AAU Journal of Business and Law مجلة جامعة العين للأعمال والقانون

Volume 7 | Issue 1 Article 8

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Alshebli, Abdullah and Alhajri, Thafar () "Internationally Accepted Risk Management Strategies: A Comparative Study," *AAU Journal of Business and Law مجلة جامعة العين للأعمال والقانون*: Vol. 7: Iss. 1, Article 8.
Available at: https://digitalcommons.aaru.edu.jo/aaujbl/vol7/iss1/8

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Internationally Accepted Risk Management Strategies: A Comparative Study

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Abstract

Purpose: The topic of risk management is multi-faceted, related to, inter alia, accounting, legal, administrative, management, and other aspects of business**.** This study aims to investigate the legal aspects of risk management and the various laws related to it. It aims to provide a clear understanding of the need for and benefits of risk management, to set out the international best practices of risk management. In addition, it offers certain recommendations for the development of legislation ofrisk management systems for listed companies.

Keywords*:* risk management strategy; corporate governance; audit committee; risk management committee, board of directors.

استراتيجيات إدارة المخاطر المقبولة دوليًا: دراسة مقارنة

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الملخص

هدف الدراسة: إن موضوع إدارة المخاطر موضوع متعدد الأوجه، ويتعلق بعدد من الأمور كالمحاسبة، والقانون، والإدارة، وجوانب أخرى. هذه المقالة تتناول الجوانب القانونية لإدارة المخاطر والقوانين المتعلقة بالموضوع، في محاولة لإيجاد نموذج قانوني يناقش هذا الموضوع بشكل مفصل. وعليه تهدف هذه الدراسة إلى توفير فهم واضح للحاجة إلى إدارة المخاطر وفوائدها، بالإضافة إلى تحديد أفضل الممارسات الدولية لإدارة المخاطر من جانب قانوني. بالإضافة إلى ذلك، فإن البحث يقدم بعض التوصيات التي يمكن أن تؤدي إلى تطوير التشريعات المتعلقة بأنظمة إدارة المخاطر للشركات المدرجة في أسواق المال.

منهجية الدراسة: يتبع البحث الأسلوب التحليلي، كما يستخدم الأسلوب القانوني المقارن بالنظر إلى التشريعات ذات العلاقة الموجودة في المملكة المتحدة والولايات المتحدة والكويت. وعليه فإن الغاية من الدراسة هي تسليط الضوء على أفضل الممارسات الدولية الخاصة بإدارة المخاطر من جانب قانوني، بالإضافة إلى تقديم توصيات لسد الثغرات في التشريعات أو اللوائح الحالية في الدول كافة.

عينة الدراسة وبياناتها: تتكون البيانات من خلال مناقشة مفهوم إدارة المخاطر، والتعرض للطريقة التي ينبغي على مجالس الإدارة اتباعها بشأن خطة إدارة المخاطر. وكذلك تم الاستشهاد بأمثلة محددة عن الفشل في تنفيذ إدارة المخاطر، وشرح نتائج هذه الإجراءات. وهذا كله من خلال مناقشة عدد من التشريعات الدولية ذات العلاقة.

نتائج الدراسة: أظهرت الدراسة أن الفشل في إدارة المخاطر بالشكل صحيح قد يؤدي إلى أزمات مالية وزعزعة في استقرار الشركات الكبيرة.

أصالة الدراسة: تعتبر الورقة بمثابة إضافة إلى الأدبيات الموجودة حول موضوع إدارة المخاطر وذلك من خلال تحليل القوانين المختلفة المتعلقة بالموضوع ومقارنتها مع أفضل الممارسات الدولية.

حدود الدراسة وتطبيقاتها: يسلط البحث الضوء على الثغرات الحالية في التشريعات ذات العلاقة، مع تحديد المجالات التي تحتاج إلى تحسين. وتمت المقارنة مع البلدان الأخرى التي تعاملت مع هذه المجالات التي تحتاج إلى أخذها بعين الاعتبار في المستقبل. والورقة البحثية تعد إضافة مهمة للأكاديميين والمنظمين والمشرعين الذين يتوقعون حدوث مشاكل بسبب نقاط الضعف في النظام التنظيمي الحالي.

الكلمات المفتاحية: استراتيجية إدارة المخاطر؛ حوكمة الشركات؛ لجنة التدقيق؛ لجنة إدارة المخاطر؛ مجلس الإدارة.

Received 03/07/2022 **Revised 24/10/2022** **Accepted 01/11/2022**

1. Introduction

Modern businesses face a variety of risk factors that could negatively impact or even destroy a business. Risk management is the process of identifying the potential risk factors that could negatively impact a business, and the development of strategies to avoid or combat these. Effective risk management strategies aim to be proactive in dealing with risk factors to avoid the occurrence of the potential negative outcomes or minimizing their effect on the business.

Risk management is an important part of modern business as it allows business managers and employees to make sound decisions that will benefit the business or enable it to avoid negative outcomes. It also allows management to develop strategies to ensure that the business is able to cope with various challenges.

This article seeks to investigate the need for, and benefits of, risk management. It highlights the internationally accepted risk management strategies[(1)] and gives recommendations for companies, governments, and self-regulating authorities.

The main question that arises is: what is the internationally recognized best practice for risk management within companies?

1.1. Literature Review

The topic of risk management is well documented in the countries of the UK and USA in several research pieces. The main aim of these works is to describe the process of risk management commonly employed in these countries. Books such as "Decision Quality: Value Creation from Better Business Decisions"[(2)] and "The Failure of Risk Management: Why It's Broken and How to Fix It (Second edition)"[(3)] "The Risky Business of Regulating Risk Management in Listed Companies"[(4)] and articles such as "Financial impact of regulatory sanctions on listed companies"[(5)] and "The effect of internal control and risk management regulation on earnings quality: Evidence from Germany"[(6)] have set out the legal position of risk management in developed countries into great detail.

However, in Kuwait there has been very little research on the topic of risk management. corporate governance is fairly a new topic, and the development of corporate governance codes is still in its early stages. Therefore, the current work aims to highlight how companies in developed countries such as the

1

2 by Jennifer Meyer (Author), Carl Spetzler (Author), Hannah Winter (Author), John Wiley & Sons, 2016

3 By Douglas W. Hubbard, John Wiley and Sons, 2020

4 Luca Enriques and Dirk Zetzsche, ECFR 3/2013

5 Nerissa C. Brown, Christiane Pott, Andreas Wömpener, Journal of Accounting and Public Policy Volume 41, Issue 5 September–October 2022

6 Laure de Batz, European Journal of Law and Economics (2020) 49:301–337, Published online: 27 February 2020

USA and UK approach the topic of risk management, describe the current position in Kuwait, and make making recommendations on how to improve this aspect of corporate governance in Kuwait.

