INTERNATIONAL JOURNAL OF PROFESSIONAL BUSINESS REVIEW
ISSN: 2525-3654
OPEN ACCESS

THE EFFECT OF RISK MANAGEMENT ON THE FINANCIAL PERFORMANCES AMONG HOSPITALITY AND TOURISM COMPANIES IN MALAYSIA

Haswennii R. Rajendran[A], Aza Azlina Md Kassim[B], Albattat Ahmad[C]

ARTICLE INFO

Article history:

Received 20 June 2023

Accepted 14 September 2023

Keywords:

Operational Risk;
Liquidity Risk;
Market Risk;
Credit Risk;
Company Size;
Financial Performances;
Hospitality and Tourism Industry.

PREREGISTERED
OPEN DATA
OPEN MATERIALS

ABSTRACT

Purpose: This study explores the effect of risk management on the financial performance of Malaysian hospitality and tourism companies.

Theoretical framework: The agency theory and extreme value theory (EVT) were applying in this study.

Design/Methodology/Approach: The study population is the public listed companies in Bursa Malaysia. The unit of analysis of this study is the Travel, Leisure & Hospitality Companies listed in Bursa Malaysia. With the purposive sampling method, 29 companies were selected which are suitable for the objective of this study. The secondary data used in this study were derived from the audited financial statements and annual.

Findings: The findings indicates that there is insignificant and negative relationship between the risk management and financial performances of Hospitality and tourism Industry in Malaysia and the significantly positive relationship between company size and financial performances of Hospitality and tourism Industry in Malaysia.

Research, Practical & Social implications: This study will be beneficial for future researcher and entrepreneurs to have access to this study in order to gain a better understanding of how to take pre-actions before starting a business in order to ensure their success. Policy implications include ensuring that prudential guidelines and other regulations governing the company's operations regarding loan facilities are reviewed periodically to address evolving credit risk issues.

Originality/Value: The study provides valuable insight on the effect of risk management on the financial performances among hospitality and tourism companies in Malaysia.

Doi: https://doi.org/10.26668/businessreview/2023.v8i9.3490

O EFEITO DA GESTÃO DE RISCO NO DESEMPENHO FINANCEIRO DAS EMPRESAS DE HOSPITALIDADE E TURISMO NA MALÁSIA

RESUMO
Objetivo: Este estudo explora o efeito da gestão de risco no desempenho financeiro das empresas de hospitalidade e turismo da Malásia.
Referencial teórico: A teoria da agência e a teoria dos valores extremos (EVT) foram aplicadas neste estudo.
Design/Metodologia/Abordagem: A população do estudo são as empresas listadas em Bursa, Malásia. A unidade de análise deste estudo são as empresas de viagens, lazer e hospitalidade listadas em Bursa Malásia. Com o método

[A] *Master of Science in Accounting and Finance. Graduate School of Management, Management and Science University. Selangor, Malaysia. E-mail: 012021071302@gsm.msu.edu.my*
Orcid: https://orcid.org/0009-0001-4052-2810
[B] *Associate Professor. Graduate School of Management, Management and Science University. Selangor, Malaysia. E-mail: aza_azlina@msu.edu.my Orcid: https://orcid.org/0000-0002-7206-8755*
[C] *Professor. Graduate School of Management, Postgraduate Centre, Management and Science University, University Drive. Selangor, Malaysia. E-mail: dr.battat@msu.edu.my*
Orcid: https://orcid.org/0000-0002-3127-4405

CC BY NC

de amostragem propositado, foram selecionadas 29 empresas adequadas ao objetivo deste estudo. Os dados secundários utilizados neste estudo foram derivados das demonstrações financeiras auditadas e anuais.
Constatações: As conclusões indicam que existe uma relação insignificante e negativa entre a gestão de risco e o desempenho financeiro da indústria hoteleira e turística na Malásia e a relação significativamente positiva entre o tamanho da empresa e o desempenho financeiro da indústria hoteleira e turística na Malásia.
Implicações de investigação, Práticas e Sociais: Este estudo será benéfico para futuros investigadores e empreendedores terem acesso a este estudo, a fim de obterem uma melhor compreensão de como tomar ações prévias antes de iniciar um negócio, a fim de garantir o seu sucesso. As implicações políticas incluem a garantia de que as directrizes prudenciais e outros regulamentos que regem as operações da empresa relativamente a linhas de crédito sejam revistos periodicamente para abordar questões de risco de crédito em evolução.
Originalidade/Valor: O estudo fornece informações valiosas sobre o efeito da gestão de risco no desempenho financeiro entre empresas de hospitalidade e turismo na Malásia.

Palavras-chave: Risco Operacional, Risco de Liquidez, Risco de Mercado, Risco de Crédito, Tamanho da Empresa, Desempenho Financeiro, Indústria de Hotelaria e Turismo.

EL EFECTO DE LA GESTIÓN DE RIESGOS EN EL DESEMPEÑO FINANCIERO ENTRE LAS EMPRESAS DE HOSPITALIDAD Y TURISMO EN MALASIA

RESUMEN
Propósito: Este estudio explora el efecto de la gestión de riesgos en el desempeño financiero de las empresas hoteleras y turísticas de Malasia.
Marco teórico: En este estudio se aplicaron la teoría de la agencia y la teoría del valor extremo (EVT).
Diseño/Metodología/Enfoque: La población de estudio son las empresas que cotizan en bolsa en Bursa Malasia. La unidad de análisis de este estudio son las empresas de viajes, ocio y hostelería que cotizan en Bursa Malasia. Con el método de muestreo intencional se seleccionaron 29 empresas que se ajustan al objetivo de este estudio. Los datos secundarios utilizados en este estudio se derivaron de los estados financieros auditados y anuales.
Hallazgos: Los hallazgos indican que existe una relación insignificante y negativa entre la gestión de riesgos y el desempeño financiero de la industria hotelera y turística en Malasia y la relación significativamente positiva entre el tamaño de la empresa y el desempeño financiero de la industria hotelera y turística en Malasia.
Implicaciones de investigación, Prácticas y Sociales: este estudio será beneficioso para que futuros investigadores y empresarios tengan acceso a este estudio para obtener una mejor comprensión de cómo tomar acciones previas antes de iniciar un negocio para garantizar su éxito. Las implicaciones de política incluyen garantizar que las pautas prudenciales y otras regulaciones que rigen las operaciones de la compañía con respecto a las líneas de crédito se revisen periódicamente para abordar los problemas cambiantes del riesgo crediticio.
Originalidad/Valor: el estudio proporciona información valiosa sobre el efecto de la gestión de riesgos en el desempeño financiero de las empresas hoteleras y turísticas en Malasia.

