

**Integrated risk management and corporate governance**

**In Medium Sized Family Managed Companies**

**Student Name:**

**University:**

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## **Introduction**

### **Background**

Every business has the risk and comes directly from randomness, a factor that is always present in the world of business. Risk word was derived from an Italian 'risk care' word which means to dare. Effect of some of the international events in last few decades like corporate frauds, financial fraud at international level, political upheavals in the middle east which affected the oil price there and other natural disasters, etc. have brought focus on unpredictability enhancement of the ability of the organisation to gain the desired outputs. Everything can not be controlled in the business (Aluchna and Koladkiewicz, 2010). This unpredictability of events has triggered broad stakeholder interest so that organisations can manage risk efficiently. The EIU (Economic Intelligence Unit) forecasted 4.6 percent GDP growth in the economies of Non-OECD in 2014; this is almost three times faster than 1.9 per cent growth of OECD. As the outcome of financial crisis and other related regulatory environment, developed economies has to shift their focus to growing economies to get more opportunities and capitalize on many other possibilities arising because of large growth in disposable income as a result of increase in educational standards, expansion in market, large technological developments, increase in employment opportunities and economic standards. This move has been paid off. However, many cross-cultural differences and uncertainties in the business management arise because of this. There is the urgent requirement of understanding business culture of emerging economies and their ability to manage navigation of attendant risks so that they can gain from the available opportunities (van den Heuvel, Van Gils, and Voordeckers, 2006). Organisations continuously explore innovative ways to explore the market to

look for the innovative means to induce growth and expand; they require reinforcing strategies to identify, analyse and optimise business risks.

Risk management is the management of the process to identify and analyse the risks of company and business and take actions accordingly to protect the business against them. The companies require risk management so that they can analyse probable risks and balance out probable gains against these risks. Risk management is a preventive measure, not a reactive method. The risk managers define the risk as a possibility of future events or occurrences, which might be harmful or can cause losses to the business. They also realise that sometimes risk can also provide new opportunities to explore the business. Today risk management process has gained so much maturity that insurance has become one of the frequently used control measures (Bar-Yosef and Prencipe, 2009). Risk management is defined by leading global institutes as the expanded approach to control and manage all kinds of risks faced by any organisation. Integrated risk management is the approach, which aims to assist the organisations to identify, analyse and take actions for all types of risks with a probability of increasing success and to reduce failures chances. Risk management is the process involved in understanding, evaluating and judging risks, allocating ownerships and planning actions to reduce or anticipate risks and monitoring and reviewing all the related activities.

Small and medium enterprises are the new business in the industry. They might not have experience of managing risks and their mitigations. Many small and medium-sized businesses run by families face difficulty in analysing the risks beforehand. These businesses are very small to invest on separate risk management team and therefore end up in failures many times. Integrated risk management provides the overview of risks, which might affect the business and provides probable solutions

against these risks. Corporate governance is capable of handling all these risks. It takes the stakeholder interest as a priority and accordingly divides the risk and related responsibilities among the business sections. Corporate governance includes the processes, actions, and the mechanism to handle the risk. Roles and responsibilities of the risk manager are divided among the participants. The political and public interest of business is maintained. SMEs might not have significant funds to invest in risk management; therefore they need efficient and effective measures for risk controlling.

### **Research Aim**

The research aims to study the role and importance of Integrated Risk Management and Corporate Governance in mitigating the risk of Family Managed Medium Sized Listed Companies.

### **Objective of the Study**

The Objectives of the study on 'Integrated Risk Management and Corporate Governance in Family Managed Medium Sized Listed Companies' are:

- i) To analyse the risk disclosure to small and medium sized family managed listed firms and their ability for risk tolerance.
- ii) To examine the prevailing risk management framework in the family managed companies and the role and responsibilities of Board in recognising, observing and supervising the risk management system in these companies
- iii) To evaluate the competence of risk management procedures in family managed SME companies based on the certain benchmarks resulting from professionally managed companies.

iv) To endorse cost-effective practices according to corporate governance to design an appropriate risk management and internal control framework, to generate a risk management atmosphere which supports anticipation and mitigate various types of risks faced by the company.

