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THE RELATIONSHIP BETWEEN THE RISK DISCLOSURE AND RISK MANAGEMENT COMMITTEE ON BANKS VALUE: EMPIRICAL EVIDENCE FROM JORDAN

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ABSTRACT

Purpose: Government levels may better fulfill the expanding expectations for public service governance, performance management, and accountability with the use of risk management backed by an integrated management accounting and control system. To explain how the risk management committee and risk disclosure affect bank value, this paper draws on agency theory and signaling theory, by using the market to book ratio (MTBR) to measure bank value.

Theoretical Framework: This article explains how the characteristics of risk management committees (RMCC) (size, independence, qualifications, meetings, executive membership, expertise, and dual membership) and voluntary risk disclosure influence each other on the value of Jordanian banks from 2014-2021.

Design/methodology/approach: The descriptive statistics of risk disclosure practices were calculated by the study sample using data from 18 banks collected between 2014 and 2021. The study variables' observations have an unbalanced distribution as well. 120 observations across all study variables are included in this paper. To calculate the bank value in this study, we use the Market to Book Ratio (MTBR). The regression analysis employed the multiple regression model.

Findings: The results indicate that risk management committee qualifications in accounting or finance significantly negatively affect bank value, while other variables have a significant impact on the value of Jordanian banks, such as risk management committee expertise, risk management committee dual membership with the compensation committee, risk management committee independence, and executive membership in the composition of the risk management committee.

Originality/value: This paper provides new empirical evidence in financial and accounting literature regarding the effect of the RMCC characteristics on Jordanian banks' value. Also, The main contribution of the paper is the discovery that the influence of an RMCC tends to encourage more disclosure of risk management to minimize risks.

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A RELAÇÃO ENTRE A DIVULGAÇÃO DE RISCO E O COMITÊ DE GESTÃO DE RISCO SOBRE O VALOR DOS BANCOS: EVIDÊNCIAS EMPÍRICAS DA JORDÂNIA

RESUMO

Objetivo: Os níveis governamentais podem satisfazer melhor as expectativas de expansão da governança do serviço público, gestão de desempenho e prestação de contas com o uso da gestão de risco apoiada por um sistema integrado de contabilidade e controle de gestão. Para explicar como o comitê de gestão de risco e a divulgação de risco afetam o valor do banco, este documento se baseia na teoria da agência e da sinalização, usando o market to book ratio (MTBR) para medir o valor do banco.

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Estrutura Teórica: Este artigo explica como as características dos comitês de gerenciamento de risco (RMCC) (tamanho, independência, qualificações, reuniões, membros executivos, perícia e dupla filiação) e a divulgação voluntária de risco influenciam um ao outro no valor dos bancos jordanianos de 2014-2021.
Design/metodologia/abordagem: As estatísticas descritivas das práticas de divulgação de risco foram calculadas pela amostra do estudo usando dados de 18 bancos coletados entre 2014 e 2021. As observações das variáveis do estudo também têm uma distribuição desequilibrada. 120 observações em todas as variáveis do estudo estão incluídas neste documento. Para calcular o valor do banco neste estudo, usamos o Market to Book Ratio (MTBR). A análise de regressão empregou o modelo de regressão múltipla.
Descobertas: Os resultados indicam que as qualificações do comitê de gestão de risco em contabilidade ou finanças afetam significativamente o valor do banco, enquanto outras variáveis têm um impacto significativo no valor dos bancos jordanianos, tais como a experiência do comitê de gestão de risco, a dupla filiação do comitê de remuneração, a independência do comitê de gestão de risco e a filiação executiva na composição do comitê de gestão de risco.
Originalidade/valor: Este documento fornece novas evidências empíricas na literatura financeira e contábil a respeito do efeito das características do RMCC sobre o valor dos bancos jordanianos. Além disso, a principal contribuição do documento é a descoberta de que a influência de um RMCC tende a encorajar uma maior divulgação do gerenciamento de risco para minimizar os riscos.

Palavras-chave: Divulgação Voluntária de Risco, Gerenciamento de Risco, Relação Mercado a Livro, Comitê de Gerenciamento de Riscos, Bancos Jordanianos.

LA RELACIÓN ENTRE LA DIVULGACIÓN DE RIESGOS Y EL COMITÉ DE GESTIÓN DE RIESGOS EN EL VALOR DE LOS BANCOS: EVIDENCIA EMPÍRICA DE JORDANIA

RESUMEN
Propósito: Los niveles de gobierno pueden satisfacer mejor las crecientes expectativas de gobernanza de los servicios públicos, gestión del rendimiento y rendición de cuentas con el uso de la gestión de riesgos respaldada por un sistema integrado de contabilidad y control de gestión. Para explicar cómo el comité de gestión de riesgos y la divulgación de riesgos afectan al valor de los bancos, este artículo se basa en la teoría de la agencia y en la teoría de la señalización, utilizando la relación entre el mercado y los libros (MTBR) para medir el valor de los bancos.
Marco teórico: Este artículo explica cómo las características de los comités de gestión de riesgos (RMCC) (tamaño, independencia, cualificaciones, reuniones, miembros ejecutivos, experiencia y doble pertenencia) y la divulgación voluntaria de riesgos se influyen mutuamente en el valor de los bancos jordanos entre 2014 y 2021.
Diseño/metodología/enfoque: Las estadísticas descriptivas de las prácticas de divulgación de riesgos fueron calculadas por la muestra del estudio utilizando datos de 18 bancos recopilados entre 2014 y 2021. Las observaciones de las variables del estudio también tienen una distribución desequilibrada. En este trabajo se incluyen 120 observaciones de todas las variables de estudio. Para calcular el valor del banco en este estudio, utilizamos el Market to Book Ratio (MTBR). En el análisis de regresión se empleó el modelo de regresión múltiple.
Resultados: Los resultados indican que las cualificaciones del comité de gestión de riesgos en contabilidad o finanzas afectan significativamente de forma negativa al valor del banco, mientras que otras variables tienen un impacto significativo en el valor de los bancos jordanos, como la experiencia del comité de gestión de riesgos, la doble pertenencia del comité de gestión de riesgos al comité de compensación, la independencia del comité de gestión de riesgos y la pertenencia de ejecutivos a la composición del comité de gestión de riesgos.
Originalidad/valor: Este artículo aporta nuevas pruebas empíricas a la literatura financiera y contable sobre el efecto de las características del comité de gestión de riesgos en el valor de los bancos jordanos. Asimismo, la principal contribución del trabajo es el descubrimiento de que la influencia de un RMCC tiende a fomentar una mayor divulgación de la gestión de riesgos para minimizarlos.

