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Risk Governance and Bank Performance: The Moderating Role of Competitive Intensity on Kuwait Banks

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Abstract

Purpose: The purpose of the study is to examine the relationship between risk governance variables and the market-based performance of listed banks in Kuwait Stock Exchange (KSE). The study also introduces the influence of competitive intensity into the relationship between risk governance and market-based performance as moderating variable.

Design/methodology/approach: This study examines the relationship between risk governance ,by using three variables namely chief risk officer presence, risk management committee size and meeting, with market-based performance measured by Tobin's Q and stock price return. Furthermore, the study does not neglect the importance of competitive intensity as a moderator variable. Sample selection includes 10 listed banks in Kuwait stock exchange (KSE) covering a period of 7 years. This study applies panel data regression analysis and the data required were derived from banks annual reports, financial statements, and Kuwait stock exchange (KSE) website.

Research implications\limitations: The study has the following limitations (1) small sample size of 10 listed banks in Kuwait Stock Exchange (2) covers the period post the issuance of new corporate governance regulations in Kuwait and comparing the result with periods prior new regulations is difficult due to lack of information. This study can assist in future research in this field through (1) urge new researches to expand the sample size by studying risk governance practices for listed companies in Kuwait Stock Exchange (2) a comparison study can be conducted between banks in Kuwait with other countries.

Practical implications: Practical implications of the study can assist in the following ways (1) Central Bank of Kuwait might benefit from the results of this study in the development of regulations related to risk governance (2)results might provide a comprehensive guideline to the risk management officials in the banks (3)investors might benefit by identifying the important risk governance variables for Kuwaiti banks.

Originality: The study concentrates on the impact of risk governance on performance of banks in developing economy (Kuwait) as majority of studies concerns this relationship is conducted on developed economies while scarce researches have been conducted for developing economies. Moreover, the study enhances literature gaps by introducing the moderating impact

of competitive intensity on the relationship as majority of researches focus on the direct impact of risk governance on the performance without mentioning the impact of industry competition.

Keywords: Risk governance, market-based performance, competitive intensity

Introduction

Risk governance has been a hot and important topic for study recently. The importance and awareness of risk governance issues has increased after the 2008 global financial crisis. Countries around the world with the economic and financial authorities attach great attention to the issues of risk governance as it has a major impact on the development of the financial system in any country. Van Asselt and Renn (2011) state that risk governance is an emanation from the main definitions and terminologies of corporate governance concept then applying it to risk related issues. They further add that it is the various methods used by individuals, institutions and companies in dealing with the risks threatening and surrounding them. Risk management has been developed significantly and received great attention globally in previous years (Bagh, Asif, & Razzaq, 2017; Erin, Bamigboye, & Arumona, 2020). According to Njogo (2012), risk management in financial institutions has been a key theme in the global financial crisis in the past decade. Therefore, there is a continuous need to issue many rules, systems and regulations in order to protect the economy. A strong risk management within a bank assists in encountering the fluctuations in the sector and mitigating the risks (Agnese & Capuano ,2020). There are many ongoing events and factors that contribute to continuity in the study of risk governance. The financial crisis that hit the world in 2008 and led to the creation of many financial and economic difficulties at the level of countries and companies was one of the reasons that forced to focus on risk governance issues. For example, the collapse of Lehman Brothers bank in 2008 is one of strongest shocks to global markets due to the size of the bank and its status as a major market player. The lack of an assessment and monitoring of risks associated with mortgages in the U.S. market caused this collapse and bankruptcy of the bank. Moreover, the continued desire of economic and financial organizations to develop their business environment for the purpose of attracting capitals is an important factor in the continuous attention on the subjects of risk governance. These organizations, whether global or local, are regularly reviewing their systems and regulations in order to achieve a healthy and transparent environment.

All these reasons have encouraged to study this case in the state of Kuwait. This study focuses on the impact of risk governance practices on the performance of Kuwaiti listed banks alongside the moderating effect of competitive intensity. The recurrence of financial crises in Kuwait, whether due to local reasons or because of global financial crises, have affected Kuwait economy severely. Kuwait has passed through many financial crises in the past decades that shocked the economy and financial system. Kuwait economy suffered crises in 1977, 1982, and 1997 along with the financial crisis in 2008. Accordingly, Kuwait was nearly the edge of the economic disaster because of these financial catastrophes. However, Kuwait, through its government, was forced to intervene to resolve those problems that have devastating consequences on Kuwaiti economy and assisted in retaining financial stability in the country.