## **Research Questions**

- 1) What are the measures taken by medium sized family managed to manage their risks?
- 2) How is the risk management system maintained by medium-sized family firms?
- 3) How are risk and performance balanced by medium-sized family firms?
- 4) What role does new information technology play in risk mitigation of medium-sized family firms?

## **Quantitative Research Proposal**

### **Quantitative Approach**

In this type of approach, participants will give a set of questions with the aim of understanding the corporate governance and how it implements enterprise resource management in SMEs. This will also assist in the further investigation of types of steps and method undertaken by various management in getting the in-depth understanding of the industry scenarios. This method will conduct the survey with the help of questionnaire methodology. The participants will be SMEs representing varied background this will assist in mitigating any bias in data collection (Tkachenko, 2016). To get the opinion of experts of the industry, the questionnaire will also be distributed to them (Bryman, 2007).

In the field of ICT, quantitative methods often deal with results computation and system analysis using a scientific approach. The objective of this method makes and applies the model that is based on mathematical approach and is related to hypothesis and theories related an ICT phenomenon. This method focuses on the measurement (which we have come across in the previous topic) as it is related to the empirical data and use of mathematical calculation to display the relationship between quantitative data.

The process of measurement (which we have come across in the previous topic) is the focus of quantitative method due to its connectivity between empirical observation and mathematical expression of quantitative relationships. Quantitative method is an iterative process as involves evaluation of evidence, hypotheses and theories with assistance from technical innovations, leveraging on the statistical approach.



## **Descriptive Research**

The quantitative research comes under the umbrella of detailed research. Descriptive research involves identification of the main aspects of the phenomenon under observation or finding out inter relation of co-relation between various variables.

## **Observation Studies**

Observation studies are involved in both quantitative and qualitative research methods. However, in the quantitative method, the focus of observation studies is on a specific factor or behaviour, which is further quantified. In this type of design, a researcher will try to maintain objectivity in assessing the behaviour being studied (Jackson, 2016).

## **Survey Research**

The survey research aims to understand the large population by using the survey sample of the population. This can also be termed as "descriptive survey" or "normative survey". In the survey, research researcher gives questionnaire with multiple questions to the participants and presents the summary their responses in the form of the percentage, frequency distribution or another form of statistical representation. This research used the variety of method to collect data like face-to-face interviews, questionnaire or telephonic interviews (we will look into questionnaires in the next section). Thus the information is gathered by asking the participants questions via interviews or with the help of questionnaires.

## **Quantitative Data Analysis**

Data thus gathered via questionnaires or methods of quantitative research methods further needs analysis and interpretation. Statistical procedures are quantitative data approaches. Further, this section will take into consideration common statistical

approaches and emphasis on a conceptual understanding of quantitative data analysis (Morse, 2009).

## **Qualitative Research Proposal**

### **Qualitative Approach:**

Various researchers have defined. Qualitative research has been defined in different ways. This method is best suited when: (a) the topic of research is related to the researchers own experience and preference,(b) related to research problem and (c) when research is being done to explore topics about which little knowledge exist. In a broader sense this research is used to conduct: (a) confirmation of research conducted on earlier topics, (b) gain in-depth knowledge about something that is already known (c) understanding and gaining new way or perspective at looking at the topic of research (d) expansion of the scope of already done study. This study will explore the integrated risk management and corporate governance for small and medium sized businesses. The next section presents an outline for the qualitative study (Gelsthorpe, 2006). This study presents the role performed by the researcher in this research, then the study presents the sample gathering process followed by the process of data collections and its analysis and finally presents the process uses to establish the reliability of the results.

### **The Role of the Researcher:**

The researcher was involved in the identification of the topic, making of the research question and by the research, question researcher developed the research plan. Reduction of any personal biases that may impact the results of research is also researchers responsibility. As in researchers should not force the respondents to

offer the specific response based on researchers prejudice of respondents personality type.

### **Research Plan:**

This study uses the qualitative method to find the experience of SME in business. From qualitative research design perspective, there are various options available for the researcher and every option has its own methods, advantages and disadvantages.

### **Population:**

A large number of SMEs will be selected based on access to them. Only SMEs managed by families are considered here.