Palabras clave: Divulgación Voluntaria de Riesgos, Gestión de Riesgos, Ratio Mercado/Contabilidad, Comité de Gestión de Riesgos, Bancos Jordanos.

INTRODUCTION

Decisions, actions, and the environment in which businesses function are all rife with risk. Therefore, it is crucial to understand that organizations do not need to remove risk but rather manage it and lessen its severity as a strategy for surviving and flourishing in business. In other words, risk is regarded to be a fundamental driving factor in business (Dayour et al., 2020).

However, the growing businesses have recently brought forth a number of fresh issues and difficulties. Complex market circumstances, rising competition, and economic, political, and regulatory uncertainty continue to be major concerns because of their influence on the present and future performance of businesses (Kumar et al., 2017). Additionally, the outcomes of the global financial crisis, which started in 2007, highlight the shortcomings of internal control systems, risk management frameworks, and governance practices (Soin & Collier, 2013).

As a result, effective risk management in today's corporate climate is no more a question of choice but rather a requirement for preventing future failures, building a firm, and dealing with contemporary issues (Altanashat et al., 2019).

In order for corporate governance to be effective, shareholder interests must be protected and advanced. Risk management procedures used by the company are referred to as "risk governance" in corporate governance (Abdullah & Abdul-Shukor, 2017). Directors boards and audit committees may be given responsibility for risk management, depending on the governance laws of the country, whereas some governments provide this responsibility to risk management committees (Elnahass et al., 2022).

Nevertheless, investor perceptions of a company's risk management culture are enhanced when risk management is handled by a distinct committee that only concentrates on risk-related problems. In other words, from the perspective of an investor, risk management committee improves the investor's capacity to oversee excessive risk-taking. Contrarily, weak disclosure of business operations, particularly risk management strategies, limits investors' ability to assess firms and the risks they face (Serag & Daoud, 2022); which leads to an information asymmetry issue. Internal control systems development and the focus on risk management are essential for business growth. In other words, investors need sufficient data to construct a complete picture of the firm's present and future conditions.

Financial markets are impacted by a risk disclosure as well, particularly in the aftermath of the global financial crisis; Due to a string of corporate failures, regulators have consistently emphasised the necessity for adequate governance measures that enhance risk management. Because of the projected effects on risk management and business value, the creation of a Risk Management Committee (RMC) has been regularly sought and advised. For instance, corporations and financial institutions must set up Risk Management Committees in order to manage risk, this is was confiermed by Power (2009); Hines & Peters (2015); Hamid & Purbawangsa (2022); Fraser et al. (2022); Bracci et al. (2022).

The bankruptcy of Lehman Brothers and Wachovia, despite their adoption of an RMC, is one of the events that the global financial crisis left behind (Kleinnijenhuis et al., 2015; Al-Zaqeba et al., 2022). It might thus claim that the mere existence of an RMC is insufficient. Instead, the qualities of the committee as crucial elements in strengthening its role and efficacy need to be discussed. In general, the RMC's traits indicate its drive and capacity to manage risk in accordance with the desires of shareholders and so increase corporate value (Azmi et al., 2022).

Instead, obligatory risk disclosure regulations that solely increase financial risk disclosure are insufficient to create a thorough picture of the firm's position given the increasing volume and complexity of activities facing the financial industry and other industries (Griffin, P., & Jaffe, 2022, Hamed et al., 2022). Furthermore, many risks have an impact on financial performance, and disclosing them is viewed as optional. Therefore, optional risk disclosures might enhance investors' perceptions of the firm's worth.

LITERTUER REIVEW

Risk Management Committee (RMC)

The effects of the global financial crisis have brought attention to the necessity of an efficient risk management plan. The stability, expansion, and success of the business sector are heavily reliant on efficient risk management. Contrarily, poor risk management is a factor in failure. This is where the requirement for a risk management committee emerged (Al-Zaqeba et al., 2022). One of the internal governance structures is the RMC, which is regarded as a board of directors subcommittee.

Since 2007, Jordan's banking industry has included a risk management committee as one of its governing instruments. The Securities Commission amended corporate governance in 2017 with regard to businesses in the financial market. One of these basic modifications required businesses to establish a risk management committee that reported to the Board of Directors. Likewise, setting, monitoring, and assessing the numerous risks that the company may encounter are the responsibilities of the Risk Management Committee (RMC). As a result, the RMC plays a part in strengthening risk management, as well as lowering risk severity, improving risk disclosures, decreasing the likelihood of failure, and raising company value and performance (Gallemore & Labro, 2015; Gallati, 2022; Hasan et al., 2022; Fafaliou et al., 2022).

Risk Disclosure (RD)

Depending on the nature of the industry in which it works, every company confronts a particular set of hazards, and each one manages those risks using a different set of tactics. Generally speaking, the word risk is frequently linked to negative, threat, and loss. Risk is any opportunity that exposes the organisation to future risk and harm (Linsley & Shrives, 2006). In addition, Ryan (2012) indicate that risk is the chance that a firm's economic performance may fluctuate randomly in the future.

