European Journal of Business and Management
ISSN 2222-1905 (Paper) ISSN 2222-2839 (Online)
Vol 4, No.5, 2012

The Impact of Operational Risk Management on the Financial Development and Economic Growth: A Case Study of Saudi SME Companies

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Abstract

Project finance is a strong driver of economic growth in low income countries where transaction costs are particularly high. One of the main obstacles covering huge associations today is reviewing and commanding the risks that are generated from the risk operations. Through the representation of a business procedure a lot of oddities, that is, aberrations from the normal succession of occurrences might happen. To warrant that a procedure is still able to carry through its organizational targets, procedure entrants must be able to expose, analyze and prosperously resolve such unusual conditions as they occur. This paper intends to measure the operational risk management effects on the financial development and growth in the Saudi SME companies. Online survey was distributed among 150 employees from different SME companies in Saudi Arabia. The result showed that operational risk management effects have positive effects of the financial development and growth in the Saudi SME companies.

Keywords: Operational risk, risk management, financial development, economic growth

1. Introduction

Determining operation risk management in different communities has recently involved the aims to examine and evaluate the prospective factors that might effects on the performance of risk management in modern financial markets. The most consequential kinds of functional risk involve breakdowns in internal authorities and collective governance (Di Renzo, et al., 2007). This sort can direct to financial defeats through error, embezzlement, or failure to execute in opportune mode or start the significances of the bank to be agreed with other procedures, for instance, by its traders, loaning representatives exceeding their power or administering business in an unprofessional or risky manner. However, different characteristics of functional risk comprise major downfall of information technology techniques or consequences such as major fires or other disasters (Strzelczak, 2008).

One of the main obstacles covering huge associations today is reviewing and commanding the risks that are generated from the risk operations. Through the representation of a business procedure a lot of oddities, that is, aberrations from the normal succession of occurrences might happen. To warrant that a procedure is still able to carry through its organizational targets, procedure entrants must be able to expose, analyze and prosperously resolve such unusual conditions as they occur (Dalla Valle & Giudici, 2008).

Traditionally, managers have relied on their experience and understanding of a process in order to handle deviations from the expected flow of events. However, the increasing complexity of modern business processes and the accelerating pace with which these processes change has made the reliance on individual

managers' experience and intuition an increasingly less satisfactory way to deal with operational risks. There is an increasing need for systematic business process operational risk management methodologies. Such methodologies will assist business process designers to anticipate potential losses and instrument their processes so that losses can either be avoided or be detected in a timely way. Furthermore, when exception manifestations occur during process enactment, these methodologies assist in selecting the best way of resolving them (Azvine, Cui, Majeed, & Spott, 2007).

This paper aims to determine the impact of operational risk management on the financial development and economical growth among the Saudi companies.

2. Prior Research

Determine the operation risk management helps to perceive the expected changes in the business and economic status. Adeleye, Annansingh and Nunes (2004) observed the operation changes in the risk peculiarities of commercial bank's liability performance; the author described the main risk management issues. Break by conventional commercial bank risk management method, according to the existing attitude of core capability, they considers that to supply a secure and pacifist banking structure. Its then must provide essentially enhancement in the capacity to conform and acknowledge to external risk. They evaluated the action mechanism that core capability to the commercial bank risk management. Based on this evaluation of the operational risk management among the commercial bank core competence to risk management, it seems that risk actions depends accordingly to the action mode based on the concept orientation and resources supporting, and function mode, etc., put forward new ideas of risk management as shown in Figure 1.

