risk assessment, and its management.

3.3 Complex Environment

Complex environment comprises of uncertainty, complexity, volatility and ambiguity. In order to apply strategies, it is important to understand what is happening in the environment and what could happen. For example, the earthquake in Japan which caused tsunami and results in several explosions and then a nuclear meltdown at Fukushima nuclear power plant occurs. (Kerstin, Simone, & Nicole, 2014).

4. Risk Assessment

4.1 Importance of risk assessment in strategic planning process

Managing strategic planning process is the most difficult part of every organization to attain its objective whether it is private or government. In some recent researches, it is showed that only 70 percent of strategic planning can be executed. Strategic plans are completed by its implications and the positive predicted results. Strategic plan includes operations, timelines, responsibilities and resources through which the planning can do and the goal can achieve. It plays an important role in the success of organization to achieve its objectives and goals. Strategic planning involves internal structure, external environment, financial resources and role of human. After execution of strategic planning, strategic evaluation is used to judge the pros and cons of decision, merits and positive impact of it. Strategic plan acts as a bridge between perceived present situation and desired future position of the firm. (Kibachia, Iravo, & Luvanda, 2014).

In an organization, it is important to assess the risk through which the environment of the firm remains healthy and as well as risk can be managed. Risk assessment has played a vital role in the strategic planning process, because if the planning does not assess the risk, it may harm the whole planning and its execution. Risk assessment includes what, and how risk can damage the firm and its financial value. So in risk management, the most important step is to assess the risk and make strategies to overcome it. The good risk assessment can help the organization to take corrective measures that are most appropriate. (Lele, 2012).

Risk assessment involves two process i.e. Risk identification and Risk analysis. Risk identification involves all the events and possibilities of the organization and risk analysis set the priorities in identifying risk. Brainstorming, checklists, structure, work analysis helps to identify risk. Risk assessment methods involves the following steps i.e. mitigate risk, avoid risk, transfer risk, accept risk. By using these activities the strategic planning can be done effectively and thus prevents organization from major harm or failure. (Jr., Gusmao, & Mora, 2013).

4.2 Implications of risk assessment

The implications for risk assessment are significant as follows:

- Investors should diversify their investments portfolio to avoid risk and generate a higher expected return. Diversification of investments is the best way even if they have special access to information and transaction cost.
- In general, the risk of an asset can be measured by the risk it adds on to the portfolio that it becomes part of and in particular, by how much it increases the variance of the portfolio to which it is added. Thus, the key component determining asset risk will not be its volatility per se, but how the asset price co-moves with the portfolio. An asset that is extremely volatile but moves independently of the rest of the assets in a portfolio will add little or even no risk to the portfolio.
- Potential for large payoff and jumps of prices become irrelevant when they are factorized in variance computation.

4.3 Monitoring role of board in reputational and cyber security risk

It is recognized that directors and officers are responsible to protect the asset of their organization. In the recent years, this duty has expanded by the digital assets and laws, rules and regulations that impose laws on cyber security of companies. In the survey of 2015, the company's board has established risk committee and audit committee to shift risk to oversight. Many board committees are failed to recognize the link between information technology risk and enterprise risk. Boards are now undertaking the activities that are related to monitoring cyber security and reputational risk. In 2015, it is declared that only 63% of board governance are actively monitoring and governing the risk, but now boards are taking part in monitoring the information security, security program assessment, policies and assessing role and responsibilities for privacy and security. (Perry & Shivdasani, Oversee risk management as a newer and more complex risks emerges., 2005).

4.4 Understanding of organization for good corporate governance

It is the responsibility of the board members to have overall knowledge about their good business. It helps the board to make proper decisions, take appropriate actions in the favor of organization. Nearly all companies are managed by the board committee which is elected by the shareholders and investors to run company in beneficial dimension. In many countries, board committee is elected through elections which held annually or semi-annually. The purpose of this committee is the unity among shareholders, judgment of firm's performance. This committee has the executive authority to take decisions in the favor of organization. Boards' responsibility is to take actions which are in favor of stakeholders and shareholders as well. Board of director act as the body & mind of the company and the company itself is a personality. If the board members take the wrong decisions, thus it will affect both the committee members and company.

It is important for board members to have all information and knowledge about the company includes financial, social, environmental threats, financial profits and the ability of a firm to bear risk. Without having the information, it is crucial for governance to take a right step for company. By having the overall knowledge, board directors can understand the minors and majors of the firm; the risk company faces from the external environment and the amount of risk that a company can tolerate.

4.5 Over sees risk management

Risk can define as "uncertainty that can happen in any situation which causes harm". In the organizational context, risk is the unpredictable, unwanted consequences or undesirable events which influence the overall performance of the firm and cause damage. Risk influences the performance to achieve company's objectives and goals. In order to overcome risk, risk management is used by the board members or professionals.

Risk management defines as "the process which includes identification, analysis, prioritization, planning and monitoring of risk". Thus risk management helps the corporate governance to mitigate, reduce or avoid risk.

4.6 Risk Management Steps

4.6.1 Board can manage risk by the following steps

- Identify risk: Usually SWOT analyses are used to identify the risk which is about to effect the achievements of objectives and goals, performance or environment of the firm. Questions arises that why, where, when and how the risk can occur, what is the probability or possibility of risk occurring and what are the priorities of achieving our priorities.
- Analyze the identified risk: It involves the source of risk, the consequences to estimate the uncontrolled and unprotected risk.
- Assess/evaluate the risk.
- Manage the risk.
- Monitor the risk regularly.
- Communicating stakeholders continuously about the risk environment. (Berg, 2010).