Risk is defined by Carlon et al. (2003) as something that affects or has the potential to affect the performance and financial position of the company. Some definitions define risk as an occurrence that leads in unanticipated outcomes, which can be both good and negative. This perspective on risk goes beyond only the negative.

For instance, risk is defined by Solomon et al. (2000) and ICAEW (2006) as an unpredictability that creates the prospect of profit or loss. However, risk disclosures is a transmission of information concerning organisations' plans, characteristics, operations, and other external elements that have the ability to alter expected results (Beretta and Bozzolan, 2004).

If the reader is made aware of any opportunity, prospect, risk, danger, harm, threat, or exposure that has already affected the company or could in the future, as well as the management of any such opportunity, prospect, risk, harm, threat, or exposure, risk disclosure is also deemed to have taken place (Linsley and Shrives, 2006).

The concept of risk disclosure is not new, but it has prompted renewed interest among researchers, standards-setting bodies, and other institutions after the global financial crisis (Ryan, 2012). After the global financial crisis, which revealed deficiencies in risk disclosures, regulatory bodies put great efforts into improving the quality of financial reports by strengthening risk disclosure requirements, for example, by issuing IFRS 7 and IFRS 9. In addition, adequate and high-quality RD practices have several advantages to firms and stakeholders. Stakeholders rely on risk information to build a comprehensive picture of the firm's current and future status.

For investors, risk disclosure helps them make more informed decisions and protect their interests, so it plays a role in creating a more stable investment environment (Rajab & Schachler, 2009; Duffy, 2014). On the other hand, risk disclosure informs funding organizations about the extent of a firm's risk management efficiency, resulting in improved the firm's image and reputation, decreasing the cost of external financing (Linsley & shrives, 2006). RD also has a role in enhancing firm risk management and leading to better accountability

(ICAEW, 2011). Therefore, risk disclosure contributes to ensuring financial stability and market discipline (Benthall, & Vilijoen, 2021).

For risk disclosure, businesses have two options: either agree to mandated disclosures or widen disclosures to cover optional problems. Indeed, voluntary and mandatory disclosures have different incentives and usefulness (Li & Yang, 2016). The competitive environment, reducing information asymmetry, enhancing firm image, and attracting investors are all factors that drive firms to expand voluntary disclosure (ICAEW, 2011; Karim et al., 2022). Lyon & Maxwell (2019) argue that, in order to convince the market that further requirements are not necessary (the "signalling hypothesis") and/or to reduce the probability that accounting authorities would impose more complicated and potentially expensive laws, businesses may benefit from increasing voluntary disclosures (political cost theory).

Risk information places various expenses and problems on businesses. Risk data frequently has commercial sensitivity (Linsley & Shrives, 2006). As a result, it can be terrible news for the reader rather than seen as a testament to the firm's competence and risk management skills (Düsterhöft et al., 2020). On the other hand, shareholders often want information on potential risks. In addition, revealing future incorrect risk information exposes the company to issues with responsibility and legitimacy (Linsley & Shrives; 2006; Onoja & Agada, 2015). Despite the fact that the risk disclosure rules must be followed, businesses may also control the format and substance of the disclosure. As a result, disclosure strategies can be used to meet official obligations without providing a significant amount of information (Düsterhöft et al., 2020). Therefore, tightening statutory risk requirements does not necessarily translate into higher-quality risk disclosure (Grassa et al., 2020).

One of the fees businesses pay for voluntary disclosure is opportunity cost since gathering and processing this data might have been used for other purposes (Leuz & Wysocki, 2006). In other words, businesses who voluntarily reveal risk information pay more than those that do not (ICAEW, 2011). As a result, risk disclosures are typically inadequate, opaque, and lacking in openness and information (Kravet & Muslu, 2013). Therefore, firms must choose between benefits that motivate them and obstacles that can prevent the growth of voluntary risk disclosures or even the enhancement of the quality of risk disclosure.

Firm Value (FV)

The main objective of shareholders is to maximise their profits, which are attained through raising the value of the company (Riyadh, Al-Shmam, & Firdaus, 2022). The share price of the company affects its worth (Hameedi, Union, Talab, & Almagtome, 2022).

Therefore, raising the price increases the firm's worth and the shareholders' wealth (Ahmad & Muslim, 2022) (Malahim, etc, all 2022). Stock prices result from investors' analysis of the firm's disclosures related to management policies, the firm's performance, and the risk management approach (Li & Zhao, 2017). In other words, firm value is an investors' perception of a firm (Nicolau, & Sharma, 2022).

Related Theories

Risk disclosure and the effect of the risk management committee on business value is discussed in this paper using the agency theory and signalling theory as justifications. These two ideas have been employed frequently to describe transparency and governance procedures due to their substantial overlap (Morris, 1987; Adams, 1994; Watson and Marston, 2002; Abdullah et al., 2012).

Signaling Theory

Due to the division between ownership and management, there is information asymmetry between internal and external parties. Both internal and external parties are impacted by information asymmetry. External parties' decisions would be affected if they had insufficient information. The issue of information asymmetry also affects investors' ability to judge managers' performance when they perform at their highest levels, which has a detrimental impact on investors' opinions and ultimately company value. Spence (1973) refers to the solution to the information asymmetry problem as signalling theory. The three ideas that make up the signalling theory are sender, receiver, and signal. By doing certain activities, the sender communicates information about its quality to the receiver, according to the principle of signalling (Connelly et al., 2011).

Stakeholders are informed that risk management policies, processes, and information are reliable via the development of a solid RMC framework. Additionally, the risk management committee's good design represents the company's efforts to control risks and therefore safeguard the interests of shareholders (Liebenberg & Hoyt, 2003). Conversely, disclosures provide signals about the company's effectiveness, efforts, and enthusiasm for sharing information that will benefit stakeholders. To make wise judgments about investments, funding, and other matters, stakeholders want accurate and timely information. Any business concerned with its expansion and continuity wants to keep investors' trust by giving them the information they require. Thus, risk knowledge is crucial when investors decide what investments to make. Quality risk disclosures are a signal that enhances the company's reputation and builds confidence with investors, eventually improving the firm's value (Bravo, 2017; Basoglu & Hess, 2014).

