Confirmatory Factor Analysis of Risk Management, Internal Control, Internal Audit, Liquidity Risk Reduction, Business Results, and Business Value of Listed Companies on The Stock Exchange of Thailand

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Abstract

The objective of this research was to analyze the confirmatory factor of risk management, internal control, internal audit, liquidity risk reduction, business results, and business value of listed companies on the Stock Exchange of Thailand. This is quantitative research. Data were collected using questionnaires and data record forms from 425 listed companies on the Stock Exchange of Thailand. Data were analyzed by confidence analysis. Observable variables were suitable indicators for the specified latent variables by using confirmatory factor analysis to check the suitability and validity of the structural equation model consisting of considering the factor loadings and the R^2 values. Then, check the variance in conjunction with the indicators by using statistical programs and testing the measurement model of the internal latent variables and the external latent variables that were statistically significant.

The results showed that the correlation matrix analysis of the observed variables is not the identity matrix and the variables are related enough that they can be analyzed for the factors. The measurement model analysis of internal latent variables in two models and extremal latent variables in four models were consistent with the empirical data with a harmonized index value that passed the acceptance criteria. Therefore, a structural equation model is appropriate and harmonized with statistically significant empirical data at the .01 level.

Keywords: Risk Management/ Internal Control / Internal Audit

DOI Number: 10.14704/nq.2022.20.6.NQ22640 NeuroQuantology 2022; 20(6):6379-6391

Introduction

Risk is any event or action that may occur under uncertain circumstances and affect the creation of damages and failures, and reduce the chances of achieving success for the goals and objectives of the business. Risk management, internal control activities, and operating processes by reducing the causes of each opportunity that may cause damage to the organization, so that the level and size of damage that may occur in the future are at an acceptable level (Suvanasarn, 2001). Risk management is the management of risk factors by controlling the business and various operational processes by reducing the cause of each opportunity that may cause damage to the organization so that the level and size of the damage that may occur in the future are at an acceptable level for the organization. These can be assessed through systematic control and internal audit by taking into account the achievement of the essential goals of the organization. Risk management is a way of preventing and managing risks before they occur, rather than taking them after they have occurred (Barton et al., 2002). Currently, executives, auditors, and internal auditors are all familiar with and have widely used COSO ERM (Sakakorn, Henchokchaichana, and Srilunpetch, 2007) to provide processes and procedures for systematic risk management and proceed in the same direction throughout the organization. The organization has participated in the thinking, analyzing, and anticipating of potential risks including specifying guidelines for managing risks at the appropriate level to help the organization achieve its objectives, strategic plans, vision framework, and mission based on its core principles, Enterprise Risk Management Process. According to the conceptual framework of COSO ERM 2017, corporate risk management is the integration between strategy and performance. The nature of the business risks that may arise from the normal course of operation which risk classification is essential and can take many forms depending on the nature of operations and the different discretions of the executives of each organization. However, the key issue of risk management according to the new concept emphasizes the linkage of corporate risk management with strategic plans to add value to the organization (Pierce & Goldstein, 2018). Therefore, the researcher is interested in studying risk management by developing and applying the objectives of risk management followed the COSO ERM framework (in the first dimension) to measure how risk management affects enterprise value about the achievement of the objectives established by the organization in the context of Vision and Mission which focuses on the study of risk management in four areas: (1) strategic risk (2) financial risk (3) operational risk (4) market risk.

The work process that everyone in the organization from the board of directors, executives, and workers have roles and share responsibility. Therefore, control of every activity is established to create reasonable confidence in the achievement of three objectives: (1) efficiency and effectiveness of operations; (2) reliability of financial and accounting reports;(3) compliance with relevant laws and regulations of internal control standards that are established following the international standards of the Committee of

Sponsoring Organizations of the Treadway Commission: COSO 2013. Consequently, these are adapted by most organizations to the context of the management system to be used as a framework for determining evaluate and improving the internal control system of the organization. Internal control consists of five components: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (4) monitoring and evaluation.

Guarantees of the organization in evaluating the effectiveness and efficiency of the internal control system appropriately, both financially and administratively, to promote performance to achieve the objectives and goals of the entity. Internal auditing is an essential tool for executives that assist in monitoring and evaluating the effectiveness and efficiency of the entity's operations and internal control systems which can examine various evidence from the operational auditing, performance audit, compliance audit, financial audit, and information technology audit. An internal audit is a tool or executive assistant that helps in monitoring and evaluating the performance within the organization to provide confidence and independent consultation without intervening in the performance of inspection or the independence of the board. An internal audit is an important tool or mechanism for the executives in the efficient evaluation of the operations and internal control systems of the organization. Internal audits must be consistent with the risk management policy and internal control of the organization. Therefore, the researcher is interested in studying four components: (1) Financial and Accounting Audits (2) Operations Audits (3) Compliance Audits, and (4) Information Systems Audits.