Palabras clave: Riesgo Operacional, Riesgo de Liquidez, Riesgo de Mercado, Riesgo Crediticio, Tamaño de la Empresa, Desempeño Financiero, Industria Hotelera y Turística.

INTRODUCTION

The hospitality and tourism industries have a great deal of overlap, and one of them contributes significantly to the other's growth and development. In the hospitality industry, tourism is a source of revenue, expansion, and development that generates money. Tourism is an important source of revenue for the hospitality industry, as it brings in customers who are looking for places to stay, eat, and enjoy leisure activities. There are currently unprecedented problems in the tourism industry due to the global effect of the COVID-19 epidemic, which is affecting the entire world. As a result of the hospitality industry providing these services to tourists, local economies benefit from this growth and development. There are many small

businesses that are experiencing financial hardships due to the COVID-19 crisis, as their supply chains have been disrupted, and financial management issues have had a negative impact on their businesses.

COVID-19 has disrupted the supply chain and distribution network of businesses of every size and type, causing disruptions throughout the supply chain and distribution network (Sanjeev and Tiwari ,2021). The tourism industry is one of the most vulnerable sectors in the global economy from the standpoint of vulnerability. This is due to the fact that it is highly dependent on external factors such as the global economy and political events. As a result, the hospitality industry is constantly adapting and innovating to remain competitive in the global market. As part of the risk management process, the organization has to identify the level of its risks and analyze the organization's financial position. COVID-19 affects the entire world, so governments and businesses are primarily concerned about protecting their citizens. The implications for corporate profits and economic growth are likely to result in a sharp drop in equity markets. Consequently, there are massive revenue and supply chain impacts, and some of these impacts may not be predictable. Along with the disruption of the travel ecosystem, hotels, restaurants, theme parks, and cinemas are closing.

In the face of all the unexpected events caused by COVID-19, the hospitality and tourism industries are standing up for travelers worldwide, literally opening their doors. In a post-covid world, it will be challenging to provide guests with services that meet their expectations. Considering the expectations of consumers and how those expectations have changed will help hotel owners better serve them. Due to the unexpected turn of events, people changed their ways as a result of the pandemic. Almost every sector of the job market was characterized by uncertainty. As a result of this, people seem compelled to rethink their priorities, and things once viewed as essential have taken a backseat to other concerns.

According to Sittipat and Adarsh (2022), tourists travel behavior and priorities have changed after a long time of staying at home, and their concerns about traveling again have changed as well. The tourism industry must therefore develop appropriate strategies to deal with the changes in tourist priorities. Consequently, some tourism businesses may not regain their expected business volume after the COVID-19 pandemic, because they are not sure about appropriate strategies to match tourists' changing travel priorities.

According to Sanjeev and Tiwari (2021) analyzed the critical challenges facing the hospitality and tourism industry in the post-COVID-19 pandemic and listed them as follows: As a first challenge, the hospitality and tourism industry will have to deal with the shift in

technologies that they will need to apply to their operations in order to improve effectiveness and restore tourists' confidence. As another challenge, hospitality and tourism businesses must train their employees in health care so that they will be able to perform and meet more stringent safety and security standards, as well as more stringent hygiene protocols. According to Rakesh and Yeoh (2022), the COVID-19 pandemic has certainly affected the tourism industry and consumer behavior in a way that has caused a perception of risk when traveling. Tourism early recovery can be adversely affected by the current COVID-19 pandemic. Perceived risk leads to anxiety and other negative affective behaviors that directly impact travel intentions.

A CNA report indicates that Malaysia's hospitality industry is experiencing difficulties filling positions despite the country's international borders reopening in April 2022. The hospitality industry also relied heavily on foreign contractors to perform menial tasks such as housekeeping and cleaning before COVID-19, since locals were unwilling to do so. According to hotel operators interviewed by CNA, a lack of labour has particularly impacted housekeeping. In the absence of a labour shortage, many hotels will not be able to open fully, resulting in lost revenue. A report published by the Star in June 2022, the tourism sector is facing a shortage of skilled workers at a time when business is on the rise, and by the end of the year, the situation may get worse. With 26.1 million tourists in 2019, Tourism Malaysia estimated that tourism generated RM86.14bil in revenue for Malaysia before the Covid-19 pandemic struck. There are over 10 positions available in Penang hotels every week, from guest services managers to engineers and technicians, with most hotels posting their vacancies on social media and job portals every week. A widespread outbreak of COVID-19 could lead to an increase in credit risk (Esha Pratiwi & Erni Masdupi 2021). Consequently, many customers find it difficult to pay back their loans at banks because of the physical distancing policy that paralyzes the business sector.

The idea of risk management is one of those ideas that aims to help us live a more prudent and productive life if we are able to approach our uncertain future with a logical, consistent, and disciplined approach in order to make it easier for us to cope with it. Prior to the discovery of probability, managing the future was a matter of faith and luck, and had no way to measure it. The purpose of this study is to analyze the effect of risk management on the financial performance of the hospitality and tourism industry. The risk management as it pertains to this study focused on four major risks: operational risk, liquidity risk, market risk and credit risk.