Therefore, the board is able to distinguish itself from others who may be viewed to handle risks less successfully through the risk disclosure (Allini et al., 2016, p.6). Investor views of management efforts and interest in risk management will decline, which will have an impact on the firm's value if there are insufficient disclosures to satisfy the interests of outside parties.

Agency Theory

The agency hypothesis was initially introduced by Jensen & Meckling (1976), who also proposed repercussions for the division of ownership and management. The fundamental premise on which the agency problem is based is that the separation of ownership and control results in an interest conflict between shareholders and management. In other words, managers and investors interests are frequently not the same (Schroeder et al., 2014,). As a result, managers damage the value of the company by attempting to maximise their own interests while ignoring those of the shareholders. Then came governance directives to lessen and ameliorate the agency issue. Corporate governance is a collection of safeguards used by outside investors to defend themselves from insider expropriation (Lonkani, 2018).

The monitoring task is handled by subcommittees, who are reliant on the Board of Directors. The monitoring function of corporate governance has a favourable impact on company value (Jo & Harjoto 2011). The monitoring role is thereby improved by strengthening the BOD structure, including the creation of an RMC. This will raise the firm's worth as a result. According to agency theory, managers and shareholders have distinct risk preferences (Jensen and Meckling, 1976; Subramaniam et al., 2009).

Excessive management risk-taking, for instance, is a concern that might lower business value, particularly in financial organisations. The agency problem is lessened in both situations by a risk monitoring method, which also increases the value of the company. Consequently, risk disclosure is a tool for monitoring managers' attitudes towards risk and their efforts to maximize shareholders' wealth, reduce information asymmetries, and agency conflict with the prime purpose of improving firm value (Jensen & Meckling, 1976).

Hypotheses Development

Risk Disclosure and Firm Value

The literature shows the inclusive results concerning the effect of risk disclosure on firm value. However, Düsterhöft et al. (2020), Sumardani & Handayani (2019), Abdullah (2019), Bravo (2017), and Abdullah et al. (2015) found that risk disclosures positively affect firm value; which can be a positive signal to increase the RD in the firms' annual reports. In addition, RD positively affects firm reputation, which will affect the improvement of firm value, considering that the firm's reputation is an essential factor in determining firm value (Louhichi and Zreik 2015; Tong 2013).

According to signaling theory, risk disclosure improves the company's information transparency and fosters a relationship of trust with stakeholders, which is reflected in better market values (Basoglu & Hess, 2014; Connelly et al., 2011).

Abdullah (2019) emphasizes that each company must understand how much risk to disclose because not all organizations that do so would see an improvement in the value of their businesses. This is seen in a different set of research that demonstrates a negative impact of risk disclosure on business value (Makhlouf et al., 2020; Haj-Salem et al., 2020; Kamaruzaman et al., 2019).

Indeed, one factor may be the added expense, which is more than the advantages of compiling this data. Additionally, Hassanzadeh & Mahroomi (2018) predict that risk disclosure will lessen information asymmetry, which would affect business value. Additionally, according to Bravo (2017), not all sorts of information have a substantial impact on the financial markets.

Researchers in Jordan have investigated the RD from a number of angles. Al-Smadi (2017), for instance, looks into how governance systems affect the quantity and calibre of risk disclosure for Jordanian banks on ASE. In a research conducted by Abu-Abbas (2016) on the Jordanian banking industry, the degree of risk disclosure was measured, and the average level of disclosure was found to be (54.68) for the time period between (2010-2014).

On the other hand, Kutum (2014) discovered that Jordanian banks had a medium level of voluntary risk disclosure. In Jordanian commercial banks, voluntary risk disclosure has a considerable beneficial impact on asset quality, capital adequacy, and sensitivity to market risk (Bashatwah, 2019). However, Based on the literature discussion, signal theory and agency theory, the following hypothesis is posited:

H_1: Risk disclosure have a positively impact on the Jordanian Banks value

Risk Management and Firm Value

The evidence shows that the existence of the RMC affects firm value positively (Aebi et al., 2012; Halim et al., 2017; Malik et al., 2019; Bhuiyan et al., 2020; Jia & Bradbury, 2020; Jiang 2020; Rimin et al., 2021). Similar conclusions are reached by Abdullah & Abdul-Shukor

(2017), who show that the RMC mediates the relationship between firm success as measured by Tobin's Q and voluntarily disclosed risk.

However, the RMC's rigorous control constraints are expected to have a negative impact on financial performance (Fali et al., 2020; Elamer & Benyazid, 2018). In their analysis of UK financial institutions, Elamer & Benyazid (2018), for instance, discovered that a risk committee had a negative impact on ROA and ROE. Similar findings were made by Scordis (2018), who discovered a link between a board-level risk committee and business value.

Since success in the monitoring role may depend fundamentally on this component (Ganda & Pérez, 2005), the majority of governance regulations prescribe an appropriate number of the Board of Directors and its sub-committees. Additionally, agency theory implies advantages of high board size, such as improved performance and business value as well as more effective monitoring and assessing of firm management (Bozec & Bozec, 2012).

The number of the board subcommittees also provides the range of experience and viewpoints required to address possible issues and increase the role of monitoring managers' opportunistic conduct, which is reflected in increasing company value (Bedard et al., 2004; Nguyen et al., 2015; Jing & Zhongtian., 2022).

According to Abubakar et al. (2018), there is a negligible correlation between RMC size and company performance. However, Boudiab & Ishak (2020) discover that RMC's size leads to an improvement in the company performance as shown by Tobin's Q. Large committees, however, can lead to coordination and communication issues that might harm the firm's value and monitoring role (Yermack, 1996).