Kuwait Gulf bank (GBK) is the most famous example in Kuwait banking sector for not properly quantifying risks and applying good risk governance. Gulf Bank of Kuwait lost around USD1.2 billion due to losses in derivative contracts, investment portfolios, and loan portfolios (Gulf bank, 2009) and Kuwait government has been prompted to intervene and bailout Kuwait Gulf bank to prevent collapse of banking system. Therefore, Central Bank of Kuwait (CBK) was encouraged to issue new corporate governance regulations and guidelines in 2012 to help in reducing the impact of any future financial turbulences. Risk management was one of the 9

corporate governance pillars in the new corporate governance guidelines due to its important role in making decisions and mitigating risks.

Competitive intensity is one of the influences that contribute in shaping business environment (Zahra & Covin, 1995). Martin and Javalgi (2016) state that competitive intensity is the aggressiveness between market players due to the lack in growth opportunities. Competition in the market has several merits such as suitable allocation of resources and increase management efficiency (Liu, Qu, & Haman, 2018). A competitive environment might have positive or negative impact on firm's performance. Competitive intensity in business may have a positive impact in term of inventing and developing new products and services which in turn will satisfy clients and improve the performance of the firms. On the other hand, competition may lead to shrinking in market share of the company which will force it to reduce prices, hence affecting its performance. Several studies such as Beiner, Schmid, and Wanzenried (2011), Giroud and Mueller (2010), and Irvine and Pontiff (2009) show a positive influence of competition on the performance of companies as competition generate better managerial monitoring and practises which reflects positively on the performance.

The main objectives in this study is to examine the impact of risk governance on the performance of listed banks in Kuwait and the moderating effect of competitive intensity as presented below;

1. To evaluate the significant relationship between risk governance characteristics and market-based performance of Kuwaiti banks.
2. To investigate the moderating effect of banks competitive intensity on the relationship between risk governance characteristics and market-based performance of Kuwaiti banks.

Literature Review

Risk governance and performance

Banking sector as well as other sectors face many challenges, obstacles and risks that affect their financial performance, stock performance, growth and expansion in new markets. Risks faced by banks are either internal risks such as credit risk, liquidity risk and capital risks or external risks like interest rate risk, commodity risk and foreign exchange risk. Lee, Finnerty, and Chen (2010) define risks as the extra risks that shareholders of the company can bear when the company is funded by debt along with equity.

The financial crisis in year 2008 highlighted the need for the study of risk governance practices within the companies. Though researches on risk management committee characteristics are scarce, the importance of studying the structure of risk management committee such as size and number of yearly meetings has grasped the attention of researchers lately (Ng, Chong, & Ismail, 2012). Malik, Shafie, and Ku Ismail (2021) explore the association between risk management committee (RMC) attributes with market performance measured by Tobin's Q .The study covers a period of 3 years from 2015 to 2017 for non-financial companies listed in Malaysia. Results of the regression reveal a significant negative relationship between market performance with the size. In contrary, Darmawan, Rombebunga, and Leon (2021) conduct a study on 41 banks in Indonesia and the results related to risk committee size shows a significant positive relationship with return on assets (ROA).

Boudiab and Ishak (2020) conduct a research to assess the effect of risk management committee characteristics on the performance of Malaysian non-financial listed companies. The authors apply multiple regression model for sample size of 39 firms covering period from 2016 until 2018 by using secondary data obtained from annual reports. They use risk management committee size and number of meetings as proxies for risk governance variables and Tobin's Q as measurement of performance with leverage, age and company size as control variables. The

study findings portray that risk management committee size have significant negative relationship with performance whereas diligence has insignificant relationship.

Furthermore, Leone, Gallucci, and Santulli (2018) investigate the mediating impact of risk governance on the relationship between corporate governance and performance. The study consists of 31 listed banks in Italy for the period from 2008 till 2017. The results reveal that risk governance variables (risk committee frequency of meetings, risk committee size, and presence of chief risk officer) mediate the association between Italian banks performance and corporate governance practices.

Meirene and Karyani (2017) investigate the impact of risk governance practices on the financial performance of banks. The study covers a period of 5 years and applies fixed effect model. The sample consist of 27 listed banks in Indonesia Stock Exchange (ISE) and Bursa Malaysia. For Indonesian banks, the study results show that risk governance measurements (risk committee size and risk committee frequency of meetings) have positive impact on return on assets (ROA); nevertheless, the more the risk committee meetings hold in the year, the lower the value of the banks measured by Tobin's Q. With regard to Malaysian banks, the findings express that the number of board risk meetings has positive influence on both return on assets and Tobin's Q.

In addition, Battaglia and Gallo (2015) study the effect of risk committee size on market performance. Study sample consist of listed banks in China and India during the period from 2007 to 2011. They use Tobin's Q as proxy for market-based performance. The authors notice a negative relationship between risk committee size while a positive relationship between risk committee frequency of meetings and market performance. The results differ from the study conducted by Erkens, Hung and Matos (2012) who found no significant association between risk committee size and performance on the sample of 296 financial companies in 30 countries.

