

**UNIVERSITI TEKNOLOGI MARA**

**THE INFLUENCE OF CORPORATE  
GOVERNANCE ON ENTERPRISE  
RISK MANAGEMENT (ERM) AND  
ITS EFFECT ON SHAREHOLDERS  
VALUE MAXIMISING: MALAYSIAN  
SHARIAH-COMPLIANT FIRMS**

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## ABSTRACT

The governance of companies has been the subject of increasing interest following the global financial crisis. Enterprise risk management (ERM) was introduced as a response to an increasing pressure received by organizations to manage risks comprehensively and to enhance the firm value that was diminishing during the crisis. Despite the claim that ERM is the solution for corporate governance deficiency, particularly in risk management practices and its potential of value creation, the number of empirical research studying this new field is still limited. Thus, this study aimed at assessing the current extent of ERM practices, identifying factors that influence ERM implementation and examining the impact of ERM to firm value among Malaysian Shariah-compliant public-listed companies. ERM implementation was measured by using ERM Dimension index (ERMDi). ERMDi was developed due to the limitation of ERM dimension that are highlighted in the literatures. A questionnaire survey was designed based on ERMDi to assess the current stage of ERM practices. Shareholders value maximising theory and agency theory were used as the theoretical foundation to examine the determinants of ERM implementation. Shareholders value maximising theory was proxied by three variables that are financial distress cost, underinvestment problems and Tobin's Q. Meanwhile, corporate governance variables were proxied of agency theory that are board size, proportion of non-executive directors and CEO duality. To measure the level of ERM implementation a survey was sent to chief risk officer (CRO), accountant, financial controller, management accountant and internal audit officers. A total of 81 usable questionnaires were successfully collected using the online questionnaire service. The results of this study indicated that: ERMDi is the reliable measurement of ERM construct; the extent of ERM implementation among the sample firms is at the encouraging level; and there is a positive and significant association between board size and ERM implementation. Furthermore, findings of this study demonstrate that ERM implementation has a significant impact to financial distress cost and underinvestment problem. However, the results from this study do not find an effect of ERM implementation to firm value. The main contribution of this study is to present a theoretical model that explains the determinants and effects of ERM implementation on firm value. This study entailed methodological improvements through development of ERMDi. ERMDi is a new instrument items to measure the ERM construct. ERMDi has practical implication where using this tool it may help practitioners in assessing the level of ERM program in their firms. Moreover, academics may use ERMDi as an ERM construct measurement in their empirical research.

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