For instance, RMC size has a considerable detrimental impact on company performance, according to Malik et al. (2021), Odubuasi et al. (2020), Elamer and Benyazid (2018), Kakanda et al. (2018), and Battaglia and Gallo (2015). However, RMC size had no impact on business performance in two studies carried out in Nigeria by Fali et al. (2020) and Ugwu et al. (2021).

Similarly, Jia and Bradbury (2020) do not find an effect of RMC size. However, Fali et al. (2020) found an insignificant effect of RMC independence on firm performance. Ugwu et al. (2021) and Kakanda et al. (2018) found a significant positive effect of percentage of non-executive directors in the composition of RMC on firm performance. In addition, board meetings are one of the issues that are stressed in the banking and corporate governance guidelines, with regard to setting a minimum number of meetings per year and requiring that all board members attend the meetings.

Aebi et al. (2012) revealed that the risk committee met frequently, which helped the financial sector perform better during the financial crisis, demonstrating that the mere fact that there was a risk management committee in place during that time did not prevent excessive risk-taking. Frequent meetings of the board and its subcommittees are a solid indicator of its efficacy from the standpoint of signalling theory (Vafeas, 1999, Wincent et al., 2010).

Qualified boards, in accordance with agency theory, boost management control, raise business value, and advance stakeholder interests (Al-Hadi et al., 2016). RMC members who possess the relevant credentials can manage the firm's difficulties in an efficient manner (Aldhamari et al., 2020). Board members' expertise in accounting or finance assist decision-making, claim Abubakar et al. (2018). Additionally, directors with skills in accounting or finance have a particular edge in identifying and comprehending risks in all of its manifestations, according to Ugwu et al. (2021).

Al-Hadi et al. (2016) discovered that RMC's credentials in accounting or finance have a favourable impact on market risk disclosure. In addition, RMC credentials in accounting or finance have a good impact on financial performance (Aldhamari et al., 2020). According to Pettigrew and McNulty (1995), the only effective means of properly supervising managers' operational and strategic choices is through the skill and knowledge of directors. Güner et al. (2008) assert that directors' financial knowledge has a significant impact on financial and investment policies.

The majority of earlier research concur that the Risk Management Committee's job is enhanced by its knowledge in finance and risk management. The RMC's skills and knowledge of the financial industry's complexity allow them to monitor and provide advice on how to improve risk management, company value, and performance (Tao & Hutchinson, 2013).

However, the outcomes of empirical research evaluating the influence of RMC knowledge on firm value and business performance are not clear-cut. RMC knowledge has a detrimental and considerable impact on financial performance (Fali et al., 2020). RMC knowledge has a negligible beneficial effect on corporate performance, according to Ugwu et al. (2021). furthermore, Malik et al. (2021) found that compared to RMC members with merely broad financial understanding, RMC members with experience in risk management had a strong favourable correlation with business performance.

However, Based on the literature discussion, signal theory and agency theory, the hypotheses are posited as follows:

H_2: The value of Jordanian banks is positively impacted by the size of the risk management committee.

H*$_3$*: The value of Jordanian banks has been positively impacted by the Risk Management Committee members' independence.

H*$_4$*: The Risk Management Committee meetings have a positive effect on the value of Jordanian banks.

H*$_5$*: The value of the Jordanian Banks is positively impacted by the Risk Management Committee's qualifications.

H*$_6$*: The value of Jordanian Banks is positively impacted by the Risk Management Committee's expertise.

Dual Membership in the Compensation and Risk Management Committees and Firm Value

Subcommittees that are created by the Board of Directors are often included in the corporate governance framework as one of the internal governance measures that could improve the board's performance. These subcommittees often have diverse roles, duties, and objectives, which might lead to a new kind of information asymmetry among the board's subcommittees (Hoitash & Hoitash, 2009). The majority of the time, these committees are more focused on attaining their own goals than the general goals of the board due to varied tasks and objectives (Hoitash & Hoitash, 2009, Tao & Hutchinson, 2013).

This alternative method of debate was first used by Laux and Laux (2008) and Hoitash & Hoitash (2009). They contend that board subcommittee independence may be a significant problem that results in poor judgments. Laux & Laux (2008) and Hoitash & Hoitash (2009) argue that earning management is a critical issue that impairs the quality of financial reports. The audit committee has a significant role in ensuring financial reports' quality.

Therefore, According to Laux & Laux (2008), overlapping members on the audit and pay committees may play a part in lowering compensation levels and decreasing the likelihood of earnings management. As a lack of coordination might result in inconsistent choices, this discussion emphasises the need of coordination and interaction between the board committees. According to Hoitash & Hoitash (2009), the incentives pay is lower when the audit and compensation committees overlap. In addition, Kallamu (2015) found that the dual membership between risk and remuneration committees has an insignificant positive effect on firm performance.

On the other hand, Aldhamari et al. (2020) found that overlapping the risk committee with audit, compensation, or nomination committees has a positive effect on Tobin's Q. In Jordan, a recent study conducted by Alshirah et al. (2020) revealed that the overlapping of the audit committee members with other board' committees insignificantly related to the risk disclosure. However, Based on the literature discussion, signal theory and agency theory, the hypotheses are posited as follows:

H_7: The dual membership in the Compensation and Risk Management Committees have positively impact on the Jordanian Banks value**.**

Executive Membership in the Risk Management Committee and Firm Value

Staying current with the firm's activities is critical to maintaining a risk management framework effectively. Indeed, internal parties deal with the firm's various activities on a daily and routine basis. As a result, they have a comprehensive picture of the firm's situation and its changes. In other words, insiders had a better understanding than outsiders did in the institutional framework (Al-Hadi et al., 2016).