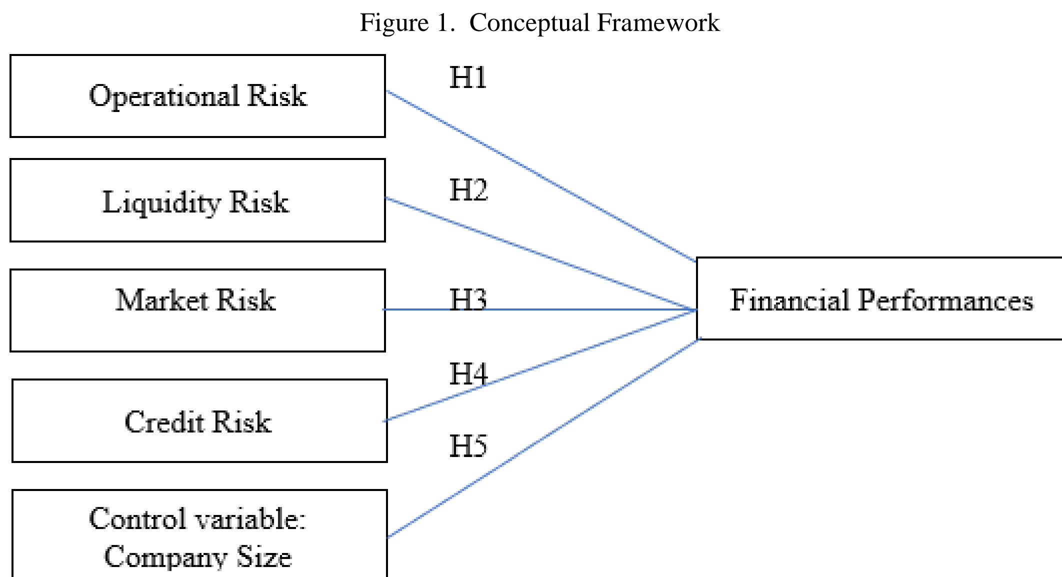
LITERATURE REVIEW

The studies applies two theories in the study which is Agency theory and Extreme value theory. Agency theory is the agent-principal relationship which is defined as the relationship that exists between two parties in order to determine the rules for the contractual relationship that already exists between them (Esha Pratiwi and Erni Masdupi 2021). The agency theory supports hedging to address the mismatch between managerial incentives and shareholder interests. In other words, agency theory refers to the process of managers aligning their interests with those of shareholders, in order to improve the performance of their companies.The Extreme Value Theory (EVT) asserts that the distribution that limits the extreme returns never varies from the distribution of the parent returns from which our extreme returns are derived, regardless of the distribution of the parent returns for which they were derived (Saqib & Moli, Eva & Tavassoli, 2010). Extreme Value Theory provides a framework that can be used to accurately quantify extreme risks, which is critical for risk management.

Conceptual Framework

A framework is a view of a whole explanation condensed into a single figure that allows the reader to grasp the most significant points, difficulties, and study objectives in a single figure. The most important aspect of this study is depicted in the figure below.

Figure 1. Conceptual Framework



Source: Prepared by the authors (2023)

The study's dependent variable is Financial Performances, whereas the independent variables are credit risk, market risk, liquidity risk and operational risk. Control variables is company size.

Financial Performance

The financial performance of an entity indicates the results of its policies and operations in monetary terms. Essentially, it measures how effectively an entity uses its resources and generates revenue from its principal activity. According to Oluwatobi and Wisdom (2021), profitability is an important metric for measuring financial performance. In sales or output, profit is the excess of turnover or revenue over the full opportunity cost of that output's production factor. Profit is the reward for taking risks and producing goods and services. It is also an indicator of an entity's competitiveness and sustainability in the market. Thus, it is important to measure and analyze the financial performance of an entity to ensure its long-term success. In financial terms, financial performance allows us to measure policy and operations in monetary terms, as well as show their financial health over time, and allow them to compare their financial performance to those of other industries (Stephen and Wanjohi, 2017).

Financial performance is also important for stakeholders, investors and creditors to analyze the riskiness of an entity, and make decisions accordingly. It is also an important factor for the entity to identify areas of improvement in terms of cost and efficiency. Mardiana, Endah and Dinata (2018), identify two types of performance measurement: non-financial and financial. In terms of non-financial performance, information that is not financial is used to measure performance by assessing the quality of service provided to customers. Using financial information as a tool for measuring a company's performance is the measurement of financial performance. An organization's financial performance is a key factor in determining its success. Success is not determined by the company itself, but by its performance and value (Khalisah and Nisa, 2022). It is the main objective of the banking industry to maximize profit through effective financial management. As well as providing accurate information to external parties, such as investors or creditors, it aims to ensure accuracy. The financial performance of an organization can be measured in a number of ways as an indicator of its efficiency and effectiveness. This performance can be judged by analyzing the cost-benefit ratio and the return on investment. It is also important to assess the organization's financial stability and liquidity. Furthermore, the organization's financial health can be judged by the level of risk it takes.

Risk Management

Jamal, Noor and Ali Abdalla (2014) define risk as anything that could prevent the achievement of certain objectives. Managing risks is an important function once they have been identified. A particular situation may result in internal or external factors, depending on what kinds of risks exist within it. Risk is identified according to the circumstances and caused by either internal or external factors. Risk is a combination of uncertainty and consequences, according to John and Zabedah (2014). A researcher stated that experts consider risk in terms of whether it impacts objectives positively or negatively. Therefore, the analysis of risk helps to identify the opportunities to reduce it or to take advantage of it.

In business, a risk is an unforeseen event that may affect the business plan (Umar, Tijjan and Salisu, 2022). A risk can be described as the possibility of measurable damages, injuries, liabilities, losses, or any other negative outcome that may occur as a result of an external or internal exposure. If proper precautions were taken, these occurrences could be avoided. Therefore, risks can be effectively managed by assessing the probability of their occurrence, their impact on the business, and formulating a plan to minimize their impact. Such a plan may include preventive measures, contingency plans, and insurance policies to mitigate any potential risks. Risk management practices are not practiced by many firms in the financial market, which results in financial distress. The corporation's financial performance is enhanced as a result of having a properly integrated setup and planning for managing risk, as emphasized by Khurram, Arslan, and Waqas (2021). Risks, according to Cynthia Akong Jeniffer (2014), are uncertainties that are inherent in all business entities that exist purely for the reason of making profits. Therefore, it is essential that all firms in the financial market adopt effective risk management practices to manage risks in order to maximize their financial gains and reduce potential losses. Effective risk management practices are essential for the financial market, as they can help maximize profits and minimize losses, thus providing long-term sustainability and success for firms.

Risk management involves the comprehensive and systematic analysis and mapping of existing problems by organizations (Fahmi, 2016). It is outlined by Karim (2016) that risk management is the process of identifying, measuring, monitoring, and controlling risks associated with the activities involved in the process. The objective of risk management has frequently been described as the "minimization of costs. Francois (2016) stated that risk management doesn't generate revenues in the traditional sense of the word. The risk management committee monitors and approves the company's risk management framework and

practices, according to Tan, Lai, Lee and Chew (2018). Also, any public disclosure statements proposed by the company must be reviewed and approved by the risk management committee. Minimizing costs is an important objective of risk management because it helps the company to avoid losses from potential risks.