Ellul and Yerramilli (2013) study is considered one of the preliminary studies that concerns with the presence and impact of chief risk officer (CRO) on firm's performance. They study the impact of risk governance on company performance by constructing a risk management index (RMI) that comprise of six variables including the presence of chief risk officer (CRO). They select the U.S. bank holding companies (BHCs) as a sample for the test covering the period from 1995 to 2010. They find that bank holding companies (BHCs) that has high risk management index (RMI) have high return on assets (ROA) and low risk. They further discover that before the financial crisis, companies with high risk management index (RMI) have better stock returns.

Aebi, Sabato, and Schmid (2012) examine the relationship between risk governance and the performance of banks measured by return on assets (ROA), return on equity (ROE), and buy-and-hold returns. The authors apply multivariate analysis for a sample of 573 banks for the year 2006. They use five independent variables namely chief risk officer (CRO) in executive board, presence of risk committee, board size, board independence and the percentage of directors with financial experience in banking or insurance sector. Findings reveal that banks with chief risk officer (CRO) has better returns on stocks and return on equity (ROE) than banks with chief risk officer (CRO) reporting directly to chief executive officer (CEO).

Competitive intensity and performance

Competitive intensity portrays varying influence on the relationship between risk governance and a company's performance. This discussion presents a literature review based on previous empirical studies conducted to examine the influence of competitive intensity on risk and corporate governance relationship with a company's overall performance. However, to the best of my knowledge, there is scarcity in studies, specially risk governance, related to examining the effect of competition on the relationship between corporate governance and firms' performance. Therefore, this study will participate in adding additional knowledge contribution regarding the subject of the study.

Bimo, Silalahi,and Kusumadewi (2021) study the moderating influence of sector competition on the association between corporate governance and investment efficiency. They employ

generalized method of moments (GMM) for a sample comprises of 36 listed firms covering the period from 2012 to 2018. Results show that companies should consider the level of competition in the sector when assessing the impact of corporate governance on the performance. They further mention that corporate governance efficiency depletes in highly competitive environment. The result is consistent with conclusion of Tang and Chen (2020) who claim that the moderating impact of competition in the market weakens the relationship between corporate governance and company earnings management.

Sajjad , Abbas, Hussain, and SabeehUllah (2019) examine the impact of corporate governance and product market competition on earnings management. The study covers sample of non-financial firms (84 firms) listed in Pakistan Stock Exchange for a period of 6 years (2010 till 2015). They employ dynamic generalized method of moments (GMM) model as a statistical method in the study. The use board size, independent directors, board meeting, audit quality, institutional ownership and CEO duality as corporate governance variables. Study findings show that product market competition, measured by Herfindahl–Hirschman Index (HHI), and corporate governance have significant effect on earnings management (return on assets).

Other study conducted by Moradi, Bagherpour Velashani, and Omidfar (2017), they examine the influence of product market competition and corporate governance on listed company's performance in Tehran Stock Exchange. The study covers the period from 2004 until 2012. They select ownership structure, structure of the board of directors and capital structure as proxies for corporate governance. Product market competition was measured using Herfindahl–Hirschman Index (HHI). Results reveal that competition has effective impact on the association between corporate governance and performance.

Moreover, Pant and Pattanayak (2010) study the impact of corporate governance and product market competition on the performance of listed companies in India covering the period from year 2000 to 2004. Ownership structure, leverage and business group information has been selected as proxies for corporate governance variables while total factor productivity (TFP) has been used as measure of performance. They utilise four product market competition variables, namely CR4 (sum of the four firms' share in their respective product market), Herfindahl–Hirschman Index (HHI), rent and market share, to assess their impact on the relationship. By applying fixed effects method, results show that there is a significant and positive interaction effect of competition variable with corporate governance on the performance.

Hypothesis Development

Relationship between chief risk officer presence and performance

This study highlights the importance of chief risk officer (CRO) position, represented by the presence or not of chief risk officer in Kuwaiti banks structure, as a proxy for risk governance. The importance of the position of chief risk officer (CRO) relies in protecting the bank in the event of losses through the presence of sufficient knowledge and experience of the CRO which allows the bank to mitigate these risks and ensure the stability, continuity as well as practicing the bank its daily activities in normal ways. Moreover, the new corporate governance regulation in Kuwait emphasizes that banks should sign a chief for risk management role which shows the importance of having a dedicated and specialized chief of risk. Many studies use the presence of CRO as proxy of risk management and governance like the studies conducted by Erin, Asiriuwa, Olojede, Ajetunmobi , and Usman (2018), and Aebi, Sabato, Schmid (2012) that had a mix results of the effect of the CRO presence on the performance.