Therefore, the participation of executive directors on the board subcommittees will bring valuable and high quality inside information to the committee that would non-executive directors would otherwise find it challenging to obtain (Aguilera et al., 2011). The governance guidelines allow for executive membership on the Risk Management Committee. In addition, certain Jordanian banks are eager to include the Chief Risk Officer (CRO) or Chief Executive Officer (CEO) in the RMC. The CEO, on the other hand, is primarily concerned with growing assets and demonstrating great performance, even if it means doing so at the price of the lack of a defined risk management plan. In fact, the CRO is primarily concerned with defining and developing a risk appetite strategy (Aebi et al., 2012).

As a result, the current CRO in the risk committee's makeup may enhance the risk control function by lowering the risk committee's need to keep an eye on executive conduct, which might have an impact on firm performance and firm value.

Improving organizational performance and building effective governance may not always be associated with the function or idea of "monitoring the managers" by external parties "according to the agency theory." Stewardship theory states that executive directors are good stewards due to their better expertise and up-to-date information about the companies they manage (Kallamu, 2017). However, Kallamu (2017) found that executive membership on the RMC has a significant negative impact on ROA. This result is compatible with the viewpoint that executive membership in board subcommittees will exacerbate the agency problem, impair the monitoring process, and result in poor company performance overall (Grove et al., 2011). Therefore, based on the literature discussion, signal theory and agency theory, the hypotheses are posited as follows:

H_8: The executive membership in the composition of the Risk Management Committee have positively impact on the Jordanian Banks value.

METHODOLOGY

The study sample consists of all banks on the Amman Stock Exchange from 2014 to 2021. The banking sector was chosen as it is likely the most exposed and risk-sensitive sector. Therefore, the risk management framework, which highly relies on the characteristics of the RMC, is a critical issue for the banking sector. However, The data was collected from annual reports of the banks that were published on the Amman Stock Exchange.

Measurement variables

This study uses the Market to Book Ratio (MTBR) to measure the bank value.

$$Market\ to\ Book\ Ratio = \frac{Market\ value\ of\ the\ firm}{Book\ value\ of\ the\ firm}$$

Where:

$$Market\ value\ of\ the\ firm\ =\ Number\ of\ outstanding\ shares * \ Closing\ price.$$

$$Book\ value\ of\ the\ firm\ =\ Book\ value\ of\ equity$$

This paper uses Ordinary Least Squares (OLS) regression analysis to determine the effect of the Risk Management Committee characteristics and Risk disclosure on bank value, depending on the following model:

$$FV_{it} = \beta 0 + \beta 1\ RMCSZ_{it} + \beta 2\ RMCIND_{it} + \beta 3\ RMCM_{it} + \beta 4\ RMCQ_{it} + \beta 5\ RMCEX_{it} + \beta 6\ EXEC_{it} + \beta 7\ DUAL_{it} + \beta 8\ TRD_{it} + \beta 9\ BODI_{it} + \beta 10\ BODSZ_{it} + \beta 11\ AGE_{it} + \beta 12\ SIZE_{it} + \beta 13\ LEV_{it} + \varepsilon_{it}$$

Where: $\beta 0$: is the constant of the model. FV_{it}: is the firm value. $RMCSZ_{it}$: is the Risk Management Committee size. $RMCIND_{it}$: is the Risk Management Committee independent. $RMCM_{it}$: Risk Management Committee meetings. $RMCQ_{it}$; is the Risk Management Committee qualification. $RMCEX_{it}$: is the Risk Management Committee expertise. $EXEC_{it}$: is the executive membership in Risk Management Committee. $DUAL_{it}$: is the dual membership in Risk and Compensation Committees. TRD_{it}: is the total risk disclosures. $BODI_{it}$: is the Board of Directors' independence. $BODSZ_{it}$: is the Board of Directors' size. $AGE_{it:}$ is the bank age. $SIZE_{it}$: is the log of bank total assets. LEV_{it}: is the leverage. ε_{it}: is the error term.

RESULTS

Descriptive Statistics

The data of 18 banks were collected from 2014-2021,the descriptive statistics of risk disclosure practices by the study sample. In addition, the observations of the study variables are imbalanced. This paper is expected to include 120 observations for all study variables, but there is missing data, causing the observations to be imbalanced. Indeed, this problem occurs in almost all studies (Kang, 2013). The most frequent method for dealing with missing data is simply excluding the cases with missing data (Kang, 2013).

As a result of analyses, the mean of Market to Book Ratio (MTBR) of Jordanian banks for 2014-2021 is .87 with a minimum value of .11 and a maximum value of 2.44. This indicates that banks value has variations among the study sample.

Regarding the Risk Management Committee characteristics, RMC size (RMCSZ) has a mean of 4.66 with a minimum of three members and a maximum of seven members; this indicates that the Jordanian banks apply bank governance instructions that state that the risk committee must have at least three members.

The mean of RMC independence (RMCIND) is 0.29, the minimum percentage is .00, and the maximum percentage is .67. Obviously, the formation of the risk committee in some banks does not have independent members. Because the study covers 2014-2021, the governance instructions that require banks to form a risk committee must include at least one independent member issued at the end of 2016; banks may have committed to this item after 2016.

As for RMC meetings (RMCM), the range is from 1-7 with a mean of 4.06. The mean of RMC qualifications in accounting or finance reached .43 with a minimum ratio of .00 and a maximum ratio of .80. The mean of RMC members' experience (RMCEX) in finance or risk management of the study sample reached 0.68 with a minimum ratio of .00 and a maximum ratio of 1.00. EXEC is a dummy variable that indicates that 46% of Jordanian banks for 2014-2021 have executive membership in the composition of RMC. Besides, DUAL represents that the mean of dual membership on risk and compensation committees is .25.