Operational Risk

According to Akong Cynthia and Jeniffer (2014), operational risk refers to the risks associated with the execution of a company's business function. It emphasizes the risks associated with the people, processes, and systems a company employs. There is a risk of loss resulting from inadequate internal processes, people, or systems, as well as external events, which are collectively known as operational risk (Marwa, 2014). Operational risk is a type of risk that is difficult to measure, due to its wide range of potential causes. Companies must be proactive in identifying and mitigating operational risks to ensure their success and long-term viability.

Operational risk is caused by an insufficient or defective logistics system, processes, and resources, as explained by Katarzyna, Oliwia, Hafezali, and Armenia (2021). Operational risk can lead to significant financial losses, reputational damage, and business disruption. To mitigate operational risk, businesses must identify and assess potential issues, develop policies and procedures to address them, and ensure proper implementation of those measures. Regular reviews of the business operation are also important to ensure continued effectiveness. To reduce operational risks, organizations must ensure they have a comprehensive understanding of their processes and resources, and the ability to identify and manage potential risks. Operational risk in organizations is a full risk stemming from all its elements and is influenced by external factors. Compared with other risks, operational risk may have a more significant impact on an entity's operation. Therefore, organizations should assess their operational risk and develop strategies to prevent and/or mitigate such risks. Such strategies can include risk management systems, internal controls, and monitoring processes.

Operational risk can be measured to determine how competent the management is in a business operation, according to Tan, Lai, Lee and Chew (2018). There may be losses for a business as a result of ineffective or failed policies, procedures, or systems, errors made by employees or fraud committed by them, etc. Normally, an optimal operating ratio is one that ensures that the investors receive a fair return on their investment. However, if the operating risk is not addressed, it could lead to increased financial costs, and ultimately, decreased

profitability. Operating risk can arise from a variety of sources, including inefficient processes, outdated technology, inadequate financial controls, mis-pricing of products and services, and inadequate legal protections. If these risks are not managed effectively, it can result in missed opportunities, increased costs, customer dissatisfaction, and eventually, decreased profitability.

Liquidity Risk

An inability to fulfill the bank's obligations to customers is called liquidity risk. As well as lowering credit interest rates, restructuring policies also regulated credit payment suspensions during COVID-19 (Esha pratiwi and Erni masdupi 2021). Leonard and Willy (2018) determined that a lender faces a liquidity risk if they cannot accommodate deposits and other liabilities, as well as increasing the loan and investment portfolio. This liquidity risk can lead to huge losses for the lender, which could result in a negative financial impact on the institution and its customers. Thus, the restructuring policies are essential for providing liquidity to lenders and protecting their financial stability. These policies also help to ensure that lenders can continue to provide credit to their customers, even during times of economic downturn. Liquidity risk occurs when an investment is not able to sell or buy quickly enough to avoid losses (Jamal and Ali, 2014). Liquidity regulation is necessary to mitigate such risks and ensure that lenders can continue to offer loans to their customers. As a result, liquidity regulation is an important tool for promoting financial stability and economic growth.

Liquidity regulations also help to ensure that lenders can access funds when needed and that credit is available to people who need it. This supports economic growth and helps to reduce the risk of financial crises. As defined by Sayed, Abolfazl and Seyed (2017), liquidity is the availability of cash or its equivalents. An institution's liquidity risk occurs when it cannot provide the funds required to grant loans or repay its liabilities, such as deposits, on time. Liquidity risk is a major concern for financial institutions, as it can lead to losses and disruption of operations. Institutions have to manage liquidity risk by having a robust liquidity management plan in place. This plan should include tools such as liquidity buffers and stress tests to ensure the institution is prepared for any sudden changes in the market

Marwa (2014) defines liquidity risk as a situation in which a company is not able to meet its obligations, as indicated by the insolvency of the company. To manage liquidity risk, companies must have systems in place to monitor and manage financial inflows and outflows. Additionally, companies need to have sufficient reserves in place to cover any potential liquidity gaps. When liquidity risk is identified, companies must have contingency plans in

place to address the risks. Liquidity risk of a company is determined by the ability of the company to repay short- and long-term debts through assets that can be converted into cash in a timely manner, according to Tan, Lai, Lee and Chew (2018). There are certain circumstances under which a company can be considered to be in a position of being financially viable because of its current assets and the ability to pay off its debts. The company's current assets need to be greater than its liabilities, and it should be able to generate enough cash flow to cover its operating costs and pay off its debt. It should also have access to additional capital or financing to help cover any unexpected costs.

Market Risk

Market risk is defined by Sayed, Abolfazl, and Seyed (2017) as the probability of a danger related to uncertainty in a financial institution's portfolio income, such as changes in asset prices, interest rates, liquidity levels, resulting from market conditions. Foreign exchange risk, interest rate risk, commodity risk, and equity risk constitute market risk, according to Bibin, Steve, and Julius (2019) and Aykut (2016). Many developing countries have experienced negative economic performance due to these risks, which have increased their debt burdens. Market risk, as defined by Akong Cynthia and Jeniffer (2014), is the possibility of the value of a portfolio declining due to a change in the market risk factors that can influence the price of a portfolio. A standard market risk factor is the change in stock prices or an increase based on implied volatility. In addition to interest rates and foreign exchange rates, there are also three other traditional market risks that need to be taken into consideration.

According to Augustine, Wilson, Uduak and Meshack (2020) the concept of market risk refers to the risk of losing money that is associated with a liquid portfolio as a result of fluctuations in market prices. As a result of the rapid changes in the market conditions, there is a greater volatility in a market risk exposure than in a credit risk exposure. According to Kahihu, Wachira, Stephen and Muathe, (2020) market risks are financial risks caused by changes in the financial market. It is the difference between the assets and liabilities of any organization that determines its level of exposure to various kinds of market volatility. In liquid portfolios, market risk refers to the risk of losses due to price movements. An organization's financial performance is negatively affected by market fluctuations, resulting in losses on assets held for investment. According to Marwa (2014), market risk refers to the potential for adverse effects on the value of securities and portfolios by changes in financial market prices and rates. It is important to note that several factors influence the problem, including interest rates, foreign

exchange rates, commodity prices, revenue and expenses that are price sensitive, stock options, and pension plans.