1.2. Methodology and Design of the Article

To answer this, the article follows a process of comparative legal analysis of various approaches in some of the most developed and sophisticated economies such as the United Kingdom (UK), the United States (US), as well as the current situation in Kuwait.

The comparative legal analysis methodology helps scholars to look outside of a country's laws to understand how other jurisdictions deal with similar problems and how those countries have developed their laws and rules. It compares diverse laws from other countries whose circumstances may be similar or even very different from the country of origin.

The use of a comparative law approach is appropriate when parties are at similar stages of economic development and culture. However, a comparison with more developed countries is beneficial in order to learn from their experience. As a result, the use of a comparative law approach in this article helps to determine which laws and regulations are the most suitable to addressing issues of risk management. The use of a comparative law approach can produce a wide range of model solutionsbecause the different laws can provide a variety of answers to difficult issues. This variety enriches and expands the supply of solutions, increases the opportunity to discover the best solution, and is beneficial for legal reform. Without the assistance of a comparative law approach, it would be difficult to reform legislation and to developnewlaws.

1.3. Aims of the Article

This article will be underpinned by a comparative legal analysis of the laws and rules of the USA, UK and Kuwait. It aims to identify the different approaches to risk management in these countries, as well as highlight how the legislation in these countries attempts to deal with the problems faced by companies. It aims to highlight the international best practice and offer recommendations to fill gaps in current legislation or regulations in Kuwait. This will be a contribution to the existing literature and academic knowledge.

1.4. Organization of the article

The article is divided into five sections. Section one discusses the concept of risk in the context of corporate governance. Section two considers risk management as a main element of corporate governance. Section three sets out what is the international best practice in connection with risk management in companies, and section four provides recommendations for how companies, both large and small, can apply the best practice in their business. Lastly, section five concludes the article by examining the future of risk management.

2. What is Meant by ‘Risk’?

Modern businesses, even the smallest ones, face an ever-increasing level of risk. In the field of risk management the word ‘risk’ refers to activities that threaten the continued existence of the business.

The 2018 UK Corporate Governance Code states that risks include such things as:

> “*Principal risks should include ... those that could result in events or circumstances that might threaten the company’s business model, future performance, solvency or liquidity and reputation. In deciding which risks are principal risks companies should consider the potential impact and probability of the related events or circumstances, and the timescale over which they may occur.”* (p.18)

Corporate governance principles aim to promote good management of companies. In the context of these principles, risk management aims to identify, assess, or evaluate, and mitigate risks affecting the business. This can be done by estblishing a risk management strategy that deals with and monitors the various risk factors faced by a business. Each business faces different risks and needs to deal with according to its own unique circumstances. Undoubtedly, proper risk management decreases the occurrence of company scandals and failures (Enriques and Zetzsche, 2013).

Most scholars agree that risks can be categorised as financial and non-financial,(Shah, 2012). Those that threaten the liquidity, business model, and economic performance of the business are labelled as financial risks, whereas risks such as competition, compliance and the reputation of the business are classified as non-financial risks.

2.1. Financial Risks

Financial risks can include such things as economic threats brought on by changes in the economy. Additionally, risks related to debt, interest rate fluctuations, loss of clients, asset losses, and such issues as poor financial management or accounting problems are considered financial risks, (Shah, 2012). Businesses such as financial institutions naturally place great emphasis on mitigating financial risks, such as credit, liquidity, or market risks.

Recently, interest rates have dropped lower than ever making it easier for companies to take on more debt. While this can allow a company to grow or invest in new projects it can have a negative effect when companies experience financial problems. If businesses lose clients or suffer asset losses, the debt burden on a company can cause it to enter bankruptcy. Most companies can manage their debt burden through appropriate risk management strategies, but from time to time, poor fiscal management and/or accounting problems can lead to the demise of a company. This can have far reaching consequences for the company as well as the economy of the country.[7]

7 For example, the company Evergrande defaulted on its debt obligations in 2021. The potential impact of this on the Chinese economy is yet to be determined https://www.nytimes.com/article/evergrande-debt-crisis.htmll Visited at 1 April 2022.

2.2. Non-Financial Risks

Most risks faced by a business are non-financial. These can include operational risk, reputation risk, competition risk, strategic risk, and compliance risk amongst others (Vivian W Taia, Yi-Hsun Laib and Tung-Hsiao Yang 2020). The main non-financial risks are discussed in detail below.

2.2.1. Operational risk

These risks can result in a company losing business continuity. They can include natural disasters, severe outages or technical problems, environmental issues, health and safety issues, or human error. Other operational risks can include poor capacity management and employee issues and cost overruns. Technological risks and risks involving single points of failure, whether they reside in equipment or people (individuals who solely know how to perform certain essential tasks) are also considered operational risks (Shah, 2012). There may also be issues that arise from the business location. For example, an industrial area where there is a potential for gas leaks or near government buildings where the business may be affected by protests.

More recently other operational risks have appeared such as data breaches and ransomware. These security threats are especially detrimental to online businesses, where identity theft and payment fraud can harm the company as well as its customers. Sometimes this is due to human error but may also be due to malicious targeting of the company by fraudsters. This type of risk is different from technology outages that affect companies offering cloud-based services. These business disruptions can become costly if not addressed quickly.

2.2.2. Reputation risks

A company's reputation or brand image can be worth billions of dollars. Maintaining a good reputation and keeping the company's brand value high should be part of risk management. Unhappy customers, product failures, negative press, lawsuits, negative social media comments all fall under the heading of reputation risks (Chris S Hines and Gary F Peters. 2015).

2.2.3. Competition risk

These risks arise due to competition within industries. Competition forces companies to adapt to customer needs and provide products or services that appeal to them. Businesses that do not adapt quickly to changing customer needs could lose market share to their competitors (Jia & Bradbury, 2020). Good risk management requires that companies must continually assess their performance and refine their strategy with regard to their customers and competitors. Businesses that maintain strong interactive relationships with customers are more likely to adapt to changing circumstances.

2.2.4. Strategic risks

These risks include events that prevent a business from achieving its overall strategic goals. They include external factors such as pricing pressure, partner losses, and industry downturns. Additionally, there may be internal factors such as incorrect strategic choices by the board or responding to changing circumstances in the incorrect manner. These types of risks can have far reaching and long-term consequences for the business. Various surveys have revealedlack of knowledge about the information on risks, and the purpose and value of risk management (Fraser and Simkins, 2007). Older directors, in particular, often feel they do not need to be educated on the topic of risk.

2.2.5. Compliance risk

Compliance with the laws and regulations of each country is essential. New laws and regulations can negatively impact the business, sector, or market. They may increase costs expended to achieve compliance (Brown et al,2006), amend the competitive landscape, make certain business practices illegal, or even reduce the attractiveness of an investment,(Invest Northern Ireland, 2021). Compliance risks could lead to legal penalties, voided contracts, financial forfeiture, material loss, loss of business opportunities, and damaged reputation. Whilst this could be costly in both time and effort, failing to comply could cause losses to the business.[8]

The Covid-19 pandemic introduced new risk factors to business that few companies had ever anticipated or planned for.Government enforced shutdowns or lock downs that limited people's freedom to move and perform their business, and international travel restrictions created major problems for various industries. It has even led to many businesses closing or filing for bankruptcy.