TRD is a descriptive of total risk disclosures by study sample, as shown in table (5-1), the mean of TRD is 49.41, the minimum disclosures are 22, and the maximum disclosures are 86. The difference between the maximum and minimum disclosures shows the wide variations of voluntary risk disclosure practices among Jordanian banks. Moreover, table (5-2) will show the quality of risk disclosure practices. In terms of control variables, board size (BODSZ), board independence (BODI), bank age (AGE), log of banks size (SIZE), and leverage (LEV) have a mean value of (10.89), (.37), (42.83), (9.36) and (.86) respectively.

In the sample of annual reports, there are a total of 5929 risk disclosure sentences. Table (1) details the risk classifications and sentence qualities that fall under these disclosures. Banks disclose strategic risk information at 44.7% of total disclosures, 36.8% operational risk with the lowest environmental risk ratio of 18.5%. Concerning the form of risk disclosure, Jordanian banks' trend toward qualitative disclosure of 95.1% compared to a low percentage of quantitative disclosure of 4.9%. This study generally focuses on non-financial risks, which is one reason for increasing qualitative disclosure on quantitative disclosure. On the other hand, some of the study risk items may be difficult to quantify.

Table 1. Descriptive statistics of risk disclosures practices

		Min	Max	Sum	Mean
Disclosure categories	Total risk disclosure	22	86	5929	49.41
	Strategic risk	4	45	2652	22.10
	Operational risk	2	45	2184	18.20
	Environmental risk	1	32	1093	9.11
Form of disclosure	Quantitative risk	0	12	290	2.42
	Qualitative risk	21	84	5639	46.99
Time-scale	Future disclosures	0	20	1095	9.13
	Historical disclosures	4	57	3331	27.76
	Non time disclosures	0	37	1503	12.53
Types of news	Bad news	0	20	845	7.04
	Good news	0	31	1299	10.83
	Neutral news	12	60	3785	31.54

Source: Prepared by the author (2022)

Regarding the time-scale disclosures, historical and non-time disclosures are 56.1% and 25.3%, respectively, compared to 18.5% of future information. This result is consistent with the annual report's purpose, as it provides information about the banks financial and operational activity for the previous year (Leopizzi et al., 2020). Nevertheless, it contradicts the needs of stakeholders, as historical information does not give them a complete picture of the company's ability to survive and continue in the business environment.

This result is consistent with (Leopizzi et al., 2020; Al-Smadi, 2017; Beretta and Bozzolan 2004), as the past and present disclosures are more than future disclosures. Furthermore, the disclosures contain internal control and general policies; therefore, the disclosures have much neutral news of 63.8%, compared with 21.9% of good news and 14.3% of bad news. (Appendix D) shows examples of risk disclosures.

The Skewness and Kurtosis test was conducted to ascertain how close the data to normal distribution. In medium-sized samples (50< n <300), it can accept the null hypothesis at absolute z-value of Skewness and Kurtosis less than or equal to 3.29, and conclude the distribution of the sample is normal (Kim, 2013, p.53). All variables are distributed normally except banks value and banks age. Therefore, the transformation was conducted into square roots of banks value and 1/ square roots to banks age to reduce this problem. However, the central limit theorem states that the normal distribution condition can be overlooked as one of the validity conditions of the regression analysis when the number of observations is greater than 30 (Gujarati, 2004). The observations of this paper are 120.

Hypotheses Testing

The multiple regression model was used to conduct the regression analysis. As shown in table (2), the model's explanatory power is 54.4%, which indicates that the model's independent variables cause a change in Jordanian banks' value by 54.4%.

Table 2. Regression results

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-1.228-	0.6040		-2.035-	0.0450
TRD	0.0032	0.0015	0.1670	2.0960	0.0390
RMCSZ	0.0080	0.0170	0.0380	0.4350	0.6650
RMCIND	0.3900	0.1370	0.2270	2.8520	0.0050
RMCM	-.026-	0.0160	-.122-	-1.603-	0.1120
RMCQ	-.273-	0.1190	-.186-	-2.294-	0.0240
RMCEX	0.1820	0.0810	0.1690	2.2370	0.0280
EXEC	0.1820	0.0490	0.3430	3.6790	0.0000
DUAL	0.3090	0.1080	0.2200	2.8550	0.0050
SIZE	0.3250	0.0690	0.4690	4.7240	0.0000
SQAGE	-.031-	0.0240	-.131-	-1.320-	0.1900
BODSZ	-0.0001	0.0100	-.001-	-.009-	0.9930
BODIND	-.806-	0.1650	-.430-	-4.888-	0.0000
Dependent Variable: SQ MTBR					
Model Summary $R^2 = 0.600$ Adjusted R Square = 0.544					
F = 10.716 F sig = .000					

Source: Prepared by the author (2022)

Based on table 2 above, regression analysis found a significant positive effect of risk disclosure on the firm value of Jordanian banks (t = 2.096, sig = 0.0390). The result is consistent with Düsterhöft et al. (2020), Abdullah (2019), Sumardani & Handayani (2019), Bravo (2017), and Abdullah et al. (2015). Increased and expanded voluntary disclosures improve firm image, build trust with stakeholders, and minimize information asymmetry, thus improving the firm value from both signaling theory and agency theory perspectives. Therefore, the H1 is accepted. In addition, the regression analysis found an insignificant positive relationship between RMC size and firm value (t = .435, sig = .665). The positive sign supports the agency theory viewpoint, as the large committees enhance the monitoring function over management and improve the firm value. However, it is insignificant. The result is consistent with Abubakar et al. (2018). Therefore, *H*2 is rejected.

Regarding *H3*, regression analysis in table 2 above shows a significant positive relationship between the percentage of independent members in the RMC and Jordanian banks' value (t = 2.852, sig = .005). This means that independence is a significant element of RMC effectiveness. The result is consistent with the evidence of Jenwittayaroje & Jiraporn (2017), Kakanda et al. (2018), Kallamu (2015), and Ugwu et al. (2021). Furthermore, it supports the agency theory viewpoint, as the independent directors improve management behavior monitoring and improve firm value (Rosenstein & Wyatt 1990). Therefore, the H_3 is accepted.