According to Katarzyna, Oliwia, Hafezali, and Armenia (2021), market risk includes exposure to losses resulting from decreased asset, liability, and financial instrument prices associated with market fluctuations. In other words, this risk is related to an entity's economic activities, including relationships with suppliers and customers, which are both essential for the entity's operation as well as potentially harmful to it. The majority of SMEs and micro enterprises are unable to generate sufficient cash flows to meet their proposed plans, which puts them at risk of financial failure. According to Tan, Lai, Lee and Chew (2018), market risk refers to the risk of losing money that investors face due to certain factors affecting the financial market. Through diversification, market risk cannot be entirely eliminated, only hedged against.

Credit Risk

According to Tan, Lai, Lee and Chew (2018), credit risk begins with the borrower's capacity to repay the debt, and is analyzed from this perspective. It is possible for a borrower to default on a loan when does not meet the obligations of the loan and does not make payments on time for a certain period of time. Loss of principal and interest, disruptions to cash flow, as well as increased collection costs are all part of this type of risk. A credit risk arises when customers or other parties do not fulfill their obligations in accordance with their agreement (Khalisah and Nisa Bela 2022).

Instabilities in governance, including a lack of monitoring of credit records after banks give credit, and the absence of a monitoring process on credit records contribute to increased credit risk (Umar, Tijjan and Salisu, 2022). In order to reduce default rates, credit risk must be cautiously monitored and supervised, as one of the notable financial crises occurs. A credit risk analysis, as defined by Leonard and Willy (2018), is an examination of a borrower's financial health. Since the beginning of the industry, it has been a central part of its activities. The analysis focuses on credit risk, which is the risk that the other party will not meet its creditors' obligations. With the growth of the derivatives market, credit risk has expanded immensely, but it remains a major concern.

According to Jamal and Ali (2014), credit risks arise whenever borrowers expect future cash flows to pay off their current debts. Investing in credit risks entails taking on some credit risk, and investors are compensated for taking on that risk by receiving interest payments. It is possible for a borrower to lose his principal or reward if he fails to repay a loan or meet other

contractual obligations. Sayed, Abolfazl, and Seyed (2017) define credit risk as the likelihood of a debtor defaulting on a debt. This risk combines exposure, recovery, and default risk. By formulating certain policies to promote financial stability and efficiency, banking policymakers can reduce variations in outputs by reducing credit risk. Credit risk is periodic and depends on structural characteristics.

Company Size

As Evans Ombongi and Kenya Aquilas (2013), Small and Medium Enterprises (SMEs) often need robust risk management systems more than other business entities. Their very size and various limitations may make it difficult for them to manage and control risks. The size of banks may have an impact as they reduce their shock absorption capacity (Alim, Wajid and Ali, Amjad and Metla, Mahwish 2021). According to Sammy Raymond Muteti (2014), banks are typically measured by their market share or size in order to capture potential economies of scale or diseconomies of scale. To determine the impact of market share or bank size on profitability, it is necessary to select between deposits and loans as a proxy for bank output.

According to Kahihu, Wachira and Stephen (2020) emphasized the importance of workers, operations size, market share, and outreach in determining a company's size. According to Agus, Diana and Suharto (2022), total assets determine Islamic bank size. In comparison with small Islamic banks, large Islamic banks generate more benefits due to economies of scale and efficiency. However, compared to small Islamic banks, large Islamic banks may experience diseconomies of scale and inefficiency. According to Jane (2016), bank size influences the financial risk and performance of Kenyan banks. It was found that the size of commercial banks moderated their financial performance. Therefore, from the results of the study, it can be concluded that the interaction between bank size and financial performance was significant.

Research Gap

Most of the researchs was done in the industry of bank and very minimum amount of research is done in hospitality and tourism industry. Thus, this study aims to fill in this gap by focusing on the hospitality and tourism sectors.Besides that, this studies been carried out in several countries, but not so much in Malaysia, so this study wishes to focus on representing the effects of risk management in Malaysia since other countries participate in risk management in greater quantities. As a result, the researcher intends to fill this gap by conducting a study on

Malaysian hospitality and tourism. Futhermore, majority of studies conducted only discuss risk management in general terms and even if they do discuss any specific risks, they will be for one specific risk. As a way to fill this gap, it is proposed in this study to discuss market risk, operational risk, liquidity risk, and credit risk in one study.

DATA AND METHODOLOGY

The purpose of this study is to explores the effect of risk management on the financial performance of Malaysian hospitality and tourism companies. To achieve this objective, 29 companies that are listed in the sub-sector of Travel, Leisure & Hospitality Companies from the total of 205 population of public listed companies in the sector of consumer, product and services in Bursa Malaysia were choosen for data collection. With the purposive sampling method, 29 companies were selected which are suitable for the objective of this study (Fransiska, 2022). The study population is the public listed companies in Bursa Malaysia. Unit of analysis consist of people, places or things that the study wants to describe and do analysis. The unit of analysis of this study is the Travel, Leisure & Hospitality Companies listed in Bursa Malaysia. The sample frame that will be used in this study is the Travel, Leisure & Hospitality Companies in public listed companies in Bursa Malaysia. The secondary data used in this study were derived from the audited financial statements and annual reports of the Travel, Leisure & Hospitality sub-sector of consumer, product, and services of Bursa Malaysia from 2012 until 2021 (Tan, Lai, Lee and Chew,2018).

In this study, ratio analysis is conducted on the data obtained from the annual reports for the years 2012-2021. The dependent variable of this study is financial and the independent variables of this study are market risk, credit risk, operational risk and liquidity risk. The control variables of this study are the company size. The variable was measured with formula and the formula is shown in the table 1. To demonstrate the relationship between the dependent variables and independent variables, regression analysis, correlation, and model summary were used (Lin Yan,Jing Hoa, Shuqi and Wei Sheng,2018). The Statistical Package for Social Sciences (SPSS) tool was utilized to calculate the data in order to obtain the results that were aimed to achieve (Lai Jing Hoa, 2018).