Given all the previous researches and studies results, it could be noted that the effectiveness of chief risk officer (CRO) presence has different opinions and thoughts. The assumptions in this study will be consistent with the positive view of the effect of the chief risk officer (CRO) presence on performance which is consistent with Erin et al. (2018) results as this role is important in reducing the potential risks to the banks which eventually will enhance company

performance. This study tests the influence of CRO presence on bank performance by testing the following hypothesis

H1: There is a significant positive relationship between chief risk officer presence (CROP) and bank market-based performance

Relationship between risk management committee size and meetings with performance

Though there are few researches in risk governance field, the size and meetings of risk management committee are among the most significant variables that are addressed when carrying out this type of study. Size and meetings of risk management committee is considered an important instrument for banks and has been tested in recent studies such as Malik, Zaman, and Buckby (2020), Elamer and Benyazid (2018), Kakanda, Salim, and Chandren (2018), Battaglia and Gallo (2015). Moreover, Central Bank of Kuwait (CBK) through the new corporate governance guidelines paid great attention to the structure of risk management committee in term of size indicating its importance as risk governance variables. Subramaniam, Mcmanus, and Zhang (2009) assert that a highly leveraged company with complexity in structure triggers higher agency cost. They further add that this can be tackled by having a large size risk management committee member.

The frequency of meetings of risk management committee can solve and reduce the agency problem as the agency theory claims (Bensaid, Bin Ishak, & Binti Mustapa, 2021). Cheung, Stouraitis, and Tan (2010), state that an adequate and satisfactory number of meetings for risk management committee in a year permit for better risk oversight and monitoring. They further add that number of risk management committee meetings mirror the commitment and dedication of the committee. For being a vital governance instrument, this study uses risk management committee size and meetings as a proxy for risk governance.

In relation to the performance, findings of the studies suggest that there is a significant association between risk management size and yearly meetings with performance, yet there is also evidence of the negative effect. With regard to the importance of the size, measured by number of members serving in risk management committees, and frequency of meetings of risk management committee in banking sector, which have the same importance on the board of directors' level, this study tests the following hypothesis which is consistent with agency theory;

H2: There is a significant positive relationship between risk management committee size (RMCS) and bank market-based performance.

H3: There is a significant positive relationship between risk management committee meetings (RMCM) and bank market-based performance.

Moderating effect of competitive intensity on the relationship between risk governance and performance

There is lack in researches that study the impact of competition and its effect on the relationship between risk governance and performance of firms. Previous researches focused on the relationship between corporate governance and firm performance while the moderating effect of competition on corporate governance has scares studies (Obembe & Soetan, 2015). In this study, the moderating effect of competition intensity on the relationship between risk governance against market-based performance of Kuwaiti banks will be introduced. Ryu, Ryu, and Hwang (2017) highlight that the relationship between corporate governance and stock performance is influenced by the level of competition in the sector. They further add that each country has its own market competition climate that affects sector profitability. Intensity of competition in industry affects the relationship between corporate governance and the performance of the company (Bimo, Silalahi, & Kusumadewi ,2021). They further posit that management should pay great attention to the level of competition when designing corporate governance mechanism for the company.

With regard to Kuwait banking sector, banks are competing in a fierce competitive environment due to many banks , local and foreign, are challenging in relatively small economy compared to developed countries. Since many Kuwaiti banks were established over many years, they have recognised stable market share and clientele base. Therefore, to obtain better performance, competition will have positive impact through creating creativity among Kuwaiti banks in providing new advanced products and services that eventually will have an impact on the financial performance of the bank. Moreover, competition is considered an important tool in reducing agency conflict and enhance corporate governance (Giroud & Mueller ,2010) which ultimately improves the operating performance of the company (Wang, Jou, Chang, & Wu, 2014). Bank concentration ratios was defined as a proxy to measure level of competition in banking sector in many studies (Gateway, Haugh, & Andrews, 2014; Weill, 2013; Milbourn, Boot, & Thakor, 1999).The testable hypothesis in this study related to the moderating effect of competitive intensity, measured by banks concentration ratio (BCR), on the relationship between corporate governance and risk governance on Kuwaiti banks performance is as follow;

H4: Competitive intensity (CI) has positive impact on the relationship between risk governance and bank market-based performance.

Methodology

Sample and data collection

The sample selection includes listed banks in Kuwait stock exchange (KSE) which consist of 10 banks. The study covers a period of seven years from year 2013 until year 2019. The study restricts the sample to banks that are purely under Kuwait banking system regulations. The objective of selecting all Kuwaiti banks that are fully subject to the Central Bank of Kuwait (CBK) regulations is to obtain a real reflection of the listed Kuwaiti banks and thus reach satisfactory results that contribute to the understanding the impact of risk governance on Kuwaiti banks market-based performance.