The above discussion of the various risk factors in the modern world highlights the importance of risk management. It is, therefore, necessary to set out what risk management is and why each company needs to establish processes to deal with it.

3. What is Risk Management?

This section considers the topic of risk management in the context of corporate governance principles. It also considers who is responsible for risk management within a company and how they need to apply corporate governance principles. Lastly, it considers the various laws and regulations related to risk management in the US, the UK, and Kuwait.

8 A good example of this type of risk can be seen in the education sector in China. In July 2021, the Chinese government published new rules and regulations relating to the education industry, effecting online education businesses. These rules aimed to limit the number of extra lessons children were exposed to, particularly to school subjects such as English. This affected the previously highly lucrative English teaching industry (estimated value of $100billion). The laws aimed to ensure that education companies were no longer 'for profit' and limited the teaching hours and content available to be taught. This resulted in wiping out over 80% of the value of the companies listed on the stock exchange, including the NYSE. Several companies have had to drastically change their business models, retrench workers including teachers, or even close the entire business down. Bloomberg, 'China bans school tutoring firms' (*Bloomberg,* 24 July 2021) https://www.bloomberg.com/news/articles/2021-07-24/china-bans-school-curriculum-tutoring-firms-from-going-public. Visited at 30 March 2022

3.1. What is Risk Management and Why is it Necessary?

Corporate governance is the structure of rules, practices, and processes used to direct and manage a company. These principles include risk management which can be defined as 'forecasting and evaluating risks to the organization, determining the impact of these risks, and identifying steps to avoid or reduce their impact' (Long, 2020).

Risk management also includes the prioritisation of the risks faced by a company. When a company identifies the threats it faces, evaluates their likely impacts, and prepares a strategy to deal with them, it will be able to successfully navigate the modern business world. Risk mitigation is the prudent response to the reality that life is uncertain and sometimes bad things happen to good organisations. The alternative to risk management is going through life with your fingers crossed, hoping that bad luck only ever happens to other people, (Long, 2020).

Risk management is necessary to prevent businesses from collapsing, causing major economic consequences for workers, investors, and trading partners. Since most governments and self- regulatory authorities such as stock exchanges aim to protect investors and their commercial interests, effective risk management has become an essential part of good corporate governance. Failure to manage risk effectively or taking undue or unnecessary risk has resulted in many corporate disasters and unexpected business failures. These have often been the result of the board not being aware of risks or dangers to the business and of the significant consequences of board decisions. Examples of this areEnron, Toys R Us, Blockbuster, BHS, Woolworths, Comet, Kmart, Compaq, Northern Rock, and Lehman Brothers, :(Pugh, 2019).

The 2008 financial crisis was caused in part by a failure of companies to apply appropriate risk management policies. Prior to the crisis, businesses engaged in dangerous lending practices or invested in companies that did not manage risk appropriately. As a result, when debtors began to default on their repayments, even larger companies began to experience major crises.

It is clear, then, that risk management is an important part of good corporate governance. What follows is a discussion of who is responsible for risk management, and how governments have tried to regulate the process.

3.2. Who is Responsible for Risk Management?

The board of directors is primarily responsible for the risk management approach of the company. They set the tone of the corporate culture and general approach towards risk. However, they can appoint an audit committee and a risk management committee to deal with these responsibilities. Recently, larger companies have started to appoint a dedicated person to focus on risk, known as the Chief Risk Officer. While the fundamental risks to the company's business strategy are often discussed at the full board level, most boards continue to delegate primary oversight of risk management to the audit committee or risk management committee.

3.2.1. Ownership and management

Some scholars believe that risk management fails because there is a separation between the ownership of the company and those who manage it. When asked to manage other people's money, mangers tend to take excessive risks, (Pacces, 2012),. This is an aspect of agency theory. Whilst the board of directors is responsible for risk management, the owners of the company and its investors should play an oversight role to ensure that the directors do not take excessive risks.

3.2.2. Board of directors

The board of directors has the following responsibilities for risk management:

- Creating proper reporting systems
- Identifying the principal risks to the business
- Evaluating the potential impact of the risks on the business
- Drafting a strategy setting out how the principal risks should be mitigated or managed
- Testing the risk management strategy and refining it where necessary
- Monitoring the risk management system
- Delegating some of these responsibilities to committees or the management group

Board responsibility extends to risk management in many countries. For example, in 2010, the UK extended the board's responsibility for risk to include responsibility for the management and control systems according to the corporate governance code (Chartered Accountants Ireland, 2021). However, risk management is not confined to the corporate governance code. It is also part of the mandatory principles of business. In the UK, some companies offering certain financial products and services are required to institute risk management protocols. These include consumer credit firms, banks, investment managers and brokers, insurers, and financial advisers.

Failure to adhere to these laws can have major consequences for these companies. For example, on 9 September 2013, Morgan Chase Bank NA (JP Morgan) was fined £137,610,000 for serious failings related to its Chief Investment Officer (CIO) as a result of high risk-taking and weak management causing a £6.2 billion trading loss in 2012. The Financial Conduct Authority (FCA) believed that poor risk management harmed the integrity of the market, as demonstrated by the statement of the FCA's director of enforcement and financial crime, Tracey McDermott, who described this incident as 'a lesson for all companies'.

As part of its oversight obligations, the board should 'seek to promote an effective, on-going risk dialogue with management, design the right relationships between the board and its committees as to risk oversight and ensure appropriate resources support risk management systems' (Lipton, Niles and Miller, 2018). However, this does not mean that the board should be involved in actual day-to-day risk management. Directors should instead ensure that the risk management policies and procedures designed and implemented by the company's risk managers are consistent with the company's strategy and risk appetite.

3.2.3. Chief risk officer

In recent years, many companies have appointed a person responsible for managing risks to the business known as the Chief Risk Officer (CRO) or Compliance Officer. This executive is responsible for leading efforts to reduce business risks that can put an organisation's profitability and productivity at risk. They also spearhead efforts related to enterprise risk management. They are responsible for implementing policies and procedures to minimise or manage operational risks. Furthermore, it is their responsibility to ensure that the company complies with government regulations, and reviews factors that could damage investments or a company's business interests.

Ideally, a CRO should have several years of experience in the accounting, economics, legal, or actuarial field. As companies adopt new technologies, the CRO must oversee information security, protect against fraud and mismanagement, and guard intellectual property. By developing internal controls and overseeing internal audits, threats from within a company can be identified and mitigated against.

3.2.4. Audit committee

The audit committee is composed of a group of board members responsible for the oversight of the internal auditing process, as well as the external auditing of the company's financial documents. In addition, the committee has oversight of risk management and legal compliance within the company.