Table 1: Variables measurement

Variable	Description	Measurement	Source
Financial Performances	Return on Equity	Net Income before tax / Total equity Capital	Umar,Tijjani and Salisu, 2022
Operational Risk	Cost Income Ratio	Operating Cost / Income	Jane,2016
Liquidity Risk	Liquidity Ratio	Current Assets / Current Liabilities	Suvita ,2018
Market Risk	Net Interest Margin	Net interest income / Total assets	Olajide and Diekolola,2020
Credit Risk	Debt to Income	Total liability / Total income	Suvita ,2018
Company Size	Total asset	Log (total asset)	Jane,2016

Source: Prepared by the authors (2022)

Research Model

This study was conducted with the aim of testing the relationship between the financial risk management of companies within the hospitality and tourism industry and their financial performance using an empirical model (Muteti,2012):

$$Y = \alpha + \beta 1X1+\beta 2X2+ \beta 3X3+\beta 4X4+\beta 5X5 + \varepsilon \quad (2)$$

Where:

Y: financial performance as measured by return on assets (ROA).
X1: is the credit risk, credit risk was measured using the debt to income (DTI) which will be the ratio of total debt to total income
X2: is the market risk, was measured using the ratio of the net interest margin, which will be the ratio of net interest income to total assets
X3: is the operational risk, was measured using the ratio of the cost income ratio (CIR), which will be the ratio of Operating Cost to Income.
X4: is the liquidity risk, liquidity risk measured with liquidity ratio (LR), which will be the ratio of current assets to current liabilities
X5: is the company size which was measured using the natural log of total assets.

RESULTS AND DISCUSSION

To obtain the desired results, data was computed using the Statistical Package for Social Sciences (SPSS) tool. Data was analyzed in order to determine the financial performance of the companies over a period of time that was examined in this study. Findings from the analysis revealed that the overall performance of the companies was satisfactory. These findings form the basis of the study's conclusions.

Descriptive Statistics

Table 2 summarizes the descriptive statistics of the variables. The dependent variables are the return on equity (ROE). The independent variables are the operational risk is measured with cost income ratio (CIR), the liquidity risk is measured with liquidity ratio (LR), the market risk is measured with net interest margin (NIM) and the credit risk which is measured with debt to income (DTI). The company size (CS) is the control variable of the study and it is measured with log method.

Table 2: Summary of Descriptive Statistics

	Minimum	Maximum	Mean	Std. Deviation	Variance
ROE	-.16	.67	.0782	.16971	.029
CIR	.95	54.69	6.3362	9.77191	95.490
LR	.40	13.80	2.6724	2.92566	8.560
NIM	.00	.04	.0128	.01017	.000
DTI	.50	68.30	8.3154	12.38002	153.265
CS	18.02	25.20	20.6851	1.88984	3.571

Source: Prepared by the authors (2022)

The table 2 presents that the mean of return on equity (ROE) for the 29 companies for 10 years is .0782 with minimum and maximum value of -.16 and .67. While the standard deviation of ROE is .169711, which signifies that there is wide dispersion in the level of return on equity among the listed companies in hospitality and tourism Malaysia. From the table it is revealed that cost income ratio (CIR) has minimum value of .95 and the maximum value of 54.69 with the average value of 6.3362. The CIR has standard deviation of 9.77191 which suggest that the CIR variable is widely dispersed. The liquidity ratio (LR) has minimum value of .40 and maximum value of 13.80 with the average of 2.6724. Also, standard deviation of 2.92566 is indicates that the LR is widely dispersed. Furthermore, results from the table revealed that net income margin (NIM) has the lowest mean value of 0.128 and has the lowest minimum value which is .00 and the lowest maximum value of 0.4. The NIM has the lowest standard deviation of .01017. The mean of debt-to-income (DTI) from the perspective of credit risk is 8.3154, while the standard deviation of DTI (measure of credit risk) is relatively high and stands at 12.38002. There is less reliability in standard deviation because it is higher than the mean. The minimum and maximum value of DTI is .50 and 68.30. Company size has the highest mean value which is 20.6851 while the standard deviation is 1.88984. The minimum and maximum value is 18.02 and 25.20 respectively.

Correlation Analysis

Table 3: Correlations

		ROE	CIR	LR	NIM	DTI	CS
Pearson Correlation	ROE	1.000	-.110	-.198	.266	-.108	.429
	CIR	-.110	1.000	-.053	-.274	-.038	.155
	LR	-.198	-.053	1.000	-.326	.026	-.298
	NIM	.266	-.274	-.326	1.000	-.035	-.019
	DTI	-.108	-.038	.026	-.035	1.000	.072
	CS	.429	.155	-.298	-.019	.072	1.000
Sig. (1-tailed)	ROE	.	.285	.151	.082	.289	.010
	CIR	.285	.	.392	.075	.423	.211
	LR	.151	.392	.	.042	.446	.058
	NIM	.082	.075	.042	.	.429	.461
	DTI	.289	.423	.446	.429	.	.356
	CS	.010	.211	.058	.461	.356	.

Source: Prepared by the authors (2022)

Table 3 shows the Pearson Correlations between all the variables of the above companies, as shown in Table 3. The finding of the study shows that the return on equity (ROE) has negative and not significant relationship between cost income ratio (CIR) with the value of -.110, liquidity ratio (LR) with the value of -.198 and debt to income (DTI) with the value of -.108. The results also indicate that the return on equity (ROE) has positive and significant relationship between net interest margin (NIM) with the value of .266. Furthermore, return on equity (ROE) has positive and significant relationship between company size (CS) with the value of .429.

Regression Analysis

Modal summary

Table 4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.538[a]	.290	.135	.15781

Source: Prepared by the authors (2022)

a. Predictors: (Constant), CS, NIM, DTI, CIR, LR

b. Dependent Variable: ROE

The regression model gives a significant explanation of the relationship between the dependent as well as the independent variables, as shown in Table 4. As shown in the above table, the adjusted R squared value was .290, which indicates that the financial performance of the hospitality and tourism industry varies by .135. From the results shown in the table above,

the correlation coefficient, R, shows the relationship between the study variables. It is a strong positive relationship, as is shown by .538, between study variables.