Data of risk governance variables, banks performance, control variables and moderator variable were extracted from secondary sources of data. Secondary data is data that is collected and available from different sources. It differs from primary data in which the researcher has to collect the original data from the source through different techniques like surveys and interviews. Ghauri and Gronhaug (2005) state that there is no need to gather primary data if secondary data can answer research question. The data required in this study were derived from banks annual reports, financial statements, and Kuwait stock exchange (KSE) website.

Variables measurements

This study applies risk governance characteristics (the presence of chief risk officer (CRO), risk management committee size, risk management committee meetings) as independent variables while market -based performance, represented by banks stock return and Tobin's Q, will be used as dependent variable. Bank size and leverage are used as control variables while a moderator variable represented by bank concentration ratio will be employed as a proxy for competitive intensity**.** Table 1 provides a list of study variables and related proxies measurements.

Table 1: The Variables and Measurements of the Study

Variables	Abbreviation	Proxy
Independent Variables		
CRO presence	CROP	Presence of chief risk officer "CRO" (1 if presence, 0 in non-presence)

RMC size	RMCS	Number of members in risk management committee
RMC Meeting	RMCM	Risk management committee yearly number of meetings
Dependent Variables		
Tobin's Q	Tobin's Q	(Market value of equity+ book value of short-term liabilities) divided by book value of total assets
Stock return	Stock return	Change in stock price compared to base year
Control Variables		
Bank Leverage	BL	Total Liabilities\ Total assets
Bank Size	BS	Log of assets
Moderator variable		
Competitive intensity	CI	Bank concentration ratio "BCR" (largest 3 banks revenues\total sector revenues

Model specification

This section discusses the models that are utilized to test the hypothesis constructed related to risk governance variables and their impact on the market-based performance for Kuwaiti listed banks. The study also employs control variables in the model such as bank size and bank leverage. Moreover, this study tests the effect of competitive intensity as a moderator variable that might affect the relationship of the proposed models.

Risk governance models;

Model 1: $Yit = \beta0 + \beta1CROPit + \beta2RMCSit + \beta3RMCMit + \beta4BSit + \beta5BLit + \varepsilon it$

Model 2: $Yit = \beta0 + \beta1CROPit + \beta2RMCSit + \beta3RMCMit + \beta4BSit + \beta5BLit + \beta6CIit + \beta7CROPit *CIit + \beta8RMCSit *CIit + \beta9RMCMit *CIit + \varepsilon it$

Where; Yit = market-based performance; CROP = the presence of chief risk officer; RMCS= risk management committee size; RMCM= risk management committee meetings; BS= bank size; BL= bank leverage; CI = competitive intensity; i= number of banks in the study (10 banks); t= time period of the study (2013 -2019); εit= error term

Method

The study adopt panel data regression method as the data set comprises of Kuwaiti banks cross-sectional data and time series covering the period of 7 years. Baltagi (2005) mentions that Pooled Ordinary Least Squares (POLS), Fixed Effect Model (FEM) and Random Effect Model (REM) are the models to be used when dealing a mixture of cross-sectional and time series data. To select the best panel data regression method to fit the risk governance model, several tests need to be conducted; namely Poolability F-Test (POLS vs. FEM), Breusch-Pagan Lagrange Multiplier (BPLM) Test (POLS vs. REM) and Hausman Test to choose between REM or FEM. After running the tests, the best method for each model is presented in Table 2.

Table 2: Best models for regressions.

	Poolability test		Breush LM test		Hausman Test		
	Hypothesis: FEM VS OLS		Hypothesis: REM VS OLS		Hypothesis: FEM VS REM		**Overall**
Model	P-Value	Remark	P-Value	Remark	P-Value	Remark	**(Best Model)**
Model 1 (a)	< 0.001	FEM	< 0.001	REM	0.2591	REM	**REM**
Model 1 (b)	0.0023	FEM	0.3504	OLS	0.0001	FEM	**FEM**
Model 2 (a)	< 0.001	FEM	< 0.001	REM	0.468	REM	**REM**
Model 2 (b)	< 0.001	FEM	1	OLS	0.0894	REM	**FEM**

Findings

This section presents the empirical results of the study. The descriptive analysis, correlation analysis and panel data regression results are as follow;

Table 3: Descriptive Statistics

Variable	*n*	*M*	*SD*	Min	Max
TobinsQ	70	1.04	0.09	0.88	1.49
Stockreturn	69	1.07	15.87	-28.48	45.94
CROpresence	70	0.61	0.49	0.00	1.00
RMCsize	70	3.29	0.49	3.00	5.00
RMCMeeting	70	6.09	2.30	2.00	13.00
Logassets	70	9.69	0.40	8.61	10.47
Leverage	70	7.13	1.40	3.47	10.89
BCR	70	0.67	0.01	0.64	0.68