### **Sampling Procedures:**

To focus on participants who have the experience of the phenomenon under investigation, this research uses purposive sampling. The goal of this research is to have the in-depth analysis of individual experience rather than the generalization of the experiences of the large population. As the researchers were interested in gaining the in-depth understanding of the respondent's perception and their tutoring related experience the method is the most suitable one. It is expected that second round of invitation will be sent to include and reach out to potential participants. To gain the required sample size all the SME's that fulfil the selection criteria irrespective of their size will be included in the second round.

**Data Collection:**

Many types of data collection methods can be utilised to conduct qualitative research. Four types of data collection method that can be used to collect this kind of data are (a) participation in the setting, (b) direct observation, (c) in-depth interviews, and (d) document analysis. This research uses in-depth interviews with the participants, and this forms the primary data collection. In qualitative research data gathering and analysis is done simultaneously to apply changes if needed. So the data collection and analysis was done in cycles till the new concepts themes stopped emerging.

**Participant Selection:**

The process will start with request letter for participation that will be sent to respondents. The letter will introduce the purpose of research and will seek consent from the participants in the form of form that will assist participation to indicate his approval for participation in the survey. Moreover, the letter will also include the note that if the not response is received within two weeks then and follow-up phone call will be made.

**In-Depth Individual Interviews:**

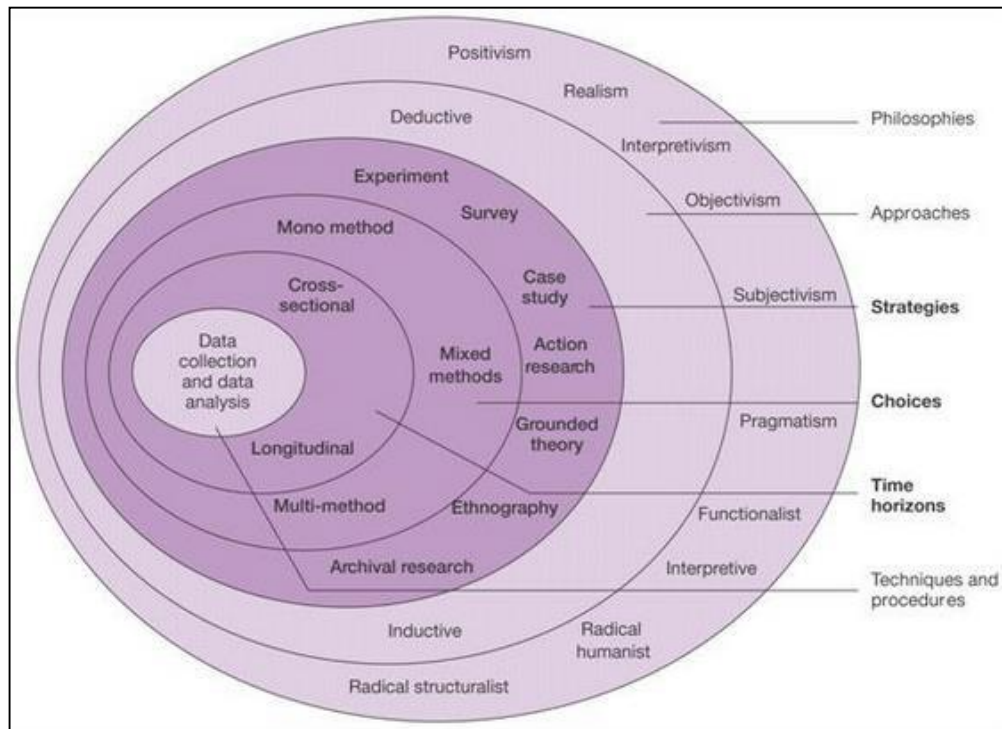
To gain the in-depth understanding of respondents experience and perspective related to tutoring, respondents will be interviewed for an hour. The interviews conducted will be semi-structured and will be recorded. The questions asked will be based on interview guide. The questions will be general to start with however as the interview will become more specific.