Anova

Table 5: Anova

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.234	5	.047	1.877	.138[b]
	Residual	.573	23	.025		
	Total	.806	28			

Source: Prepared by the authors (2022)

a. Dependent Variable: ROE

b. Predictors: (Constant), CS, NIM, DTI, CIR, LR

Based on the data findings in table 5, it appears that the regression sum of squares is .234 with a mean of .047 with 5 degrees of freedom, while the regression sum squares are .234 with 5 degrees of freedom. As a result of the residual, the sum of squares is .573 while the mean sum of squares is .025 with 23 degrees of freedom. The p value is .138. According to the model, the p value is greater than 0.05, so it does not suggest that the relationship is significant at a 95% level of significance, therefore it is a model that is not significant for the study.

Coefficients

Table 6: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Consta)	-.816	.365		-2.233	.036	-1.572	-.060
	CIR	-.002	.003	-.120	-.645	.525	-.009	.005
	LR	.001	.011	.017	.088	.930	-.023	.025
	NIM	4.048	3.276	.242	1.236	.229	-2.729	10.825
	DTI	-.002	.002	-.138	-.781	.443	-.007	.003
	CS	.042	.017	.468	2.493	.020	.007	.077

Source: Prepared by the authors (2022)

The findings from regression equation revealed that maintaining operational risk, market risk, operational risk and credit risk to zero, the financial performances of public listed company in hospitality and tourism industry were -.816. A change of a unit in operational risk results to growth in the performance of finance by a factor of -.002. A change of one unit in credit risk make an increase in the performance of finance by -.002 and one step increase in market risk results to increase in the financial performance by 4.048. A change of one unit in

liquidity risk make an increase in the performance of finance by .001 and one step increase in company size results to increase in the financial performance by .042.

At 95% level of confidence and 5% level of significance, credit risk was .003 level of insignificance, operational risk revealed a .005 insignificance, market risk revealed a 10.825 insignificance, liquidity risk was .025 level of insignificance and company size revealed a .077 insignificance. Therefore, it is concluded that the credit risk, operational risk, market risk, liquidity risk except for company size had insignificant influence on the financial performance.

CONCLUSION

The study analyzing the effect of risk management in the performances of hospitality and tourism industry in Malaysia. From the findings it was revealed all the hypothesis is not accepted except for company size. There is insignificant and negative relationship between the risk management and financial performances of Hospitality and tourism Industry in Malaysia and the significantly positive relationship between company size and financial performances of Hospitality and tourism Industry in Malaysia.

Based on the findings of this research, the ompanies need to be proactive in managing their risk. Managing operational risk can help businesses protect their assets and ensure their long-term stability. Companies should regularly assess their operational risk levels and take proactive steps to address any issues that may arise. Regular risk assessments should be held to guarantee that risks are effectively mitigated. In addition, a comprehensive risk management system should be implemented to constantly monitor and assess risks. Besides that, companies should actively monitor their liquidity levels and take steps to increase liquidity if necessary. These steps can include raising additional capital, reducing expenses, or restructuring debt. Ultimately, it is important for companies to maintain adequate liquidity to ensure their long-term success. This can help them to avoid financial difficulties and remain competitive in the market. Companies should also review their liquidity strategies regularly to ensure they are well-prepared for any changes in the economy. This could protect the companies from the liquidity risk.

In order to remain successful, companies must be able to anticipate and prepare for market changes in order to minimize their losses and maximize their profits. Furthermore, businesses should look to diversify their asset base in order to spread out the risk associated with their investments, as this can help to reduce the overall cost of capital. This will enable businesses to invest in new initiatives and take advantage of new opportunities. Additionally,

businesses should seek to invest in sustainable practices in order to maximize long-term growth and profitability. Futhermore, it is essential that the companies establish departments that are solely responsible for assessing credit risks. Companies should strive to maintain a good credit score, which is a measure of a company's financial health. This will ensure that the company is able to access loans and other financial services when needed. Companies should regularly monitor their credit score and take steps to improve it if needed. Companies should also ensure that they meet all regulations related to credit risk management and adopt best practices in this area. They should also ensure that they have sufficient capital to cover any potential losses.

Larger company are more likely to diversify, such that risks are minimized and able to grow their operations with more capital and a stable funding source. This diversification also allows larger company to operate more efficiently, as they can spread their risk across multiple business lines. Larger company have the ability to leverage economies of scale, allowing them to reduce costs and generate higher profits. As the size of the organization grows, it is able to operate in a wider range of markets and to leverage its capacity for market-based activities that have high fixed costs as well as economies of scale as the size grows.

The limitation to this study is that it only focuses on the hospitality and tourism industry in Malaysia. Additionally, this analysis covers ten years of financial statements for the years 2012 through 2021. As a result, it is possible to collect only a limited amount of information due to the limited time available (Yang Yuan,2014). The findings of the study were based on secondary data, which had already been collected and had already been made available to the public, as opposed to primary data, which is data that has been collected by the researcher direct from a source and has already been made available to the public. It is possible that there may have been errors in the measurement and/or recording process which have been incorporated into the findings of the study (Namasake,2016).

In terms of the implications of this study, it can be stated that it will make a significant contribution to the literature on risk management and financial performance in the Malaysian tourism and hospitality sector. It will be beneficial for entrepreneurs to have access to this study in order to gain a better understanding of how to take pre-actions before starting a business in order to ensure their success. Policy implications include ensuring that prudential guidelines and other regulations governing the company's operations regarding loan facilities are reviewed periodically to address evolving credit risk issues.

REFERENCES

Akong'a, C. J. (2014). *The effect of financial risk management on the financial performance of commercial banks in Kenya* (Doctoral dissertation).

Alim, W., Ali, A., & Metla, M. R. (2021). The Effect of Liquidity Risk Management on Financial Performance of Commercial Banks in Pakistan.

Chepkemoi, B. P., Kanini, S., & Kahuthia, J. (2019). Market risk and financial performance of listed non-bank financial institutions in Kenya. *International Academic Journal of Economics and Finance*, *3*(3), 343-355.

Dabari, I. J., & Saidin, S. Z. (2014). A theoretical framework on the level of risk management implementation in the Nigerian banking sector: The moderating effect of top management support. *Procedia-Social and Behavioral Sciences*, *164*, 627-634.

Ekinci, A. (2016). The effect of credit and market risk on bank performance: Evidence from Turkey. *International Journal of Economics and Financial Issues*, *6*(2), 427-434.

