Risk management practices adopted by financial firms in Malta

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Abstract

Purpose
The purpose of this paper is to bring to light the risk management practices adopted by financial firms in the small island state of Malta. It seeks to: first, identify the risk management strategies and mechanisms that these firms adopt to manage risks, maximise opportunities, and maintain financial stability; second, determine whether these practices are perceived as contributing to principled performance; third, examine the extent to which risk management capabilities offer competitive advantage to firms, and fourth, investigate whether corporate social responsibility (CSR) is a key driver of risk management corporate strategies.

Design/methodology/approach
A self-administered questionnaire purposely designed for the present study was distributed among the 156 credit institutions, investment firms and financial institutions registered with the Malta Financial Services Authority. Overall, 141 firms participated in the study (a response rate of 90.4 per cent) and the responses were subjected to statistical analysis in an attempt to answer four research questions.

Findings
Maltese financial firms have sound risk management practices that link positively with added value and principled performance. Although competitive advantage has been given less weight by these firms, the implemented risk management mechanisms allow for a strong risk culture, defined risk management goals, accountability and continual improvement. CSR forms part of the firms' risk management corporate strategies and is valued as part of these firms' corporate culture, while financial/economic factors are viewed as key in driving effective risk management principles.

Originality/value
The study provides empirical evidence that securing “best practice” in firms’ risk management corporate culture is seen as better predicated on maximising financial advantage (“the instrumental driver”) rather than simply reflecting externally imposed standards (“the compliance driver”).

Keywords
Corporate governance, Corporate social responsibility, Competitive advantage, Corporate culture, Risk management, Malta, Principled performance, Financial firms

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Citation

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Our Financial Risk Management professionals work with financial institutions and other corporate clients to use risk management and compliance to drive superior performance. They assist organisations to reinforce and enhance their in-house risk management and compliance resources. We help them with: Credit risk measurement and management. It seeks to: first, identify the risk management strategies and mechanisms that these firms adopt to manage risks, maximise opportunities, and maintain financial stability; second, determine whether these practices are perceived as contributing to principled performance; third, examine the extent to which risk management capabilities offer competitive advantage to firms, and fourth, investigate whether corporate social responsibility (CSR) is a key driver of risk management corporate strategies. Bezzina et al., (2014) resulted that sound risk management practices used in Malta by financial firms are linked to value added and firm performance while competitive advantage has given less attention by these firms. Would the same principles in hotel financial management apply to a hotel which relates to a chain and to an independent hotel? A: Yes – the principles in general are the same and an independent hotel stands to benefit from having a similar structure to that of a hotel forming part of a chain. The purpose and benefits of budgetary planning and control process include: As an independent hotel, forming part of larger group of companies which has been a pioneer in Malta's hospitality industry and has now evolved into a diversified group with a sterling reputation with its local and foreign business partners, allows us to pool our resources to enjoy synergies and economies of scale in certain areas like purchasing, financing and project management.