One of the main functions of the audit committee is managing the internal control system as it relates to financial reporting. Their function is to produce reliable financial statements and to ensure that the company's activities are monitored by the broader system of internal controls. The committee will often identify areas of weakness within the company's internal systems and make recommendations as to how to mitigate the risk in these areas. The committee discusses guidelines and policies to govern the process by which this is managed.

The audit committee must ensure that the internal audit function is independent and objective. The internal audit should provide the committee with an assessment of the state of the organisation's risk, control, governance, and monitoring activities. The committee will then review the relationship between the internal audit system and management. (Khelil, 2016) However, due to the complexities of the risks and the increase in company failures, a separate committee focused on risk management is often established (Sekome & Lemma, 2014).

3.2.5 Risk management committee

A risk management committee is an important part of the organisation's governance. Its function is to assist the board with strategic risk management at an organisational level. This approach can assist the board to focus on the 'big picture'. The committee serves under the direction of the board of directors and should preferably include one or more independent directors. There is a strong association between the establishment of a risk management committee and strong board structures (Yatim, 2009).

Representatives from the following business areas should be included on the risk management committee:

- Corporate risk
- Internal audit
- Finance
- Operations
- Compliance
- Quality management
- Project management

A risk management committee serves several functions:

a) The committee identifies and evaluates risks facing the business.

It does this by conducting an enterprise-wide analysis and creating systems to manage the risks. Furthermore, it improves the quality of risk reporting and monitoring, both for management and the board. Additionally, the risk committee can raise awareness of risk management within the company by supporting the CRO in providing training for advanced risk management.

b) The committee drafts a risk management strategy and policy.

A risk committee focuses attention on the company's most critical risks and risk management capabilities. It is therefore vital that directors assigned to this committee have the requisite knowledge and expertise to provide effective oversight of the risks falling within the committee's scope.

c) The committee reviews risk assessments.

In addition to managing the overall risk exposure of the business, the committee is also responsible for reviewing and approving risk disclosure statements in any public documents or disclosures. Companies with a separate risk committee are associated with greater market risk disclosures. In addition, risk committee qualifications and size have a significant positive impact on market risk disclosures (Al-Hadi& Habib, 2016).

Research shows that the existence of a risk management committee leads to greater risk management disclosure and improves the quality of disclosure by the board (Li & Munro, 2019). In Malaysia, companies are required to make risk disclosures in their annual report to provide insights for shareholders and investors to assess the company's performance. Nevertheless, despite detailed guidelines about risk disclosure, there was no significant improvement in their financial performance (Ching & Rahim, 2019).

d) The committee sets levels for appropriate risk exposure.The committee also provides direction and support for company executives who are given broad risk management responsibilities. Furthermore, it allows the audit committee and other board committees to focus on their respective core responsibilities.

Usually, the corporate governance structure will define the responsibilities of the risk committee in a charter or terms of reference. This sets out exactly what the committee is expected to do and the parameters in which they will operate. Ideally, the risk management committee should meet regularly to review the company's risk exposure and ensure they are comfortable with the level of risk and planned management activities. They make recommendations to other corporate governance teams such as those responsible for approving new projects. For example, if the company already meets the level of risk appetite agreed by the organisation, then the committee may recommend that no more high-risk projects are started until some projects finish. Managing risk is a balancing act and the committee's role is to ensure that balance is always in favour of the organisation.

3.3. Governmental Laws and Regulations Relating to Risk Management

Risk management is an important subject for lawmakers around the world, and several laws and regulations have been enacted to regulate it with a view to preventing corporate scandals and financial crises. Policymakers increasingly display a tendency to embed risk management into law, for example, by mandating risk governance best practices or by requiring firms to have risk management functions in place (Enriques & Zetzsche, 2013). Greater emphasis is being placed on the role of risk management and the best way of carrying out this responsibility.

Governments enact laws and regulations with diverse objectives. These include encouraging sound and transparent financial markets, deterring excessive risk-taking, fostering market participants to act responsibly, and compensating for past wrongdoings (Batz, 2020). Whilst governments use laws and regulations to deal with risk management, businesses themselves should take control of the risk management process by being vigilant and devising plans to avoid potential pitfalls and dangers. In many countries, risk management is dealt with in national corporate governance codes, as is the case with the UK's combined code and the French AFEP-MEDEF code. Internationally, professional institutes and associations also set out certain standards. For example, in 2009 the International Organization for Standardization (ISO) issued its standard for the implementation of risk management national supervisory guidance.

3.3.1. Laws relating to risk management in the US

Some scholars describe the US legal requirements related to risk management as 'unclear'. This is because lawmakers mix risk management with compliance issues. Compliance management includes laws, regulations, codes of conduct, internal policies, and best practices to reduce the likelihood of economic loss or damage to reputation. Non-compliance with these laws and regulations is a risk in itself.

The Securities and Exchange Committee (SEC) requires companies to disclose in their annual reports 'factors that make an investment in a registrant's securities speculative or risky' (Tonello, 2012). The SEC also requires companies to disclose the board's role in risk oversight, the relevance of the board's

leadership structure to such matters, and the extent to which risks arising from a company's compensation policies are likely to have a 'material adverse effect' on the company.

The three main pieces of legislation pertaining to risk management in the US are the Sarbanes-Oxley Act, the Dodd Frank Act, and the New York Stock Exchange (NYSE) rules.

1) The Sarbanes-Oxley Act 2002

The Sarbanes-Oxley Act became law in July 2002 in response to the corporate scandals at Enron, WorldCom, Arthur Andersen, and others. The Act establishes new standards for corporate accountability and seeks to improve the accuracy of financial reporting for publicly traded companies. Failure to comply with the Sarbanes-Oxley Act can result in steep penalties for those corporations that commit fraud, fail to report fraud, or destroy records. Such behaviour can now result in criminal felony charges.

The aim of the Act is to restore investors' confidence in the financial markets and close loopholes that allowed public companies to defraud investors. The Act requires public companies to strengthen audit committees, perform internal controls tests, make directors and officers personally liable for the accuracy of financial statements, and strengthen disclosure. Furthermore, it establishes stricter criminal penalties for securities fraud, and changes how public accounting firms operate.

The greatest effect the Sarbanes-Oxley Act has had on corporate governance was the strengthening of public companies' audit committees. The audit committee is authorised to oversee the senior management's accounting decisions such as approving numerous audit and non-audit services, selecting and overseeing external auditors, and handling complaints regarding the management's accounting practices. The Act also requires that senior managers personally certify the accuracy of financial reports. If they knowingly or wilfully make a false certification, they can face between 10 to 20 years in prison. If the company is forced to make a required accounting restatement due to management misconduct, senior managers can be required to give up their bonuses or profits made from selling the company's stock. However, the cost of compliance with the Act is especially burdensome for companies, and this can distract personnel from the core business.[9] Furthermore, a recent study found that adoption of the Sarbanes-Oxley Act was accompanied by a significant reduction in risk-taking by publicly traded US companies. The results were similar to those found in Cohen et al.'s research, which found that the Act resulted in changes related to various firm characteristics, including board structure, firm size, and the degree of specialised knowledge, as measured by R&D expenditures (Bargeron & Zutter, 2010).