4.6.2 Corporate-level strategy for good governance

The area of business policy increasingly distinct the corporate-level strategy and business-level strategy. These two different concepts act as an aid to managers in their decision making. Business policies have been evolving during the past few decades, but they all serves the organization to achieve its objective. These strategies are applicable to the inter-industry and intra-industry variations. To study organization, these are the more complexes strategies because they are continuously evolve in the business policies. The person who gave the concept of different level of organization was Anoff. He discovers that managers face the three types of decision making i.e. strategic decision, administrative decision, and operating decision. Strategic planning movie through three stages i.e. set objectives as per priority, setting business objectives and goals in the divisions and establish the actions to implement on the program on functional level.

There is a relationship between corporate-level strategy and the firm's performance. Corporate-level strategy deals with the objectives, goals, purpose, and the plans to define that what business purpose of the organization is and where it wants to be in. It helps the board members to achieve goals and objectives easily. Corporate-level or business-level strategies help to define the variation in the firm's profitability, capital structure and capital intensiveness which helps to design a strategic planning and strategic decision. (Beard &

Dess, 1981).

4.7 Risk management model

With the increasingly risk challenges facing by the organizations, financial community have provided risk measurement models to deal with the unpredicted risk. With an optimal capital allowance, organizations urge to build some risk measurement models. The difficulty arises, when risks have to be pictured in joint distribution. Multivariate's outcomes help to position investment and financial risk protection.

4.7.1 Capital asset pricing model (CAPM)

CAPM model developed by Jack Treynor and Bill Sharpe, they added a riskless asset to the portfolio and concludes that every asset portfolio face risk at some level. So they created a investment portfolio includes riskless asset and the risk facing assets to generate a higher rate of expected return instead of just holding a portfolio of risky assets. That investor who wants lesser risk as compare to the market portfolio, they should invest in a super-efficient portfolio and in a riskless assets. The investors who want to take more risk should borrow at the riskless rates and invest their money in super-efficient portfolio. All the investors of the firm should invest in the diversified asset that includes trading assets in the market, held in proportions to its market value. Hence, this model has no taxes or transaction cost and gives the appropriate information about the assets.

In order to avoid risk, the corporate governance can apply this model to their organization so that they can reduce risk by diversification of their investment portfolio includes riskless assets that is used to overcome the damage of the unpredictable risk. (Sharpe & F., 1961)

4.8 Board structure for good governance

Board is responsible for monitoring the organization's issues, problems, pros and cons, and to resolve the problems between top management and shareholders. Boards are generally fail to monitor the activities, policies and risk and thus called outsource professional risk and audit committees. It is argued that market pressure and risk management lead directors to fulfill their duties of monitoring. The board committee depends on the composition of board and unresolved questions. To answer these questions, board must act as an alternative control device which can control the agency problems, manage risk and solves the tensions between management and shareholders. (Hermalin & Micheal, 1991). Now the question arises whether the board structure effects on firm performance or not? Many research showed that effective monitoring and the presence of outsider board results in a failure of performance and strategy. There is a positive linkage between the firm's performance and board structure.

4.8.1 Board committee

The task of board committee is to manage the affairs of corporation and manage business. Through the majority of votes, the board members are elected and they are responsible for the actions and measures of the company. The main task of the board is to design the long-term investment strategy and risk management of the firm. Development committees need to establish a regulation or a guideline for the long-term investment. Whereas, the finance committee reviews the financing policies of firm, investment of funds, dividend policy recommendation and design the portfolios. Finance committee also looks after the performance of the employees.

The second function of the board directors is to resolve the agency conflicts between upper management and shareholders. Managers emphasize the consumption of perquisites or selection of suboptimal investments of their own utility whereas the shareholders want them to work for the wealth maximization. Finance and long-term committees are design to address decision-making issues.

There are different types of directors in the organization i.e. affiliates, insiders and outsiders. Inside director usually terms as CEO, president or vice president of the firm. Outside directors usually do not affiliate with the firm but only act as a board member. Affiliates are those who have a relationship with the CEO, former employees or those who have significant transactions or business relationship.

4.8.2 Firm Performance and Board Composition

There is a relation between board composition and firm performance in terms of board classification. Performance measurements are done by analyzing assets, accounting of profitability, income after-tax, productivity and book value of firm's assets. So if the board is comprises of the talented and knowledgeable members then they can lead the firm up to the level. Inside directors are more usable if they properly serve themselves for organization. But yet most of organizations hire outside directors with small or no shareholding. This trend does not guarantee the firm's success and do not give advantage to it. Firms have to reevaluate their nominating procedures, voting rights in order select appropriate inside directors in the favor of organization. (Klein, 1998).

5. Conclusion

In recent years, risk management becomes tougher as the technology introduces reputational and cyber security risk. Risk management is the vital part of the organization to overcome the unpredictable events and consequences through which company can suffer a huge damage. It is also necessary because strategic decision making requires all the possibilities, consequences, unpredictable events, losses which can happen by the risk to forecast future. Cyber security and reputational risk can manage by the inside board of directors efficiently because they have better understanding of the situation and the company pros and cons, its policies and the amount which the company can suffer loss.

Risk management can be done step by step which involves identifying risk, analyzing it, accessing it then monitor risk. This process can use to manage any type of risk. But the risk cannot always avoid, it can reduce or the only condition is to accept it. The role of corporate governance is crucial in risk management. Corporate governance design strategic planning process to overcome risk and enhance the performance the firm. There is a relation between good corporate governance and the performance of the firm. If the board sets suitable policies, rules and regulations for the firm and take decisions in the favor of the firm, its capital structure, firm value and profitability by expected return then it enhances the overall firm's performance.

Board structure plays an important part in good governance and risk management. The board members should have the whole and adequate information about the organization, its practices, expected rate of return, threats by external environment and profitability so that they can take an appropriate strategic decisions and properly execute it.

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