Moereover, in taerms of the meetings of the risk management committee regression analysis found an insignificant negative effect of RMC meetings on firm value (t = -1.603-, sig = .112). It can explain the negative result as a higher frequency of meetings may lead to greater control, putting downward pressure on executive decisions and thus impair firm value (Vafeas, 1999). On the other hand, frequent meetings may not indicate the effectiveness of the discussions (Ng et al., 2013). However, the regression found an insignificant relationship; therefore, the H_4 is rejected; which is consistent with Boudiab & Ishak (2020).

Based on table 2 above also, regression analysis found a significant negative effect of RMC qualification in accounting or finance on Jordanian bank' value (t = -2.294-, sig = .024). The result is consistent with Abubakar et al. (2018). Furthermore, this finding aligns with Fraser and Henry (2007), who found that financial or accounting qualifications are insufficient to enable Audit Committee members to manage risk, particularly non-financial risks. Thus, the H_5 is rejected.

In addition, regression in table 2 above, found a significant positive relationship between RMC expertise in finance or risk management and firm value (t = 2.237, sig = .028). The result is consistent with (Tao & Hutchinson, 2013), hence improving firm value. The result is consistent with Malik et al. (2021) and Ugwu et al. (2021). Therefore, the H_6 is accepted.

The regression found a significant positive effect of dual membership in the compensation and risk committees on firm value (t= 2.855, sig = .005). The result is consistent with the evidence of (Tao & Hutchinson, 2013). They found a significant positive effect of risk on performance when members serve on both risk and compensation committees. Although the board committees' independence and separation of roles may assist them in focusing on their tasks (Tao & Hutchinson, 2013), the result supports the overlap between the risk and compensation committee to improve the firm's value. Coordination and communication among members of the risk and compensation committees aid decision-making regarding the design of reward packages that significantly impact risk behaviors, reducing information asymmetry among committees and increasing the firm's value. Therefore, the H_7 is accepted.

The regression found a significant positive relationship between executive membership in the RMC and firm value (t= 3.679, sig = .000). The result supports the view that the executives are directly and continuously informed of the firm's status; therefore, they could provide the committee with significant inside information to support its tasks (Aguilera et al., 2011). On the other hand, the significant positive effect of executive membership on firm value does not support the agency theory that considers the increase of independent members as the best way to ensure shareholders' interest. The result is consistent with Kallamu (2015). Although the result of H_3 supports the importance of independence, the H_8 supports the presence of executive members in the formation of an RMC. As a result, rather than focusing on a specific feature, it is necessary to examine the RMC's overall structure. For example, according to Banks Governance Instructions of 2007, the board's composition is determined to obtain the optimal mix of skills and experience; accordingly, there should be a mix of executive Directors and non-executive Directors. Therefore, the H_8 is rejected.

In terms of control variables, the regression analysis found a significant positive relationship between the firm size measured by the log of total assets and firm value (t = 4.724, sig = .000). The result is constant with (Abubakar et al., 2018). Because leverage is a proxy for financial risk, it usually has a negative and significant association with firm value (Abdullah et al., 2015). The regression analysis found an insignificant negative relationship between the leverage and Jordanian banks' value (t = -1.533-, sig = .129). Firm age has an insignificant negative relationship with firm value. Board size has an insignificant negative relationship with firm value. Board independence has a significant negative relationship with firm value.

DISCUSSION

The risk management approach is critical to an organization's growth. In examining specific Risk Management Committee characteristics, the results show that RMC independence, RMC expertise, dual membership, and executive membership significantly positively affect firm value. Therefore, to support effective risk control and thus improve the firm value, the RMC structure necessities include independent members and executive members. On the other hand, the expertise of RMC in finance or risk management also supports the committee tasks. As well, the coordination between risk and compensation committees contributes to firm value' enhancement. Regarding RMC qualifications in accounting or finance, the results reveal that qualifications significantly negatively affect firm value. However, in terms of risk disclosures, the results show that voluntary risk disclosures significantly positively affect firm value. This result refers that risk disclosure does matter to investors in evaluating firms. Therefore, focusing on and increasing the level of voluntary risk disclosure by Jordanian banks should be a critical issue for their positive impact on value improvement.

CONCLUSIONS

The main objective of the RMC is to provide oversight for all categories of risks, thus voluntary risk disclosure enhances investors' perceptions because it has a role in more informed decisions. This paper aims to investigate the impact of the Risk Disclosure and Risk Management Committee on Jordanian Bank's Value, by including size, independence, meetings, qualifications, expertise, executive membership, and dual membership. In addition, it examines the voluntary risk disclosure on banks' value. There is a few studies that examine the effect of RMC characteristics on firm value.

In addition, this paper provides new empirical evidence in accounting literature regarding the effect of the RMCC on Jordanian banks' value. However, the findings of this study indicate that both RMCs' structures are a critical issue for investors. Although risks face all sectors, the banking sector deals with several types of risks daily more than other sectors. For investors, it could they find it difficult to evaluate managers' efforts concerning risk management.

Therefore, this study could be evidence that RMCs' structures do a matter for investors in evaluating firms' efforts for risk management. Therefore, the findings of this study could be evidence that the benefits of voluntary risk disclosure more than their costs. This paper utilizes a content analysis method to collect voluntary risk disclosure, and it uses an index with three categories of risk disclosures (environmental, strategic, and operational). However, increasing risk disclosure in annual reports allows investors and stakeholders to make more informed decisions and, as a result, boosts the company's image.

Therefore, banks are recommended to increase voluntary disclosure to improve firm value since it is positively associated with it. As well, regulatory agencies are recommended to enhance governance mechanisms to encourage banks to disclose more voluntarily.

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