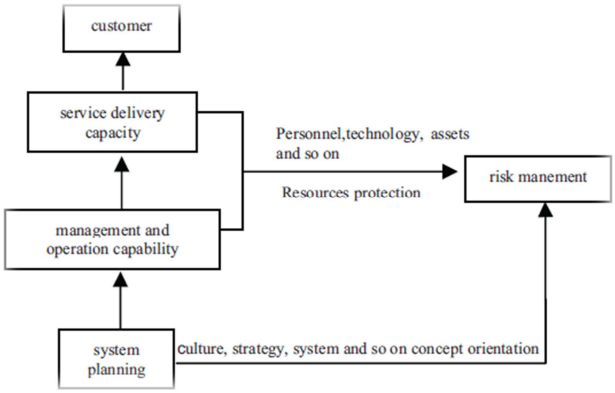

Figure 1: The action mode to risk management

From the other hands, both Sundström and Hollnagel (2004) indicated the operational risk management issues in managing the management tasks, ie, management of risk connected with individuals, organizations and practices, which developed as one of the key qualifications in financial service corporations. They suggested that the evolvement of approaches to operational risk management might extremely benefit from leverage structures by the different human-machine system's populations, particularly focused on the model based examination and design of entangled systems. Figure 2 presents the simple control engineering style for managing risk.

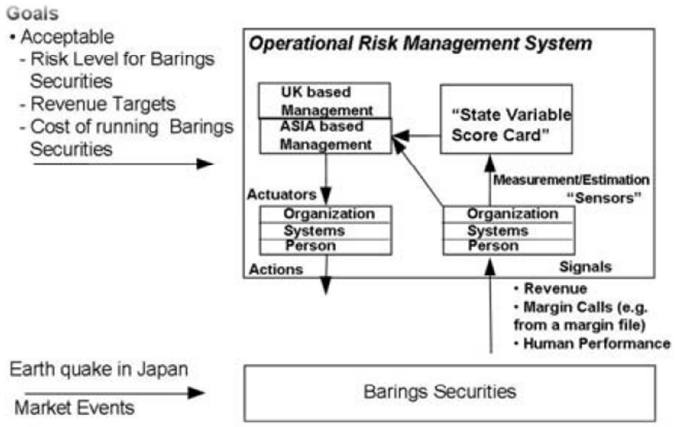

Figure 2: The simple control engineering style for managing risk

Cristina, Cornelia and Nicoleta (2008) explained the procedure for performing strategies of the financial traditions in terms of the banking risks, which have as the principal purpose to reduce the chances of risk generation and the bank's prospective exposure. Cristina presented the main operational risk management and quantification methods. Meanwhile, they present the mode of minimum finance needs for the operational risk. Hence, the author initials the conceptual approach of the operational risks through the point of view of the financial institutions exposed to this type of risk. The second part describes the management and evaluation methods for the operational risk.

Also, Raman (2008) reviews in particular the level of operational risk management in the Indian banking system in the framework of Basel II. The predictable assuming of the banking obtained, which matched extensively with the arrangement of the banking system in Asia, Africa and the Middle East. A review behaved on twenty two Indian banks shows inadequate intimate data, problems in the collection of external loss data and modeling intricacies as significant obstacles in the execution of the operational risk management structure in banks in India. The survey emphasizes the needed time to dedicate financial means if banks desire to execute the advanced approach under Basel II.

3. Methodology

This section includes research design, population, research instruments, data collection procedure, and data analysis procedure along with the systematic process.

A quantitative method to observe the acceptance level of customer based on the impact of operational risk management on the financial development and economical growth in Saudi. Survey design with quantitative analysis was employed to examine the variable interaction in the model and to achieve the project objectives.

Through the judgment sampling, 150 Saudi employees from different SME companies were chosen. Based on the answer extracted from the structure questionnaire, they will contribute their perspectives on guessing the impact of operational risk management on the financial development and economical growth in Saudi SME companies.

Convenience method was employed to collect respondents' perspectives on the impact of operational risk

management on the financial development and economical growth in the Saudi SME companies. Time constrain has arrange for one week of services observation using structure questionnaire. Descriptive statistic used in this study to confirm the mean level of questionnaire item.

4. Finding and Result

Respondents' characteristics were categorized in terms age, experience, and academic level of education. Table 1 presents the participants age groups. 4.1 50.1% (n=76) of the respondents were within the 20-29 age range, 32.7% (n= 49) of them were within the 30-39 age range, 10.7% (n=16) of the respondents were within the 40-49 age range, and only 6.0% (n=9) of respondents were more than 50 years old.

