

THE EFFECT OF ENTERPRISE RISK MANAGEMENT (ERM) ON ORGANIZATIONAL PERFORMANCE: EMPIRICAL INVESTIGATION FROM THE DIVERSIFIED INDUSTRY OF UNITED ARAB EMIRATES

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ABSTRACT. This study aims to investigate and understand the diverse effects of enterprise risk management (ERM) on organizational performance in the United Arab Emirates small and medium-sized enterprises (SMEs). A questionnaire was used to gather data from 323 respondents operating in United Arab Emirates' emerging market. The proposed study's hypotheses are tested through multiple regression techniques. The reliability study of the descriptive and inferential statistical study, T-Distribution, F-Test, Variance Inflation Factor, Durbin-Watson Test assess suitability, significance, and degree of error between enterprise risk management against organizational performance. The regression and Correlation test revealed the effect of risk management including knowledge sharing, organizational culture and enterprise risk management on organizational performance. ANOVA test also used to measure the disparity between knowledge sharing and performance in the organization. Also, R-square tests to assess the degree of organisational culture prediction over organizational performance. Results show a substantial positive effect between knowledge sharing, organizational culture, and enterprise risk management $\beta = .242, .362, .113$, respectively, $p < 0.05$ against the organizational performance of SMEs in the United Arab Emirates.

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1. INTRODUCTION

In the corporate world a significant question has been why some companies have succeeded and while others have struggled. Whether it's a public, private, corporation or non-profit entity, organisational performance has been the most important issue for each entity. Knowing which factors are involved to impact the success of an organisation has been important for the leaders and managers. That they can take the necessary measures and steps to get them started. The aim of this article is to establish a conceptual framework that will help to broaden the boundaries of understanding the effect of knowledge sharing (KS), organisational culture (OC), and enterprise risk management (ERM) on organisational performance (OP). ERM governance requires transparency, accountability, justice and accountability which improve the performance of the organisation (Shad and Lai, 2015). Companies with progressive stages of ERM adoption have been found to have better results in terms of financial performance and market value (Florio and Giulia 2016). It shows the influence of ERM on organisational success according to the aforementioned literature. Most studies indicate that ERM has increased the performance of the organisation.

2. THEORETICAL BACKGROUND

Organizational Performance

A company success is described as the ability to achieve the goals and corporate sustainability of the company's management. Numerous tests were carried out to assess the performance of the organisation. The goal of high-performance organisations is not only to sustain pre-defined performance, but also to enhance organisational performance by enhancing performance elements (Gorondutse and Hilman, 2014; Nazar, Ramzani and Temoor Anjum, 2018). Previous reviews have often used short-term finance as a predictor of financial and industry patterns, such as customer loyalty, stakeholder relations, sales growth, market share and sustainable business performance (Anjum, Ramani Bai and Nazar, 2020). Numerous experiments were performed to analyse organisational efficiency using various approaches. Previous research has addressed the organisational peak performance search as the organisation's ultimate target (Legan and Vandeven, 2003; Wang and Wong, 2004; McCarty, Zhao and Garland, 2015).

Researchers also measure organisational performance using a large category called performance elements, a method that collects inputs and enhances value. These are reliability, effectiveness, quality, profitability, innovation in quality and productivity (Liñán and Chen, 2009).

This research tests the theory of the Agency, which reveals useful structure for the design of governance and controls the lead to improved performance of the organisation. The theory of agency is widely used to describe and clarify the dynamics of corporate governance, including coordination of executive priorities, supervision of boards and control of top managers. The aim of this article is to establish a conceptual framework that will help to broaden the boundaries of understanding the effect of knowledge sharing (KS), organisational culture (OC), and enterprise risk management (ERM) on organisational performance (OP). This is achieved by looking at the UAE publicly listed firms.

Therefore, the main goal of this study is investigate and understand the diverse effects of enterprise risk management (ERM) on organizational performance in the United Arab Emirates small and medium-sized enterprises (SMEs): The sub-goals of the study:

- Exploring the effect sharing of knowledge (KS) on organisational performance;
- Exploring effect of organisational culture (OC) on organisational performance.
- Exploring the effect of enterprise risk management (ERM) on organisational performance.