## **Part 4: Critical Evaluation**

### **Introduction**

Recently there has been debate around social science researchers on merits associated with qualitative and quantitative research. Different researchers have presented different arguments on the choice of qualitative or quantitative methods. This report will present the arguments given by various researchers that give pros and cons of qualitative and quantitative methods. Some of the researchers consider the two strategies used are completely different and as their view to look at the world is different. However, there are certain researchers like Bryman (1988) supports "best of both worlds approach "and support the use both the strategy. This report also presents the discussion on pros and cons associated with both the strategy. Finally, the report presents the rationale behind choosing the research strategy for the selected topic. Next section presents research onion which tells about the process of research.

To explore in detail the qualitative and quantitative research strategies, it is important to understand the research process. This research process is very well presented by Saunders et al. (2009) in the form of an onion. Research onion as it is termed by Saunders et al. (2009) presents the structure in the form of layers that shows various stages of the research process. Then it assists in providing the effective sequence to design a research methodology. Figure: 1Research Onion



Source: Saunders et al., 2009

Qualitative research is suitable for research that uses interpretivism or constructivism where theories and hypothesis are formed based on observation. On the other hand quantitative research is suitable for research that uses positivism paradigm which considers that reality cannot be changed and considers theory or hypothesis and then proves it.

Qualitative method is suitable for the inductive approach where after observation and interpretation of data theories are proposed while quantitative suitably goes with the deductive approach where pre defined theory or hypothesis is either proved or disapproved.

Let's first understand how other researchers have described qualitative and quantitative research.

Quantitative research is used in research where data used can be analysed in numerical terms. Qualitative research is employed in studies where events, persons and so forth are studied scientifically in the absence of numerical data. Quantitative research takes into consideration-predefined plans, and its results are more readily analysed and interpreted

Quantitative research as suggested by its name with the collection and analysis of data in numerical terms. This research methodology lays more emphasis on the relatively large amount of data. Comparatively, qualitative research is more open and responds to its participants. It not simply counts things but also but also takes into consideration the behaviour, opinions, and the attitude of the participants. In this research, more emphasis is given to the individual participants and answers "why" question.

### **Strengths of quantitative research**

It gives room for broader studies, and the higher number of participants could be involved which allows higher generalisation. Uses quantitative and reliable measurement, which assists in achieving precision. It uses statistical techniques that help in doing sophisticated analysis. This research methodology does not allow for personal bias as researcher uses participants unknown to him and researcher do not participate in research. Kruger (2003) mentions that "quantitative methods allow us to summarise vast sources of information and facilitate comparisons across categories and over time"(pg,9).

### **Limitations of quantitative research**

The rigidity of using quantitative phenomenon while positivistic approach. It is presumed that phenomenon that can be directly observed or recorded in numerical

terms can be studied scientifically. If the target population is not adequately represented by the researcher, then this might come in the way of achievement of desired objectives. Even if sampling plan is the appropriate representation of participants are dependent on the probability distribution of the data under consideration. If the calculations of probability distribution go wrong, then wrong interpretations are made. Quantitative methods use the close-ended questionnaire that provides limited option for respondents. A researcher with non-statistical background could not perform statistical analysis. To come to unambiguous conclusions, results are re-tested and refined multiple times thus extra resources are needed for analysis (Ong, 2003).

### **Important aspects of qualitative research**

Qualitative research focuses on the In-depth understanding of the topic under discussion and looks beyond the numerical evidence. This research method uses the inductive method where theories are developed out of collected data. This research is more contextual importance is given to an individual and attempt is made to understand individual's perspective (Denzin and Lincoln, 2008). Methods used in this research are more flexible. Allows spontaneity and adaptation in the interaction between the researcher and subject. For example, this method uses open-ended questions, which can be answered by respondents in his or her way. The relationship between the participant and the researcher is less formal. Participants get an opportunity to explain in greater detail than that of the typical quantitative method that provides limited options. This methodology provides rich data that has higher depth and less breadth. Sample size in this method is small but the details obtained are high. This data collected is analysed using the high level of description and provides interpretation. In this method researchers, opinion and standpoint are acknowledged.



### **Strengths of qualitative research**

As in this method of research, the researcher is closely involved he gains insider view of the topic under discussion. Due, which issues that usually, gets missed in scientific and positivistic approach comes to the surface by this method. Descriptions made by qualitative research plays important role in making suggestions on the possibility of relationships, causes, effects and process dynamics. Qualitative research simplifies and manages data without changing context and complexities. Changes to the framework or direction of research can be quickly implemented if the new and fresh information is gathered. Interviews are not limited to specific questions but can also redirect by the researcher if the need arise. The data is highly dependent on the experience of human beings which is quite a powerful data (Punch,1998).