Fadun, O. S., & Oye, D. (2020). Impacts of operational risk management on financial performance: a case of commercial banks in Nigeria. *International Journal of Finance & Banking Studies*, *9*(1), 22-35.

Gana, U., & Abubakar, S. (2022). Effect of credit risk on financial performance of listed deposit money banks in Nigeria. *Gusau International Journal of Management and Social Sciences*, *5*(1), 17-17.

Grondys, K., Ślusarczyk, O., Hussain, H. I., & Androniceanu, A. (2021). Risk assessment of the SME sector operations during the COVID-19 pandemic. *International journal of environmental research and public health*, *18*(8), 4183.

Hosseini, Seyed & Mashkani, Abolfazl & Abdellahi, Sayed. (2017). The effect of credit risk, market risk, and liquidity risk on financial performance indicators of the listed banks on Tehran Stock Exchange. American J. of Finance and Accounting. 5. 20. 10.1504/AJFA.2017.10007014.

Karugu, K. P., Muturi, W. D., & Muathe, S. M. (2020). Market Risks, Firmsâ€™ Size and Financial Performance: Reality or Illusion in Microfinance Institutions in Kenya. *International Journal of Economics and Finance*, *12*(11), 118-118.

Lai, J. H. (2018). Performance and Risk: Hotel Company in France-Pierre & Vacances. *Available at SSRN 3182160*.

Luengthada, S., & Batra, A. (2022). Post COVID-19: the future of hospitality and tourism industry after a shift in travel priorities. *AU-GSB e-JOURNAL*, *15*(1), 66-74.

Mardiana, M., & Purnamasari, P. E. (2018). The effect of risk management on financial performance with good corporate governance as a moderation variable. *Management and economics journal (mec-j)*, *2*(3), 257-268.

Mehmood, S., & Zhang, M. (2010). Financial Risk Management: In An Integrated Framework.

MUDANYA, L. E., & MUTURI, W. (2018). Effects of Financial Risk on Profitability of Commercial Banks Listed in the Nairobi Securities Exchange. *International Journal of Social Sciences Management and Entrepreneurship (IJSSME)*, *1*(1).

Muriithi, J. G. (2016). *Effect of financial risk on financial performance of commercial banks in Kenya* (Doctoral dissertation, COHRED, JKUAT).

Muteti, S. R. (2014). *Relationship between financial risk management and financial performance of commercial banks in Kenya* (Doctoral dissertation).

Namasake, K. W. (2016). *The Effect of Market Risk on The Financial Perfomance of Commercial Banks in Kenya* (Doctoral dissertation, University Of Nairobi).

Noor, J. A. M., & Abdalla, A. I. (2014). The Impact of financial risks on the firms' performance. *European Journal of Business and Management*, *6*(5), 97-101.

Nyakang'o, E. O., & Kalio, A. M. (2013). Effect of Financial Risks on Performance of Small and Medium Enterprises in the Hotel Industry in Nakuru Municipality, Kenya. *International Journal of Innovative Research & Development*, *2*(11), 257-263.

Odubuasi, A., Uduak, W. O. D., & Ifurueze, M. (2020). Effect of market risks on the financial performance of firms in Nigeria. European Journal of Accounting, Auditing and Finance Research, 8(6), 28-45.

Outreville, J. (1998). Risk Management Concepts. 10.1007/978-1-4615-6187-3_4.

Pratiwi, E., & Masdupi, E. (2021). Effect of credit risk, market risk and liquidity risk on return on assets of conventional commercial banks registered in the financial services authority during the COVID-19 pandemic. *Financial Management Studies*, *1*(4), 29-46.

Rajasgeran, Suvita. (2018). Operational Risk and Its Determinants': A Study on Hotel and Catering Industry in United Kingdom. SSRN Electronic Journal. 10.2139/ssrn.3181629.

Rakesh, S., & Yeoh, C. Y. (2022). The impact of viral marketing in the tourism industry in malaysia post COVID-19 pandemic. *Journal of Business and Social Sciences*, *2022*(09), 1-13.

Razek, M. A. (2014). The association between corporate risk disclosure and firm performance in emerging country–The case of Egypt. *Journal of Empirical Studies*, *1*(3), 105-115.

Sanjeev, G. M., & Tiwari, S. (2021). Responding to the coronavirus pandemic: emerging issues and challenges for Indian hospitality and tourism businesses. *Worldwide hospitality and tourism themes*, *13*(5), 563-568.

Shahzad, K., Qaisar, A., & Ahmed, W. ENTERPRISE RISK MANAGEMENT AND FIRM FINANCIAL PERFORMANCE: AN EMPIRICAL EVIDENCE OF PAKISTAN.

Tan, L. Y., Lai, J. H., Lee, S., & Chew, W. S. (2018). Analyzing the Relationship between Financial Variables and Market Risk in the Tourism Industry. *Available at SSRN 3182242*.

Tingon, F. M. (2022). THE INFLUENCE OF MARKET RISK ON FINANCIAL PERFORMANCE IN STATE-OWNED AND FOREIGN BANKS LISTED ON INDONESIA

STOCK EXCHANGE. *Jurnal EMBA: Jurnal Riset Ekonomi, Manajemen, Bisnis dan Akuntansi*, *10*(2), 713-721.

Visiana, K., & Bela, N. (2022). The Effect of the Implementation of Corporate Governance and Profit Management with Credit Risk as Intervening Variables on the Financial Performance of Banking (Analytical Study on Commercial Banking and Sharia Banking Listed on the Indonesian Stock Exchange). *Budapest International Research and Critics Institute-Journal (BIRCI-Journal)*, *5*(2).

Wanjohi, J. G. (2013). *The effect of financial risk management on the financial performance of commercial banks in Kenya* (Doctoral dissertation, University of Nairobi).

Widarjono, A., Wijayanti, D., & Suharto, S. (2022). Funding liquidity risk and asset risk of Indonesian Islamic rural banks. *Cogent Economics & Finance*, *10*(1), 2059911.

Wisdom, O., Obiajulu, O., Sandra, E., Eze, E., & Oluwatobi, R. (2021). Liquidity Management: Implications for Financial Performance of Deposit Money Banks (DMBs) in Nigeria. *Journal of Asian Business Strategy*, *11*(1), 24-32.

Yang, Y. (2014). *A study of hotel management financial competencies with the focus on revenue and cost management* (Doctoral dissertation, Kent State University).