3. LITERATURE REVIEW

Knowledge Sharing (KS)

Sharing knowledge is essential to gaining competitive advantage through industries. Knowledge and performance motivates companies to introduce new products and services in order to retain sustainable market share. In order for an organisation to succeed in knowledge management, it is necessary to create a strong business structure, which is described as an entity, studies on knowledge sharing are generally based on "knowledge transfer" or "technology transfer" from an organisational perspective (Crane et al., 2013). Technology transfer is mainly transferred from one organisation to another or by

long-term relationships and sharing of knowledge (Giroud, 2000). Information stocks acquire knowledge assets that are internal to the business and knowledge sharing enables the diffusion of individual knowledge collectively converted into organisational awareness, which in turn encourages organisational learning and improves organisational effectiveness (Sabherwal and Becerra-Fernandez, 2003; Marqués and Garrigós-Simón, 2006). A number of theoretical and empirical studies have established that effective knowledge management yields many positive outcomes, such as increased efficiency and enhanced performance (Mesmer-Magnus and DeChurch, 2009), leading to efficient organisations (Asrar-ul-Haq and Anwar, 2016). Knowledge sharing influences the organisational performance of the project according to the previous research (Calvo-Mora, Navarro-García and Periañez-Cristobal, 2015; Gemino, Reich and Sauer, 2015). Based on previous research, sharing information has a positive impact on organisations performance.

H1. There is a positive effect of knowledge sharing on organizational performance.

Organizational Culture

Various scholars use various terms to describe the organisation's culture. Previous research has revealed that organisational culture influences the performance of organisations (Ahmad, Ahmad and Ali Shah, 2010; Knein et al., 2020). In particular, three main elements of the culture of the organisation. That is, values, norms and activities that directly impact behaviours that, in turn, continue to influence the sharing and use of information development (Lee, Shiue and Chen, 2016). Organizational culture promotes the engagement between individuals and values that retains ownership and encourages management to achieve competitive advantage (Rai, 2011; Hogan and Coote, 2014). Organizational culture has the ability to improve job satisfaction, and understanding between problem solving and organisation Success (Kotter, 2012). Institutional culture has influence on organization performance and it's argued that all dimensions of organizational culture effect different viewpoints of organizational performance (Ahmed, M., & Shafiq, 2014; Anjum, 2018). Dennis (1990) presented an organisational culture used in this research that there is a connexion between organisational cultures that include dedication, consistency; change, mission to organisational performance. Organizational culture has four

functions: to provide members with a sense of identity, increase commitment, strengthen organizational values and the formation of behaviors through control mechanisms (Lunenburg, 2011). Performance is a measure of efficiency, quality, consistency and much more. Schwartz (1994) describes cultural values important to the relationship between cultural influences and organisational personality. Basis on the previous studies and statement found that organisational culture has positive effect on organisational performance (Schwartz, 1994). Organizational culture and marketing innovation have a significant positive impact on financial organization performance (Aboramadan, et al., 2019).

H2. There is a positive effect of organizational culture on organizational performance.

Enterprise Risk Management

From the 1970s to the 1980s, risks were handled by conventional as "silo-based", segregated to handle risk for each mission or business unit (Soin and Collier, 2013). However, as the market climate shifted, risk management was introduced as a modern type of "enterprise risk management" aimed at helping the company gain better benefits. Risk management is relevant as risk is a component of corporate governance (Lai and A.Samad, 2011). They also said companies today are at risk from corporate governance scandals and illegal financial management. In addition, a study by Gates, Nichols, and Walker (2012) found that implementation of ERM resulted in increased organisational performance and better performance in the organisation. Likewise, Hoyt and Liebenberg (2011) have established a positive relation between ERM adoption and efficiency, expressed in organisational value (Hoyt and Liebenberg, 2011). But the scope and roles of risk management have expanded over time due to rapid changes in the environment. Enterprise risk management has gained a great deal of attention internationally in reaction to these developments (COSO, 2004). Thabet and Alaeddin (2018) conclude that adopting risk management policies and practices conducive to enhancing organizational performance. Therefore, an appropriate management of enterprise internal and external risks are usually seen as a fundamental constituent of the prosperity of the organizations (Alaeddin et al., 2019). ERM governance requires transparency, accountability, justice and accountability which improve the performance of the organisation (Shad and Lai, 2015). Companies with progressive stages of ERM