Table 3 illustrates the descriptive statistics for the variables of the study, including mean, standard deviation, minimum and maximum values. Total observations of the study are 70 (N=70) except for stock return it is 69 observations as stock return for Warba bank for the year 2013 cannot be obtained as the bank was listed in 2013. The results reveal that the mean for Tobin's Q is 1.04 with maximum of 1.49 and minimum of 0.88. Stock return average stands at 1.07 while the maximum reached 45.94 and minimum of -28.48 with standard deviation of 15.87 from the mean. In fact, the higher the market-based performance measures mean more willingness the investors are to invest in the banks. With regards to the independent variables of the study, chief risk officer presence in the bank has mean of 0.61 and standard deviation of 0.49. Risk management committee size has average of 3.29 members with maximum of 5 members and minimum of 3. Worth to mention that the new corporate governance guidelines stipulate that risk management committee should consist of minimum of 3 members. For risk management number of meetings, the average number of yearly meetings is 6.09 with maximum of 13 meetings and minimum of 2 with standard deviation of 2.3 from the mean. The moderating variable, Bank concentration ratio, has average value of 0.67 and standard deviation of 0.01. the maximum value stands at 0.68 while the minimum is 0.64 indicating that the three largest banks in Kuwait banking industry are dominating the sector in the study period from 2013 till 2019. Bank size (represented by log of assets) and bank leverage, the control variables in the study, has mean of 9.69 and 7.13 with standard deviation n of 0.4 and 1.4 respectively. The maximum value of bank leverage is 10.89 (minimum is 3.47) while the maximum value of bank size is 10.47 with minimum value of 8.61.

Table 4: Correlation Analysis

	TobinsQ	Stockreturn	CROprecense	RMCsize	RMCMeeting	Logassets	Leverage	BCR
TobinsQ	1							
Stockreturn	0.087	1						
CROprecense	-0.025	0.279*	1					
RMCsize	-0.203	0.296*	-0.017	1				
RMCMeeting	-0.274*	0.137	-0.099	0.665***	1			
Logassets	-0.4***	0.341**	0.386***	0.021	-0.247*	1		
Leverage	0.006	0.093	-0.014	-0.019	-0.263*	0.034	1	
BCR	0.121	-0.59***	-0.194	-0.01	-0.123	-0.173	0.011	1

*** p<0.01, ** p<0.05, * p<0.1

Table 4 shows the correlation matrix between study variables (market based-performance variables, risk governance variables, control variables, and moderating variable). The issue of multicollinearity raises when there is a correlation between the independent variables within the study. The matrix reveals a significant positive correlation between risk management committee meetings and risk management committee size of 0.665 at level of significance of 1%. If the value of the correlation between the independent variables is below 0.8, then the study has no multicollinearity issue (Meirene & Karyani, 2017). Hence, as all figures in the correlation matrix between independent variables are below 0.8, this study is free of multicollinearity.

Table 5: Regression Analysis (model 1)

	Model 1(a)	Model 1(b)
Variables	Tobin's Q	Stock return
Best method	REM	FEM
CRO presence	0.0370***	14.95***
	(0.00967)	(5.051)
RMC size	0.00380	4.055
	(0.0149)	(6.167)
RMC Meeting	-0.0126***	-0.0766
	(0.00221)	(1.231)
Log (assets)	-0.207***	69.91***
	(0.0511)	(17.85)
Leverage	-0.0123	1.755

	(0.0-0.207114)	(1.879)
Constant	3.173***	-712.2***
	(0.504)	(167.0)
Observations	70	69
R-squared	0.276	0.419
Number of Banks	10	10

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 5 highlights the results of panel data regression employed in this study for model 1. Model 1(a) has total observations of 70 and R-squared of 0.276 which means that model explains 27.6% of changes in Tobin's Q. The model applies random effect model (REM) to test the relationship between risk governance factors and the performance measured by Tobin's Q. Results, at level of significance of 1%, show that the presence of chief risk officer (CRO) in the bank has positive and significant impact (0.037). Risk management committee meetings has significant negative influence (-0.0126) at level of significance of 1% indicating that a 1 unit increase in number of risk committee meetings will decrease the Tobin's Q value by 0.0126, if other factors remained constant. Results also show that the control variable bank size (log assets) has significant negative impact (-0.207).

Model 1(b) has R-squared of 0.419 with 69 observations and employs fixed effect model (FEM) to examine the impact of risk governance variable on stock return. Only presence of chief risk officer (CRO) has significant positive impact on the stock return regarding risk governance variables (14.95) at 1% level of significance. The control variable bank size (log assets) has significant positive relationship (69.91) with stock return.