9 However, the Act also had other unintended consequences such as the high cost of compliance. For example, Section 404 requires public companies to perform extensive internal control tests and include an internal control report with their annual audits. Testing and documenting manual and automated controls in financial reporting requires enormous effort and involvement of not only external accountants but also experienced personnel. The compliance cost is especially burdensome for companies, and this can distract personnel from the core business.

2) The Dodd-Frank Act 2010

The Dodd Frank Act created new federally mandated risk management procedures, principally for financial institutions. Companies that are affected by the Act include non-bank financial companies that are publicly traded and certain bank holding companies that are publicly traded (Dodd-Frank Act Section 165h.). The Act requires these companies to establish a risk management committee of the board of directors. At least one member of the committee must have risk management expertise in line with the company's nature of operations, size of assets, capital structure, risk profile, complexity, and other appropriate risk-related factors. The committee should have at least one expert with experience in identifying, assessing, and managing risk exposures of large complex firms.

According to the Act, the risk committee is responsible for the oversight of enterprise-wide risk management practices. It must report directly to the board of directors and cannot be part of or combined with any other committee. Each company must also designate a Chief Risk Officer responsible for implementing and maintaining the risk management framework and practices approved by the risk committee. The CRO must have risk management expertise commensurate with the company's capital structure, risk profile, complexity, activities, and size.

3) NYSE Listing Rules

In addition to the laws referred to above, the New York Stock Exchange Listing Rules require that listed companies establish an audit committee with a written charter detailing their duties and responsibilities. In addition, the charter needs to set out policies with respect to risk assessment and risk management. The rules furthermore require the audit committee to discuss policies with respect to risk assessment and risk management. The risk management processes in place should be reviewed in a general manner by the audit committee (NYSE Listed Company Manual 303A.07 Audit Committee Additional Requirements).

3.3.2. Laws related to risk management in the UK

In the UK, risk management is covered by the UK Corporate Governance Code, Section 414A of the Companies Act 2006, the Disclosure and Transparency Rules, the UK Listing Rules, Paragraph 25 of the International Accounting Standard 1 (IAS 1), and other regulations.

The UK Corporate Governance Code of 2018 focuses more on internal auditing than on risk management. Furthermore, there is argument that the 2018 Code is not as focused on risk management as the 2014 version of the Code (Smither,2018). The 2018 Code deals with such matters as board leadership and responsibilities, the Audit Committee, and Risk and Internal Control Committees. According to the Code:

> The board should also take into account the Financial Reporting Council's Guidance on Audit Committees and Guidance on Risk Management, Internal Control and Related Financial and Business reporting. (p.3)

Provision 25 of the Code states that the audit committee is responsible for reviewing the risk management systems of the company, unless there is a separate Risk Management Committee which is composed of independent and non-executive directors. According to Provision 28, the board should carry out an assessment of the principal risks affecting the company. It needs to state in its annual report that this assessment has been made and must include the details of the principal risks as well as an explanation of how these are being mitigated. Furthermore, Provision 29 requires that the board continually monitor the risk management systems in place and annually review their effectiveness. The monitoring and review should cover all material controls, including financial, operational, and compliance. Principle O of the UK 2018 Code states that the board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take to achieve its long-term strategic objectives.

3.3.3. Laws relating to risk management in Kuwait

In Kuwait, the legislature has attempted to regulate the risk management process by instituting several laws and an extensive corporate governance code. The Corporate Governance Codes of 2018 and 2015 have dealt with such matters as board composition, the role of the board of directors and executive management, the development of standards to measure the performance of directors, and the establishment of risk management committees.

1) Board Composition

Article 2:1 of the 2018 Corporate Governance Code sets out the standards for board composition in Kuwait. It states that the board of directors must be properly composed in accordance with the company's activity, size, and nature. Directors should have a variety of educational backgrounds and have professional experience and specialised skills. Furthermore, board members should be aware of all relevant laws and policies as well as have an understanding of the company's activity and all risks and financial implications thereof.

2) Role of the board of directors and executive management

Both the board and executive management should play a role in risk management in Kuwait. With regard to the board's role, Article 6:1 mentions that the board should be able to understand and analyse the nature and extent of the risks encountered by the company's activities and to reduce them as much as possible. In addition, the board needs to identify the proper procedure to deal with risk. This includes identifying internal or external factors resulting in the occurrence of such risks and developing appropriate measures to face them, particularly regarding the company's risk appetite.

Part 18 B of Article 3 of the 2015 code states that the board must ensure that sound audit rules for risk measurement and management are applied. In addition, the board must create a risk prevention culture throughout the company and present this transparently to all stakeholders. However, compliance with the article is not compulsory and falls under the ‘Comply or Explain Regime’.(add page number)

The 2015 Kuwaiti Code sets out the roles and responsibilities of Executive Management in Article 3:7. This mentions that they should put internal audit and risk management systems in place and ensure the efficiency and sufficiency of these systems.

3) Development of standards to measure the performance of directors

The Code requires companies to develop systems to evaluate the performance of the board of directors. Article 11:4 requires that the company measures the performance of the board through a set of key performance indicators including the quality of risk management and sufficiency of internal control systems. The procedures related to performance evaluation and measurement should be disclosed to all employees.

4) Establishment of risk management committees

Article 6 of the Code makes provision for the establishment of a risk management department. According to Article 6:3 the company must have a department or an independent unit that measures, monitors, and mitigates all types of risks encountered by the company. Furthermore, the company must establish effective systems and procedures for risk management, so that it can measure and monitor all types of threats the company is exposed to and amend these procedures when necessary.

Establishing a risk management committee is dealt with in Article 6:4. It states that the committee should be made up of at least three directors. The head of the committee should be a non-executive member of the board. The committee must comprise qualified personnel with the appropriate professional and technical competences. They are to be independent, performing their roles properly without being granted financial powers and authority that conflicts with their regulatory role.

The minimum powers and roles of the risk management committee are dealt with in Article 6:5. According to the code, the committee must prepare and review risk management strategies and policies prior to their approval by the board of directors. It must also verify such strategies and policies to ensure that they are appropriate to the company’s nature and level of activities. Furthermore, it should evaluate the systems and mechanisms for identifying, measuring, and monitoring various types of risks that may face the companyto identify areas of weakness.