adoption have been found to have better results in terms of financial performance and market value (Florio and Giulia 2016). Ping and Muthuveloo (2017) have found that the introduction of ERM governance has a positive effect on the success of organisations (Muthuveloo, Shanmugam and Teoh, 2017). It shows the influence of ERM on organisational performance according to the aforementioned literature. Most studies indicate that ERM has increased the performance of the organisation.

H3. There is a positive effect of enterprise risk management on organizational performance.

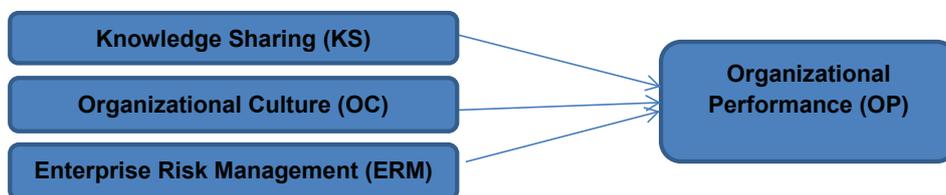


FIGURE 1. Research Model

Following the work of: Muthuveloo, Shanmugam and Teoh, (2017); Ahmed, M., & Shafiq, (2014); Anjum, (2018); Knein et al., (2020); Florio and Giulia (2016); Ping and Muthuveloo (2017).

4. METHODOLOGY

With a view to achieve convenient answers for this paper's essential questions and objectives and to confirm the hypotheses of this study. The study utilizing two paramount methods which are known as questionnaire survey side to side with regression analysis. In the present part, the utilized methodology in this paper is conspicuously elucidated. Thus, foremost the researchers discuss the study approach; thereafter the research design is illustrated; subsequently the research model specification are clarified. To meet the objectives of the study, a quantitative approach has been used. This study employed primary data collection using survey questionnaire. The survey questionnaire was designed to extract information about enterprise management role toward organizational performance. Based on the results of survey output the main hypothesis for testing at this part is whether, there is positive significant effect of knowledge Sharing,

organizational culture and enterprise risk management on organizational performance. It is claimed that such methods are appropriate for the current study since via analyzing and extracting information from the survey distributed, we can reach to all available information required in this research. As explained by Leedy (1989), the researcher in his research design need to comprise the outline of what progress they have achieved starting from research objectives, questions and hypothesis in addition their respective implication till the data analysis and study finding and recommendations. Kinnear & Taylor, 1996; Churchill & Iacobucci (2005) define research design: "it is the blueprint that is followed to complete the study" and it "ensures that the study is relevant to the problem and will use economical procedure". While conducting the present study, care has been taken to incorporate these concepts in the research deign. In this study, conclusive research design (Quantitative Research) has been employed.

we have gathered our primary data by the means of the questionnaire. Such data have been filled out by qualified managers, employees who are engaged in operational, financial and risk management functions of the selected firms. Researchers distribute their questionnaire survey to the audience " face to face" through facilitator assistant. The study conceptual framework is in accordance to the literature review mentioned and the shown in the following diagram (Figure 1). It manifests the dependent variable measures (organizational performance) and the explanatory variable (knowledge sharing, organizational culture and enterprise risk management) effects.

In accordance with this and based on the dimensions of the problem of the research, the multivariate model (explained down) has been used to outline the connection among the independent variables and the dependent variables. The model is explained through the following mathematical equation:

$$Y = a + B1X1 + B2X2 + B3X3 + E.$$

Thus, the regression equations become:

Model I

$$\text{OP} = \text{a} + \text{B1(KS)} + \text{B2(OC)} + \text{B3(ERM)} + \text{E}$$

The targets that SPSS was used for are:

1. Analyzing descriptive statistics (e.g. average and S.D.), reliability analysis, and related schedules through using data analysis methods.

TABLE 1.