Table 1: The Distribution of Respondents by Age Groups

Age	Frequency	Percent
20-29	76	50.7
30-39	49	32.7
40-49	16	10.7
>50	9	6.0
Total	150	100%

Respondents teaching experience showed that 29.3%; (n=44) of them had 1 to 5 years of experience, 21.3%; (n=32) had 6-10 years of teaching, 32.0%; (n=48) had 11 to 15 years, and only 17.3%; (n=26) had16 or more years of experience as shown in Table 2.

Table 2: The Distribution of Participants by Experience Groups

Experience	Frequency	Percent
1-5	44	29.3
6-10	32	21.3
11-15	48	32.0
over 16	26	17.3
Total	150	100%

Table 3 shows the results related to the respondents level of education. The majority of the respondents 70.0%; (n=103) were holding bachelor degree, 11.32%; (n=17) were holding a master degree, and only 18.7%; (n= 28) were holding diploma.

Table 3: The Distribution of Respondents by Level of Education

Level of Education	Frequency	Percent
Bachelor	105	70.0
Master's	17	11.3
Diploma	28	18.7
Total	150	100%

Table 4: Descriptive Statistics

	N	Minimum	Maximum	Sum	Mean		Std. Deviation
	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic
Q1	150	1	5	82	3.28	.248	1.242
Q2	150	2	5	95	3.80	.200	1.000
Q3	150	1	5	91	3.64	.282	1.411
Q4	150	1	5	90	3.60	.271	1.354
Q5	150	1	5	85	3.40	.245	1.225
Q6	150	2	5	89	3.56	.201	1.003
Q7	150	1	5	92	3.68	.269	1.345
Q8	150	1	5	86	3.44	.289	1.446
Q9	150	1	5	88	3.52	.246	1.229
Q10	150	1	5	91	3.64	.215	1.075
Valid N (listwise)	150						

Table 4 presents study result after analyzing the questionnaire items. The highest mean score among respondents was “Has the insurer defined operational risk categories or ‘event types?” which may helps to increase the organizations performance whereby the result of the mean and the Std was (mean 3.80, SD=1.000), however, the second highest mean score was “Does the insurer have an ongoing monitoring program for control effectiveness?” at (mean 3.68, SD=1.345), “Does the insurer have a specialist operational risk function/manager?” at (mean 3.64, SD=1.411), and “Has the insurer adopted a formal definition of operational risk (OR) as part of its internal risk management processes?” (mean 3.28, SD=1.242). The lowest mean scores was “Has the insurer attempted to quantify its exposure to operational risk?” at (mean 3.40, SD=1.225). The overall mean result showed that operational risk management has positive effects on the financial growth and development in the Saudi SME companies.

5. Conclusion

This paper was established to measure the operational risk management effects on the financial development and growth in the Saudi SME companies. Online survey was distributed among 15 users from different SME companies in Saudi Arabia. The result showed that operational risk management effects have positive effects of the financial development and growth in the Saudi SME companies. An observation can be demonstrated in different Saudi SME companies, for confirming the respondent’s feedback in the future.

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Appendix

1. Has the insurer adopted a formal definition of operational risk (OR) as part of its internal risk management processes?

2. Has the insurer defined operational risk categories or ‘event types’?

3. Does the operational risk define the event types capture ‘boundary’ risks (e.g. operational risks that are related to insurance, market or credit risk)?

4. Does the insurer collect operational loss data?

5. Has the insurer attempted to quantify its exposure to operational risk?

6. Does the insurer use to quantify OR exposures?

7. Does the insurer have an ongoing monitoring program for control effectiveness?

8. Is the insurer using operational risk indicators/metrics in reporting?

9. Is reporting on OR issues provided to the insurer's board (and/or responsible committee) and senior management?

10. Does the insurer have a specialist operational risk function/manager?

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