

The Rise of Risk Management Committee in the World of Corporate Governance

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Introduction

In an increasingly complex and dynamic business environment, the role of risk management has transcended beyond traditional financial institutions (Malik, Shafie & Ku Ismail, 2021). Non-financial companies in Malaysia are now recognizing the importance of structured risk oversight, especially through the establishment of dedicated Risk Management Committees (RMCs). While regulatory frameworks such as the Malaysian Code on Corporate Governance (MCCG) 2021 have laid a strong foundation, the practical need for RMCs is driven by evolving business risks, stakeholder expectations, and long-term sustainability goals. A Risk Management Committee plays a crucial role in guiding an organization's approach to identifying, assessing, and managing potential risks that could affect its objectives. In non-financial companies, the RMC ensures that risks whether operational, strategic, compliance-related, or reputational are systematically monitored and addressed. By providing oversight and advising management on risk strategies, this committee strengthens governance, improves decision-making, and enhances the company's long-term resilience.

What is a Risk Management Committee?

A Risk Management Committee is a governance body that assists the board of directors in overseeing the risk management framework and practices of an organization (KPMG, 2001). While financial institutions have long been required to establish such committees under regulatory directives by Bank Negara Malaysia, the trend is increasingly gaining traction among non-financial companies ranging from manufacturing firms and technology startups to

logistics and real estate enterprises (Subramaniam, McManus & Zhang, 2009). An RMC typically comprises board members (often including independent non-executive directors) and senior management representatives. Their core responsibilities include identifying key risks, ensuring the effectiveness of risk management systems, and advising on strategies to mitigate and monitor such risks.

Although there is no statutory requirement for non-financial companies to form RMCs, the Malaysian Code on Corporate Governance (MCCG 2021) encourages listed companies to establish dedicated risk oversight functions. According to Practice 9.1 of the MCCG:

“The board should establish an effective risk management and internal control framework.”

While some companies assign this role to the Audit Committee, best practice especially among large-cap companies has been the formation of a separate RMC to allow for more focused oversight (Ramlee & Ahmad, 2020; Malik et al., 2021). In addition, Bursa Malaysia’s Listing Requirements emphasize the board’s responsibility to manage principal risks and to maintain a sound internal control system. This adds further impetus for companies to form specialized committees that can shoulder this critical governance function.

Why Non-Financial Companies Need RMCs?

1. Complex Risk Landscape

The risk environment for non-financial companies in Malaysia has evolved significantly. Besides operational and financial risks, businesses are increasingly exposed to environmental, social, and governance (ESG) risks, cybersecurity threats, geopolitical instability, and supply chain disruptions. For instance, manufacturing companies in Malaysia often rely on global suppliers and are exposed to risks such as tariff changes, raw material shortages, and regulatory shifts (Subramaniam et. al, 2009, Jia & Bradbury, 2020). Similarly, a logistics company may face significant operational risks due to infrastructure issues or fuel price volatility. An RMC can proactively identify and assess these risks, ensuring that management implements appropriate mitigation strategies before the risks escalate into crises.

2. Enhancing Decision-Making

Risk-aware decision-making is a hallmark of resilient organizations. An RMC plays a pivotal role in embedding risk considerations into strategic planning and operational decisions (Bensaid, Ishak & Mustapa, 2021). For example, before a company undertakes an overseas expansion or adopts a new technology, the RMC can assess associated risks ranging from regulatory compliance to cybersecurity vulnerabilities and guide the board accordingly. This structured approach not only minimizes potential losses but also improves resource allocation and project success rates.

3. Stakeholder Confidence and Investor Trust

In today’s ESG-conscious investment climate, stakeholders including investors, regulators, and customers expect companies to demonstrate robust governance practices. Having an RMC signals to the market that a company takes risk oversight seriously, which enhances corporate credibility and investor confidence (Jia, Li & Munro, 2019). This is particularly relevant for publicly listed companies in Malaysia, where institutional investors often scrutinize board

practices. A well-functioning RMC can help attract long-term investors who value transparency and sound governance.

4. Business Continuity and Crisis Preparedness

The COVID-19 pandemic underscored the importance of business continuity planning. Non-financial companies without structured risk oversight found themselves scrambling to respond to disruptions. Companies with active RMCs, on the other hand, were generally better positioned to adapt quickly and maintain operations. The RMC plays a crucial role in scenario planning, stress testing, and ensuring that the company has up-to-date crisis response frameworks in place (Hines, Masli, Mauldin & Peters, 2015). In Malaysia's disaster-prone regions (e.g., those susceptible to floods), such preparedness can make the difference between operational survival and collapse.

5. Compliance with ESG and Sustainability Goals

With the growing emphasis on sustainability, companies are now expected to report not only on financial performance but also on environmental and social impact. ESG risks such as carbon emissions, labor rights, and community relations can significantly affect corporate reputation and access to capital. An RMC helps ensure that sustainability risks are managed effectively and integrated into corporate strategy (Bensaid et.al, 2021). This is especially critical for Malaysian companies aligning with Bursa Malaysia's Sustainability Reporting requirements and frameworks such as the Task Force on Climate-related Financial Disclosures (TCFD).

Conclusion

As the Malaysian corporate landscape matures, non-financial companies must embrace more sophisticated governance structures to thrive in an increasingly uncertain and complex environment. Establishing a dedicated Risk Management Committee (RMC) is no longer just an option but a strategic necessity for non-financial companies aiming to strengthen oversight, enhance resilience, and safeguard long-term value creation.

Research shows that firms with formalized risk oversight structures, such as RMCs, are better equipped to manage emerging risks and volatility (Subramaniam et. al, 2009). This is especially crucial for non-financial companies, which often underestimate risk exposures beyond traditional financial threats (Yatim, 2010). A study by Malik et. al (2021) and Abdullah, Shukor and Rahmat (2017) on Malaysian listed firms further highlights that the presence of an RMC positively influences firm performance and investor trust by improving transparency and accountability.

While not legally mandated for non-financial sectors under the Malaysian Code on Corporate Governance (Securities Commission Malaysia, 2021), the benefits of having an RMC are substantial from supporting more informed and agile decision-making to ensuring better regulatory compliance, boosting investor confidence, and improving operational performance. The Bursa Malaysia Listing Requirements also encourage listed companies to strengthen risk management frameworks as part of good governance practices.

For Malaysian non-financial companies committed to sustainable growth and responsible scaling, prioritizing robust risk governance through the formation of an RMC should be seen as a critical step forward rather than an afterthought. Now is the time to embed proactive risk management into the heart of corporate governance, ensuring businesses remain resilient and competitive in an ever-evolving landscape.

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