Standard	Our application
y- the value of dependent variable The constant term;	Y: Organizational Performance.
X- The value of independent variable:	(X1): Knowledge Sharing
β - The coefficient of the function;	(X2): Organizational Culture
E- The disturbance or error term.	(X3): Enterprise Risk Management

2. Studying the effect of each variable on other variables, dependent and independent, by using correlation analysis. In addition, Multi-linear regression was used, due to the existence of various independent variables in the study.

3. Using different tests to examine the proposed hypothesis; T-Distribution test was used to detect the relevance between the dependent and independent variables, whereas F-test was used to find out the perfect resolution through testing the suitability of the model.

4. Studying the variance inflation factor in order to detect the overlap between independent variables.

5. Discussing the overall squares ratio of sequential variation of the rest of the squares' total errors according to the statistics indicated by Durbin-Watson test.

5. ANALYSIS

Reliability Test:

Reliability shows the level of consistency for a specific collection of ingredient and items utilized in measuring variable. In order to conducting reliability test for this research instrument, the extreme precision used test is Cronbach's Alpha. The test is conducted for every variable implemented in a study to procure the reliability coefficients that is thoroughly refers to Cronbach's Alpha coefficients. According to (De Vaus, 2002) the optimal reliable criterion should record 0.7 alpha at least. The results are offered in table (one). The statistical results present elevated alpha values (>0.7) which illustrate that each criterion on the research instruments mensuration a single connotation and the instruments that establish the scale are internally consistent. In addition, from table (one) results

the achieved criterion illustrate that there was a significant internal consistency between the questionnaire items.

TABLE 2. Cronbach's Alpha Coefficient test of Items

Parts	Number of Items	"Cronbach's Alpha"
Organizational Performance (y)	5	.782
Knowledge Sharing (x1)	5	.789
Organizational Culture (x2)	5	.767
Enterprise Risk Management (x3)	5	.843

Correlation Matrix:

TABLE 3. correlation between the independent variables and the dependent variable:

		Knowledge Sharing	Organizational Culture	ERM	
	Pearson Correlation	0.598	0.657	0.459	
Organizational Performance					0.000

The effect of the independent variables represented by knowledge sharing, organizational culture and enterprise risk management on the dependent variable organizational performance illustrating positive strong correlation by (.598); (.657); (.459) respectively. This means that when independent variables raise organizational performance boost too.

Goodness- of- Fit Tests, Durbin- Watson and Multicollinearity Test Statistical results.

Goodness of – Fit Tests analysis, which were studied by F-distribution model, come up with a result which is the F- distribution critical range at the level of 5% with significant record at 2.545. table (three) shows the results. The results reveals that F-distribution statistic value is (83.356). which greater than the critical range of F-distribution (2.545). therefore, the regression significant level is high; this indicate that independent variables (knowledge sharing, organizational culture and enterprise risk management) prophecy the dependent variable. In addition, 0.000 is the significance level for independent variables (knowledge sharing, organizational culture and enterprise risk management. which also indicates that organizational performance is predicted with 100 %.

Subsequently, Goodness of – Fit Tests analysis confirms that the effects among the variables are highly significant.

TABLE 4. statistic results of "Goodness –of-Fit Test for Model"

Paradigm	"Sum of Squares"	"Df"	"Mean Square"	F- value	Significant
Regression	33.127	4	8.282	83.356	.000b
Residual	31.595	318	.099		
Tota	1 64.722	322			

Durbin- Watson (DW) statistics test depends on the assumption that the errors in the regression model are made by a first-rate autoregressive process. In addition, it indicates the effect of the squares' errors sum on the squares of the residuals' sequential differences sum. According to (Montgomery, Peck, and Vining 2001), there is a clue of positive serial correlation if DW statistic is less than 2. Durbin-Watson statistic was (1.807), this means that there was serial correlation between independent variables knowledge sharing, systematic methods, project risk management and the dependent variable systematic performance.