Both models emphasize the importance of having chief risk officer (CRO) in Kuwait banks managements hierarchy and how investors perceive it as a positive factor. The results support previous study findings like Erin, Bamigboye, and Arumona, (2020); however, contradicts with results of Agnese and Capuano (2020) when they assert that chief risk officer (CRO) presence assists in reducing the risk of banks; yet, has negative influence on profitability. Findings of the study is also consistent with Central Bank of Kuwait (CBK) new corporate governance guidelines regarding of assigning chief on risk management department, showing the importance of this position. On the other hand, frequent number of risk committee meetings has negative impact on Tobin's Q as it decreases with more frequent yearly meeting conducted by risk committee. This match the findings of Meirene and Karyani (2017) when they mention that for Indonesian banks the more the risk committee meetings hold in the year, the lower the value of the banks measured by Tobin's Q. For both models, risk management committee size has insignificant impact which indicates its irrelevancy in impacting Kuwaiti banks market-based performance.

Table 6: Regression Analysis (model 2)

	Model 2(a)	Model 2(b)
Variables	Tobin's Q	Stock return
Best method	REM	FEM
CRO presence	0.871	-94.54
	(0.696)	(170.1)
RMC size	1.995***	328.4*
	(0.571)	(189.0)
RMC Meeting	-0.312	-87.97**
	(0.191)	(39.76)
Log (assets)	-0.256***	1.880
	(0.0528)	(21.30)
Leverage	-0.0115	4.597**
	(0.0111)	(1.724)
BCR	7.586***	-16.53
	(1.873)	(774.7)
CRO presence*BCR	-1.256	155.8
	(1.038)	(254.3)
RMC SIZE*BCR	-2.993***	-476.0*
	(0.833)	(282.7)
RMC MEETING*BCR	0.452	130.9**
	(0.286)	(59.49)
Constant	-1.410	-76.98
	(1.037)	(566.9)
Observations	70	69
R-squared	0.294	0.614
Number of Banks	10	10

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 6 show panel data regression findings for model 2 with the introduction of competitive intensity, represented by banks concentration ratio, as a moderating variable. Model 2(a) has R-squared of 0.294 and for model 2(b) R-squared of 0.614 which means that model explains 61.4% of changes in stock return. For model 2(a) risk management committee size has a positive and significant effect on Tobin's Q (1.995) at 1% level of significance while chief risk officer (CRO) presence and risk management committee meetings has insignificant positive and

negative impact respectively. The introduction of competitive intensity in the relationship highlights a significant positive relationship between banking sector competition with Tobin's Q (7.586) at 1% level of significance. Furthermore, the interaction impact of competitive intensity with risk management committee size has a negative relationship (-2.993) with market-based performance measured by Tobin's Q. An insignificant relationship is reported for the interaction of competitive intensity and both chief risk officer (CRO) presence and risk management committee meetings. Banks size, control variable, has negative impact of -0.256 on Tobin's Q Model 2(b) applies fixed effect model (FEM) and the results reveal a significant positive relationship of 328.4 between risk management committee size and stock return at level of significance of 10%. A significant negative association of -87.97 is noticed for risk management committee meetings with stock price return. The control variable, bank leverage, has a significant positive relationship of 4.597. The impact of competitive intensity is insignificant; however, when it introduced to the relationship it shows a negative effect of -476.0 for risk management committee size with stock return (at 10% level of significance) which contradicts with the findings of Lee, Isa, Ahmad and Batcha (2018) who contend that a better control can be achieved when a large risk committee size is existed in the company due to the diversity in experience of members and well oversight. A positive relationship of 130.9 is noticed for risk management committee meetings and stock return (at 5% level of significance) which correspond to the conclusion of Cheung, Stouraitis, and Tan (2010) who state that a proper number of meetings held for risk management committee assist in having satisfactory risk monitoring that will be reflected on performance.

Discussion and conclusion

This study focuses on exploring the association between risk governance variables and market -based performance on Kuwaiti listed banks. The study also examines the moderating influence of competitive intensity on the relationship. The methodology followed in thesis is to analyse 10 listed banks in Kuwait stock exchange (KSE) covering a period of 7 years from year 2013 to 2019 post introduction of new corporate governance guidelines by Central Bank of Kuwait (CBK) in June 2012.

Results for model 1 (a and b) reveal that, at level of significance of 1%, chief risk officer presence (CRO) in the management of Kuwaiti banks has a significant positive impact on Tobin's Q and stock return (supporting the hypotheses) while risk management committee size has significant negative influence on Tobin's Q. Results highlights the importance of having chief risk officer (CRO) in the management of Kuwaiti banks and how it impacts market-based performance.