The main function of the risk management committee is to assist the board of directors in identifying and evaluating the company’s acceptable risk level and to ensure that the company does not exceed it. This involves reviewing the organisational structure of risk management and providing appropriate recommendations. The committee would also prepare periodical reports concerning the

nature of risks facing the company and submit such reports to the board of directors. Thereafter, it would review issues raised by the related audit committee, which may affect risk management in the company.

The Code also requires that a report detailing the various risks facing a business be drafted by the company. Article 11:9 mentions that the integrated report must set out the company's activities and the associated risks. In addition, the report should identify high-risk activities, and identify opportunities, challenges, and issues encountered by the company in achieving its strategic goals. It should be noted that Article 11 is voluntary and there are no penalties for non-compliance.

Lastly, Article 6:8 of the Code is also concerned with risk management. Part 2 of the Article states that the internal audit department should prepare a report, including a review and an evaluation of the internal audit systems applied in the company. It should compare the development of risk factors and the current systems to evaluate the extent of efficiency of the company's daily business operations, and its ability to encounter any unforeseen market changes.

The Table Below (Table 1.1) shows a summary of the legal positions regarding risk management in the USA, UK and Kuwait.

Features	**SUMMARY OF THE LEGAL POSITION REGARDING RISK MANAGEMENT IN USA, UK AND KUWAIT**		
Country	**USA**	**UK**	**Kuwait**
Main Laws regulating Risk Management	– Sarbanes Oxley Act – Dodd Frank Act – SEC Rules – Stock Exchange Listing Rules	– UK Corporate Governance Code – Companies Act 2006, – UK Listing Rules, – International Accounting Standard 1 (IAS 1)	– Kuwait Corporate Governance Code – No specific legislation providing for Risk Management processes
Main Aims of the Laws	Focus is on disclosure of risk factors in financial reporting and establishing risk management committee to deal with material risks to business.	Laws aimed at strengthening internal audit process and assigning responsibility to the board of directors for establish risk management procedures.	Corporate Governance code regulates such matters as the role of the board of directors and executive management in risk management and the establishment of risk management committees

Table 1.1 Risk Management in the USA, UK and Kuwait.

4. What are is Internationally Accepted Risk Management strategies?

As discussed above, it is virtually impossible to identify and avoid all risks to businesses. However, in dealing with risk management, sound risk governance practices include the following, which have been recognised as international best practices, (OECD, 2014):Appointment of strong and competent boards of directors.

- Appointment of an audit committee to evaluate the internal processes of the company with a view to identifying risks faced by the business.
- In addition to the audit committee, establishing a risk committee with a clearly defined role and responsibilities set out in its charter.
- Appointment of a dedicated Chief Risk Officer to identify, evaluate, and mitigate risk.
- Drafting a risk management strategy, clearly defining, or setting out the risk management systems and processes.
- Testing the strategy, systems, and processes and adjusting where needed. This should be done by an independent assessment of the risk governance framework system.
- Clearly reporting all issues related to risks to board of directors, shareholders, and all stakeholders.

4.1. Appointment of Strong and Competent Boards of Directors

The board of directors is ultimately responsible for all aspects of risk management within the company. Hence, it is essential that those individuals who are appointed to the board should be qualified to be able to identify and evaluate all risks facing the business. The appointment of independent directors to the board is also seen as good corporate governance practice and they should also be appointed to the audit and/or risk committees.

The appointment of a strong board of directors is especially important when considering that they set the tone for the entire business in relation to risk appetite. When the board of directors operates in a way that shows an overly eager appetite for risk, this establishes a lead for managers and employees of the company to follow. Whilst the board may make strategic decisions that convey an appetite for risk, the information upon which the decisions are based is not always known or available to others. This may encourage others to act recklessly or take on more risks than can safely be managed. As such, the senior management's policy should indicate just how the company handles risk and what is expected of junior managers and employees.

Board size is another important part of internal corporate governance. Board size affects the efficiency and effectiveness of corporate boards. Small boards are considered less effective at monitoring because their directors will be more susceptible to bed influenced by CEOs. However, large boards may also lead to longer decision-making times due to disagreements and, in some cases, lack of consensus (Chakraborty & Gao, 2018).

Ensuring that risk is always thought of and is taken seriously by all departments can be achieved by including it in employee inductions, and also by building a culture of risk awareness to fully manage the exposure that naturally comes from doing business. The following principles should be followed in this regard:

- Clarify who is responsible for identifying and prioritising risks and monitoring the risk management process
- Include all necessary stakeholders in the decision process
- Focus on the right questions: i.e., what does the board need to know
- Maintain clear focus on purpose of risk management and update policy regularly
- Monitor risk culture
- Preparation of a risk management policy
- Assigning duties and defining responsibility

It is necessary to separate the strategic risks related to the work of the board of directors and the daily risks that fall under the responsibilities of the executive management. The board of directors should focus on strategies for growing or developing the business. Day-to-day operations and risks associated therewith should be left to other departments and employees. If the board gets caught up in these daily risk factors, insufficient time will be devoted to the role of executive management.

4.2. Appointment of an audit committee to evaluate the internal processes of the company

The audit committee plays an important role in the internal management of the business. Appointing such a committee allows the board to focus on its core responsibilities while allowing the members of the audit committee to become more closely involved in the internal systems and processes of the company. The audit committee should be involved when drafting the risk management strategy as they will be aware of the internal processes of the business. As a result, they will be keenly aware of the issues facing the business as well as the risks that need to be avoided.

In a study conducted in the US, it was found that the audit committee plays an important role in monitoring a firm’s risk decisions. Factors such as the number of audit committee members, the number of audit committee meetings, the percentage of financial experts on the audit committee, and the number of independent directors, have a significant and positive impact on a firm’s risk management decisions (Taia& Yang, 2020). This was corroborated by a further study conducted on Palestinian companies. That study found that it was important that the audit committee meet frequently, as this leads to improved processes of financial accounting that, in turn, lead to better performance of the company. Furthermore, audit committee meetings may help the board to evaluate the business from time to time and solve any issues experienced by employees (Musallam, 2020).

As part of good risk management procedures, companies should draw up a risk management strategy that allows for a coordinated approach to minimise or control the risks and the impact thereof. Whilst it

is the responsibility of the board of directors to manage the various risks to the business, many of these responsibilities are handled by other company officers.

4.3. Setting up a risk committee with a clearly defined role and responsibilities

In addition to the audit committee, companies should set up a risk management committee. This committee can focus solely on the various risks facing the business and design a risk management strategy. Research has found that companies with a risk management committee perform better than companies that do not. The same research found that firms with a separately constituted risk management committee perform better, relative to firms where the risk management activities are absorbed into an existing committee (Jia and Bradbury, 2021). Additional research points out that companies which voluntarily set up a risk management committee have a much greater understanding of the risk factors facing their business, and far greater understanding of their risk management strategy (Sekome & Lemma, 2014).