### **Limitations of qualitative research**

The major criticism associated with qualitative research is validity and reliability. As the qualitative data is subjective and originates from single context standards related to validity and reliability cannot be used. Events, context or interactions cannot be replicated, and generalisations too could not be made to the wider extent. The data collection and interpretation consumes a lot of time and is the lengthy and costly affair. The participant's responses are highly dependent on the researcher. Further, the conditions related to anonymity and confidentiality of participants date poses problems in findings. There are high chances of biases being displayed by either the researcher or participants (Hammersley,1989).

### **Rationale for choosing mixed research approach for current study**

The current study titled **“Integrated risk management and corporate governance in Medium Sized Family Managed Companies”** aims to study the role and importance of Integrated Risk Management and Corporate Governance in mitigating the risk of Family Managed Medium Sized Listed Companies. This study will use mixed method approach. The research involves examination of prevalent risk management system, competency of risk management procedures explore various cost effective practices are used to design cost-effective risk management atmosphere and analyse the risk disclosure to small and medium sized family and their ability to tolerate risk. So there are aspects where the experience of SME is studied here qualitative method is suitable. The information regarding the level of risk appetite or risk tolerance etc. can also be gathered by qualitative approach. However, the qualitative data collected in the form of responses than will be quantified to make interpretations, and logical conclusions will be further drawn out of this analysis. The research uses the in-depth interview to gather qualitative data.

## **Conclusion**

The most common argument presented by the researcher that qualitative and quantitative approach is completely different as they use paradigms that are fundamentally different to each other. The views of these researchers come under two forms. Some researchers support only one type of research methodology and consider another type of methodology as inappropriate or even sin. Other researchers consider qualitative and quantitative approaches as options that are right in its way and choosing between the two alternatives is the matter of researcher's choice and individual preferences.

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## Appendix

### Questionnaire

#### Interview Questions

1. What type of risks is your firm exposed to ?

	1	2
Risk description		
Impact		
Consequence		
Likelihood		
Level of risk		
Risk priority		

2. How does your firm manage risk firm is exposed to ?

3. So how does the management process work? Is it based on the risk types, or by something else?

4. What role does board plays in observation and supervision of your firms risk management system.

4. How about other employees, do you see their acknowledgement in term of risks and risks management
5. How is performance and risk balanced by your firm ?
6. What role does technology plays in risk mitigation framework of your firm ?
7. How do you check the competency of the risk management framework of your firm? Has any benchmark being set to evaluate competency of framework?
8. Which are cost effective practices used by your firm in appropriate risk management ?



## **QUESTIONNAIRE DESIGN**

**Q: 1 Please indicate your organization's business type:**

1. Manufacturing
2. Trading
3. Consultancy
4. Contracting
5. Others. .... (Please specify)

Please indicate your position level at your organisation

1. Junior level
2. Middle level
3. Senior level

**Q: 2 which of the following challenges do you think exists when beginning to implement risk management in your organization:**

1. The Board of Directors' vision of the organization's structure
2. Integration of risk management within the nature of business
3. Difficulty in translating risks into figures
4. Lack of risk assessment tools and technologies
5. Others. .... (Please specify)

**Q: 3 Does your organisation engages third party for implementation of risk management framework**

Yes

No

If yes

**Q:4 In which of the following risk management implementation process has your organization used third parties**

1. Risk strategy formation
2. Risk assessment
3. Risk Identification
4. Risk Mitigation

**Q: 4 Addressing different types of risk will increase value of your organisation by**

1. Increasing profit share
2. Increasing market share
3. Improvement in performance
4. Others

**Q: 5 what is the current status of risk management strategy of your organisation**

1. Strategy is completely implemented
2. Strategy is defined and implementation is under process

3. Strategy will be implemented in future.

4. Others

**Q: 6 what methods are used by your organisation to Asses risk**

**Q: 7 which technology is the part of your organizations risk management strategy.**