For model 2 (a and b), the regression introduced the moderating influence of competitive intensity in Kuwait banking sector on the relationship between risk governance and market -based performance. For model 2(a) risk management committee size has a significant positive effect on Tobin's Q at 1% level of significance (supporting the hypotheses). Introducing competitive intensity to the relationship shows a positive and significant impact on Tobin's Q at 1% level of significance. Moreover, the moderating effect of competitive intensity with risk management committee meetings has a negative relationship with Tobin's Q. For model 2 (b) the results reveal a negative effect of for risk management committee size with stock return (at 10% level of significance) while a positive relationship is reported for risk management committee meetings and stock return (at 5% level of significance) when competitive intensity introduced in the relationship. This indicates that having frequent risk management committee meetings is perceived as a positive signal from investors and the reflection on the market-based performance is satisfactory. With regard to risk management committee size, the results imply that having small committee members in the competitive environment in banking sector in

Kuwait is preferable as large size committee might slow the decision making related to risk which eventually will influence the stock price.

Theoretical Implications

One of the most important reasons for this study is the lack of researches related to this field, especially in the State of Kuwait. Many researches show that there is little discussion on risk governance in emerging markets. In their study of corporate governance and risk management on gulf cooperation council (GCC) banks, El-Masry, Abdelfattah, and Elbahar (2016) highlight that there have been few discussions on risk management and corporate governance in developing countries while the majority focused on banks in developed countries.

While many studies have focused on the impact of corporate governance, as a comprehensive concept, and risk governance on banks' financial and accounting performance on developed economies. Thus, this study will reduce the literature gap by concentrating on studying the impact of risk governance on the performance of Kuwaiti listed banks, a developing economy, for the period post the global financial crisis and the introduction of new corporate governance regulations in 2012.

The study also introduces the moderating influence of competitive intensity in banking sector and how it impacts the relationship between risk governance with the performance. To my knowledge, there are scarcity in studies that focus on the effect of sector competition, as moderator variable, on profitability as the majority of researches in this field examine the direct relationship of risk governance with profitability. Hence, this study contributes in enriching the literature related to this area of study.

Practical Implications

There are many parties that have a relationship with banks, whether this is a business, investment, or organizational relationship. Central banks considered to be one of the most important parties that has a regulatory relationship with banks in economic systems. Central banks, including the Central Bank of Kuwait (CBK), might benefit from the results of this study in the development and improvement of regulations and systems related to the subject of risk governance which will have a positive impact in enhancing the working environment of Kuwaiti banking sector.

Another party that will benefit from the results of this study is the management of the banks. Findings of the study might contribute in providing a comprehensive guideline to the risk management officials who may use the information and results to focus on improving the bank's performance by knowing the impact of risk governance variables and thus allocating and distribution bank resources in a way that assist the banks in enhancing performance. Moreover, management of the bank will have a clear view of the impact of competition and how it interacts in the relationship between risk governance and performance then use it for the benefit of the bank.

Banks' investors in Kuwait, both depositors or investors in the bank's shares, will also benefit from this study by identifying the most important risk governance variables for Kuwaiti banks and how banks deal with these variables and adhere to the rules of corporate governance set by the Central Bank of Kuwait (CBK). Adhering to high standards in risk governance practices will reflect investors' confidence in the professionalism and efficiency of the Kuwait banking sector which subsequently will encourage them in investing in Kuwaiti banks for the purpose of maximizing their wealth through achieving profitable financial returns.

Limitations and Suggestions for Future Research

The study has some limitation as any other study. First, the study concerns about the listed banks in Kuwait Stock Exchange (KSE) which ends up with sample size of 10 banks. A small sample size can affect the statistical results and conclusions of the study. Second, the study

covers the period post the issuance of new corporate governance regulations in Kuwait related to banking sector. Comparing the result with periods prior new regulations is difficult due to lack of information related to risk governance. Kuwaiti banks were not publishing information related to governance, unlike the current situation, where there is a dedicated section that is related to corporate governance and contains plenty of information.

This study can pave the way for future researches concern about risk governance. First, the study urges new researches to expand the sample size by studying risk governance practises for listed companies in Kuwait Stock Exchange (KSE). It should be noted that the companies listed on Kuwait Stock Exchange (KSE) are subject to the laws of governance approved by the Capital Markets Authority (CMA) in 2016, unlike banks that are subject to the governance laws of the Central Bank (CBK) issued in 2012. Hence, different corporate and risk governance guidelines apply between banks and companies in Kuwait. In addition, future studies can apply new variables related to corporate governance as this study is concerned about risk governance. Lastly, a comparison study can be conducted in the future between banks in Kuwait with other countries of which the comparison results may lead to improving work environments related to governance.

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