The committee should meet often throughout the year. It should annually review and approve the risk management policy and associated frameworks, processes, and practices of the company. Furthermore, it should ensure that the company is taking the appropriate measures to achieve a prudent balance between risk and reward in both ongoing and new business activities. The evaluation of the risk management process should highlight steps that should be taken routinely or habitually to assess and mitigate the hazards present in the organisation and lines of business. This should become part of an organisation's culture. It should be done in a cycle because it can take several iterations to reach the business's targets and because changes can happen over time. Risk management and mitigation should not be performed on an ad hoc basis. The committee should also evaluate the management's actions to mitigate the company's exposure in a timely manner (including one-off initiatives and ongoing activities such as business continuity planning and disaster recovery planning and testing). In this regard, the committee should coordinate its activities with the audit committee in instances where there is any overlap with audit activities (e.g., internal or external audit issues relating to risk management policy or practice).

To conduct its work, the risk management committee should have access to any internal information necessary to fulfil its oversight role. It should also have authority to obtain advice and assistance from internal or external legal, accounting, or other advisors. This will allow it to make regular reports to the board of directors. In turn, the board of directors should review the performance of the risk management committee annually.

Research conducted in Australia found that companies that follow the best practice recommendations for risk management committees (RMC) had better accounting performance, higher growth opportunities, and lower firm risk. The study found that the human capital of RMC members and the independence of RMC chairs play crucial roles in firm performance,(Jia & Bradbury, 2020).

4.4. Appointment of a Dedicated Chief Risk Officer

To assist the board in its work, it should also be considered good practice that companies appoint a dedicated person to focus on the risk management approach of the business. This position is referred to as a Chief Risk Officer (CRO). The CRO should oversee the risk management function of the company. Therefore, it would be considered best practice if this role is independent of the profit-making centres of the business. The CRO should report directly to the board of directors. Moreover, the CRO should understand how the organisation makes its profits and the risks inherent in the business model. They should be involved in drafting the risk management strategy, particularly by taking into account building a common risk language, shared definitions, a common culture of risk awareness and comprehensible procedures for measuring, monitoring, communicating, and dealing with risks. Furthermore, the CRO should establish procedures for responsibility for outcomes related to risk.

4.5. Drafting a Risk Management Strategy

The board of directors should be proactive in planning for risks by preparing a risk management strategy. The creation of a risk management strategy includes several important steps:

4.5.1. Involve all stakeholders

By involving all stakeholders in drafting the risk management strategy, the business will ensure that all the risks it faces are accounted for. By obtaining advice from others, especially specialists, an appropriate risk management strategy that deals with every risk can be drafted.

4.5.2. Process of identification of risk

Any risk management strategy needs to follow the process of risk identification, risk analysis, risk control, risk financing, and claims management. This should be an enterprise-wide approach. The process should aim to understand the risks facing the business, how best to manage these risks, and to communicate the approach to all involved.

a) Ascertaining the risk profile

Businesses need to ascertain their risk profile. The risk profile relates to how much risk the board deems acceptable. Some organisations are comfortable managing a great deal of risk, some will do all they can to reduce their risk exposure to as close to zero as possible. It is important for companies to establish a specific level of risk the company will accept in pursuit of its objectives and to communicate this throughout the company.

b) Assessing the risks

Following the decision regarding the risk profile of the company, an assessment of all the risks needs to be undertaken. The risk assessment examines the risk factors of an organisation and the

environment in which it operates. Those who draft the strategy need to think about everything that has the potential to damage the organisation.

c) Prioritising the risks

Once risks have been identified they need to be evaluated. Specifically, they should be evaluated in terms of how severe the impact would be and the likelihood of their occurrence. The risks should be prioritised in this order:

High impact and highly likely to occur

High impact and less likely to occur

Low impact and highly likely to occur

Low impact and less likely to occur

Spotting emerging risks to the company is also important. To do this, risk management needs access to real-time, relevant risk information so that it deals with the most up-to-date position.

d) Choosing risk strategies

After ascertaining how much risk the board is prepared to accept, a risk mitigation strategy can be prepared for each significant risk. There are four main strategies:

- Avoidance (eliminate, withdraw from, or not become involved):

Businesses should look for ways to avoid activities that pose an excessive risk.

- Reduction (optimise – mitigate):

Businesses can take steps to reduce the likelihood of a negative event occurring.

- Sharing (transfer – outsource or insure):

By taking out insurance to help cover the risk, businesses can share the risk.

- Retention (accept and budget):

Businesses acknowledge that if the threat occurs, the organisation will have to bear the consequences.

e) Executing risk strategies

After deciding on the appropriate strategy as set out in (d) above, businesses need to draft specific plans to be able to implement these strategies.

f) Measuring residual risk

Residual risk refers to how much risk remains after the business has adopted risk mitigation strategies. It is the amount of risk left in the system after management has followed the steps set out above. If residual risk remains outside of management's tolerance, they will need to increase their mitigation strategies.

4.5.3. Regularly evaluate risk and risk factors

The process of risk management is not something that can only be done annually or even monthly. Continuous monitoring of the risks faced by the business needs to be undertaken. Businesses should continuously look for opportunities to improve their risk stance. Concrete plans to support these processes should be enforced by the board of directors.

4.5.4 Draft risk management policy

The board should develop clear risk management policies that identify what is acceptable. This can be achieved in various ways, most notably by requiring more than one person to authorise specific types of transactions or requiring the entire board to approve certain actions.

Creation of a risk management policy involves:

- assessing current and emerging risks
- reducing the impact of poor judgement on decision-making
- ensuring the quality of internal and external reporting
- ensuring compliance with applicable laws and regulations
- quickly responding to evolving business risks

4.6. Test the Strategy, Systems and Processes and Adjust Where Needed

Once a strategy has been drafted, it needs to be tested to ensure that it is successful. If these tests highlight certain failures, adjustments to the strategy need to be made. This should involve an independent assessment of the risk governance framework. Most companies limit themselves to a simple walkthrough and table top-type exercises. However, companies should go through the exercise of testing whether they can truly achieve recovery of the business units, processes, and associated information technology in the event of a risk factor occurence.

In this regard, companies can adopt an internationally recognised standard, such as ISO 31000, which is built on the most relevant best-practice scenarios from organisations worldwide. This explains the mechanism of risk management implementation. It provides a framework for implementing a risk management suite, rather than merely a framework for supporting the risk management process. Moreover, such a system allows for communicating, consulting, monitoring, and reviewing performance. Communicating and consulting ensures the engagement of relevant internal and external stakeholders. Monitoring and reviewing guarantee that the organisation observes risk performance, thereby gaining knowledge of experience and practices.

4.7. Clearly Report All Issues Related to Risks to the Board, Shareholders, and Stakeholders

By preparing regular reports to the board, the CRO or risk management coprovides provide a balanced assessment of the risks and the effectiveness of the systems of risk management. These reports should disclose the process of risk management and the results of risk assessments. Without revealing any trade secrets, the board should ensure that the business communicates to the market any material risk factors in a transparent and comprehensible fashion. Disclosure of risk factors should be focused on those identified as more relevant and should rank risk factors in order of importance based on criteria that should also be disclosed. Lastly, clear communication of the reasons for decisions of the board should be made. This is usually included in annual reports given to shareholders or information shared with analysts but should also be given to employees and junior managers.