TABLE 5. Statistical findings of "R Square Analysis"

Paradigm	"R"	"R-Square"	"Adjusted R Square"	"Std. Error of the Estimate".	"Durbin- Watson"
One	.714	.514	.515	.32522	1.807

TABLE 6. Multiple Regression Statistical Results

	B	Std. Error	Beta			Zero-order	VIF
(Constant)	.482	.087		5.514	.000		
Knowledge Sharing	.242	.047	.269	5.160	.000	.598	1.771
Organizational Culture	.362	.054	.380	6.751	.000	.657	2.062
ERM	.113	.032	.159	3.531	.000	.459	1.319

Variance inflation factors analysis, which were discussed by using mediate regression model, come up with a result which is that all independent variables have tolerance value more than 0.1. This means that all variables have VIF less than 10. It's obvious now that selecting explanatory variables, which were used to develop the expected model in the logistic regression analysis, did not encounter multicollinearity as a problem within the selecting process. In addition,

the results confirm the evidence presented in correlation matrix (see table two above). Our study aimed to find out the effect among the variables in order to evaluate the importance of knowledge sharing, organizational culture and enterprise risk management to organizational performance that we are establishing in the coming part.

Multiple Linear Regression Results:

$$\begin{aligned} &\text{Organizational Performance} \\ &= a + B1(\text{Knowledge Sharing}) + B2(\text{Organizational Culture}) \\ &+ B3(\text{Enterprise Risk Management}) + E \end{aligned}$$

Table (five) indicates the total variety of outcomes of regressions of the effect of sharing of knowledge, organizational culture and enterprise risk management on organizational performance. The findings illustrate that independent variables affects organizational performance positively. The coefficient of the independent variables β was .242; .362; .113 respectively. This thus shows that organizational performance takes off to 24.2%; 36.2%; 11.3% if on unite in the dependent variables are boosted. Regarding other variables, they are fixed. The variables statistical significance can be shown as .000. This result is significantly less than 0.05, which clarifies the significant effect. It shows that organizational performance likelihood is a 100% predicted by knowledge sharing, organizational culture and enterprise risk management. R2 represents the predicted level of difference in the dependent variable, which is .514. This indicates that 51.4% of organizational performance can be anticipated by the knowledge sharing, organizational culture and enterprise risk management. Therefore, the presupposed hypothesis is accepted. **There is a positive significant effect of knowledge sharing, organizational culture and enterprise risk management on organizational performance.**

6. CONCLUSION

The purpose of this concluding part is tripartite. First, this chapter aims to emphasize and highlight the salient points of the paper findings. Second, to highlight the contribution of the thesis. Third, to clarify the limitation of the

thesis. The positive significant effect of knowledge sharing on organization performance shows that UAE SMEs organizational knowledge strongly rely on the level of knowledge of individual in organizations. This will lead to improve value-generating capability of the firms. In addition, create solid commitment to human resources development and efficient information system. Organizational culture is very sensitive and important today as compare with past days. Therefore, positive and significant effect of organizational culture on UAE SMEs organizational performance reveals the level of joining, collaboration and engagement among employees and management is satisfying. Also, criteria and rules are interpreted clearly for employees. Furthermore, the integration level between units and department for achieving organization goals such as; improving works efficiency, producing and manufacturing the products and services and enhancing the quality of products and services design. Sustainable competitive advantage emerges from clear and solid organizational culture. As activities and risks continue to increase, organizations are moving to find and implement different type of risk management system. UAE SMEs believes that an efficient enterprise risk management program can assist it on managing their threats and risks and maximizing opportunity. So, the positive significant effect of UAE SMEs enterprise risk management on organization performance shows the concentration on risk at the senior levels and more discussion on risks at all levels inside the organizations. Strong enterprise risk management program enhancing better structure, reporting and analysis of risks. In addition, increasing focus and perspective on risks with effective implementation of resources. The information provided in this study may be able to provide some practical insights for the UAE SMEs managers to take advantage on the influencing factors to establish optimal level of ERM. The study was subjected to some main limitations. Firstly, SMEs tested in this study were big organizations have been excluded. Secondly, this paper is related to UAE SMEs. Thus, the results found in the study are only related to the measured organizations. At the end, it seemed to be difficult to outline the whole measurements that are enough to give a total measure for enterprise risk management towards organizational performance.

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