5. Findings and Recommendations

The corporate scandals over the past few years, the 2008 financial crisis, and the Covid-19 pandemic have highlighted the need for greater risk management. Boards of directors need to be aware of the various risks facing their businesses and take appropriate action to deal with these. These crises have negatively affected economies around the world, and as a result, various recommendations can be made to businesses and lawmakers.

As has been discussed, one of the main internationally recognised strategies for risk management is to appoint an Audit Committee, a Risk Management Committee and a Chief Risk Officer. These bodies should work in conjunction with each other to ensure that all risks are identified, evaluated, and appropriate strategies are set in place to deal with them. Companies that monitor risk and act in accordance with a proper risk management strategy are in a better position to deal with the challenges or even to pivot to a new direction when needed.

5.1. National authorities and self-regulatory organisations should issue regular updates on risk management guidance

National authorities should strengthen their regulatory and supervisory guidance for businesses and devote adequate resources to assess the effectiveness of risk governance frameworks. Furthermore, they should explore ways to formally assess risk culture in business, especially at financial institutions. Guidance should be provided on the key elements that should be included in risk appetite frameworks.

5.2. Legislation should remain flexible and not impose rules in respect of risk management

Standard setting bodies should regularly review their principles for governance, taking into consideration the international best practices for risk governance. Whilst government regulations and laws can be made to enforce certain practices and processes, it should be remembered that each business is different and has its own unique circumstances based on the industry and area where it operates. No 'one-size-fits-all'

approach is effective in relation to corporate governance. Giving business more flexibility to implement the best practices will allow companies to decide the most appropriate measures for dealing with risk. Also, there is a danger that the amount of legislation and regulations imposed by the state on companies will limit the growth and development of companies and that compliance with this legislation will become too costly. Most stock exchanges aim to encourage companies to list. However, if government regulations and listing rules become too onerous, companies will prefer not to list, which may create financial risks to business and limit the growth of these businesses.

5.3. The Board of directors should be proactive when dealing with risk

As described in this article, boards of directors need to be proactive in dealing with the issue of risk. Their approach should not be 'What if it happens...' but rather 'If this happens, what do we do?' The application of good corporate governance principles can help to reduce the risk. The board should devise an appropriate strategy for its company, appoint a CRO, an audit committee, and a risk management committee. If these committees consider the risk profile of the business, devise plans to deal with risks, and communicate with all stakeholders they will be able to manage risks in the most appropriate manner. Furthermore, the implementation of a coordinated risk management strategy together with regular monitoring of the risks and risk culture within a business will help avoid any unnecessary risks.

5.4. Smaller companies must develop a risk management strategy at board level

Smaller companies should deal with risks in the same manner as larger corporations, albeit in a manner that suits their capacity and budgets. The board of directors should not overburden itself and management with stringent risk management protocols, but they cannot afford to neglect risk management altogether. Each company has its own nature, size, and activity, and therefore needs to deal with risk according to its own unique circumstances. In this regard, governments need to be aware that too much regulation can become onerous and costly for smaller businesses, especially when competing internationally. As always, an appropriate balance needs to be found.

Research has shown that companies which voluntarily form risk management committees play an important role in the perception of responsible risk management actions. Furthermore, results show that RMCs are used as a governance mechanism to help maintain and substantiate legitimacy over risk activities (Hines and Peters, 2015).

5.5. Regularly conduct internal audits and act on the findings

The board of directors needs to pay close attention to the internal audit process and reduce and manage risks accordingly. The internal auditor can play a major role in risk management by identifying risks faced by the business. By regularly reporting to the board of directors and having frank and honest discussions regarding risk factors, the board can manage the risks associated with their decisions and processes.

5.6. Harsher consequences for directors who recklessly take on or ignore risk

Directors can misuse their position to achieve something at the expense of the company that is not in the company's interests, such as gaining personal benefits or just increasing the company's profits. There is a need to stop such behaviour.

One of the main factors that affect a company's future is elevated risk management, of which there are several examples. The BP oil spill is a good example of poor risk management. Known as the 'Deepwater Horizon Disaster', the incident in April 2010 occurred when BP ignored standard safety procedures to decrease the cost of delay that would have been approximately $1 million a day. The oil spill harmed shareholders, because the share price dropped dramatically, the company's profits declined and the incident affected BP's employees, the environment, and the local community. Eleven people died and BP had to pay more than $14 billion for the cost of the clean-up. The Gulf of Mexico environment was in crisis for 87 days because of the spill. Therefore, boards of directors should foresee risks and take appropriate action rather than ignore risk.

5.7. Monitor risk culture within the business

Whilst the board of directors should be alive to new opportunities or areas in the market where the business can succeed, an overly aggressive board of directors will develop an increased risk culture within the business. This could lead to all kinds of risks that could cost the business dearly. It is good to monitor the risk culture within the business by means of regular meetings and training of employees. By making all stakeholders aware of what is acceptable and not acceptable, the business will be able to continue without creating any unnecessary risk.

6. Conclusion

As can be seen from this article, there are many different types of risks that businesses encounter. Not all these risks can be foreseen or planned for. However, it is the role and function of the board of directors to anticipate potential risks to the business, develop plans to deal with these risks, and take appropriate action.

The topic of risk management is ever evolving due to the constant change in threats to business. After the 2008 financial crisis, many companies have started to pay more attention to risk management. Today, corporations are developing their risk management and oversight practices but still face challenges. Governments have tried to use their legislative powers to force companies, particularly larger companies listed on stock exchanges, to minimise risk to investors and workers. In some cases, this has prevented certain business collapses or disasters, but in some cases, it has had negative consequences on business and listing on stock exchanges.

In the future, it is hoped that businesspeople will maintain a healthy appetite for risk, especially when dealing with innovation and improving the way they do business. However, recklessness should be avoided, especially when this puts other people's money, jobs, or livelihoods in danger. It is envisaged that in the future such skills as experience in risk management and qualifications related to risk strategies will become standard when selecting board members and other professionals in the company.

In the event of continued corporate scandals and financial losses that negatively impact investors and the markets, governments will begin to impose stricter laws and regulations around risk management. Some governments may change this approach based on the culture and circumstances and approach towards risk. However, governments should remain flexible in their approach. Regulatory authorities should develop a balanced approach to limiting what companies can and cannot do but be aware of potential dangers developing in markets.

If all stakeholders maintain a balanced approach, businesses will continue to grow and innovate. This is good for businesses, economies, and workers. If businesses and governments work together, any risks that may arise can be overcome in a best practice model to the benefit of all involved in the economy.

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