Consideration of whether a company has cash and cash flow that is enough to perform well in the future or not. This is done by comparing the company's financial expenses with the company's interest coverage ratio to analyze the need for additional funding sources in the future for expanding operations. If the company's ability to bear additional liabilities or it is necessary to increase capital, how will the proportion of existing shareholders decrease? It can be analyzed by comparing financial ratios from the statement of financial position with organizations in the same business group. Accounting data measurement is generally considered a powerful indicator of management capabilities to mitigate liquidity risks of the company such as Current Ratio, Debt to Equity Ratio (D/E), and Total Debt to Total Asset Ratio (TD/TA) that are used to assess the capital structure and the liquidity level of the company. Risk liquidity reduction is a consideration of whether a company has cash and cash flow that is enough to perform well in the future or not. This can be done by comparing the company's finance costs with the operating income the company earns to analyze the need for more funding in the future for expanding operations. If the company's ability to bear additional liabilities or it is necessary to increase capital, how will the proportion of existing shareholders decrease? Credit risk, liquidity risk, foreign exchange risk, market risk, and interest rate risk are indeed effective risk management systems to control these risks (Noor & Abdalla, 2014). This can be analyzed by comparing financial ratios from the statement of financial

position with organizations in the same business group. It can be analyzed by comparing financial ratios from the statement of financial position. Accounting data measurement is generally considered a powerful indicator of management capabilities to mitigate liquidity risks of the company. Three elements were identified: (1) fast working capital ratio, (2) debt to equity ratio, and (3) debt to total assets ratio.

A company's success is measured by its profitability which is an important process to measure the efficiency and effectiveness of a company that displays its ability to executive management and returns on equity (Cheng et al, 2008). The most widely used measurement of a company's performance is the financial ratio analysis to demonstrate its ability to assess the profitability of an entity how well executives have managed all of the company's capital and whether fundraising meets the goals and objectives of the work and how much (Yulihapsari, Rahatika & Waskito, 2017; Stefenoni (2018). It can be measured, assessed, and compared using financial figures obtained from actual income from operations such as revenues, costs, assets, liabilities, and shareholder return (Brown, 2018). Profitability is generally the most important aspect for all shareholders of a company, i.e. the loss of money to credit without profit or loss caused by unexpected changes in interest rates. In addition, the company's performance can be measured by (1) Return on Equity (2) Return on Assets (3) Gross Profit Margin, and (4) Net Profit Margin (Munyuny, 2013, Choi et al., 2013).

Enterprise value is a measurement of the net present value of an organization's future cash flows and indicators of business survival. A company's business is measured with enterprise value as Tobin's Q, which is the ratio of total assets minus the market value of common stock shareholders plus the carrying amount of capital to the asset's book value. If more than one Tobin's Q ratio is a signal of rewarding company investment and growth opportunity and there will be high investment incentives. If Tobin's Q ratio is less than one, investment should be stopped and Economic Value Added (EVA) is a measurement of the performance of the company in economics. Economic value added can explain a security's return better than the earnings per share ratio (Hutchison & Gul, 2004; Selvam (2016).

Related Concepts and Theories

Agency Theory, the relationship between a principal, and an agent under a contract are established by Jensen & Meckling (1976) who explain that agent theory is based on the assumption that executives and investors are different persons. Investors are investors who invest in equity to operate a business, or in other words, they are the owners of the business. Business owners invest their money because people cannot produce goods and services. There is no management capacity, no labor force, and skills to run the business while executives are persons or like employees, whether they have different levels of employees, they still act as a representative of the company's directors who have knowledge and ability to manage the business. The executives; therefore, operate the business on behalf of the investors by representing the owners of the business or the owners of the equity which

are authorized to manage and control to create added value for executives. Under contracts stipulated between principal and agent may always have undesirable behavior. Agents or executives found that the behavior is self-seeking and opportunistic by using their power to do business for personal gain, seeking opportunities, taking advantage in the form of money and not in the form of money in which the act of oneself is not proven or difficult to prove as an illegal action, Articles of Association, breach of contract or illegal. Friedman (1970) explains that business owners know the behavior of executives very well, but owners need to hire executives because executives have unique managerial abilities. Therefore, scholars are trying to study research to identify the mechanisms that make executives adjust behavior and management in accordance with the creation of corporate value by implementing a corporate governance mechanism, which is defined as the process for supervising and controlling executives. This is to ensure that the executives exercise control over the business for the benefit of the maximum for the business and the owners. If corporate governance is used as a mechanism between executives and investors, affecting the abilities of ownership and management control are separated from each other within the organization. Executives have full authority to control the business and manage the affairs with integrity to create business value.

Corporate Governance is the nature and method of using state power for social and economic resources management of the country, especially, companies listed on the stock exchange that has a huge impact on investors. It has now become the main factor that shows the operational efficiency and effectiveness of an organization when considering a selection of investments from both internal and external investors (Lazonick, 2000). Good corporate governance is an essential tool for sustainable business value-added. Good corporate governance practices create confidence for investors to decide to invest in the business. Risk management, Internal control, and internal audits are essential mechanisms of corporate governance. Dealing with problems or events that may hurt the achievement of the objectives of the business. Control of the operating process at the company's executives and personnel committees enables the organization to follow the process to achieve business objectives (Srijanphet, 2012). The changing economy, politics, and information technology are essential to have risk management principles as a framework for compliance with good corporate governance, the analysis and assessment of risks arising or may arise from global supply chains across a wide range of industries or the risk from the severe global economic slowdown from various events inevitably, for example, Europe has experienced economic volatility due to Brexit issues, the US-China trade war, and the volatility of oil prices from European tensions. Enterprises are likely to face new risks that may affect the world's capital markets widely small, medium, large, and even global businesses are increasingly focusing on risk management including compliance with the internal control system (Srijanphet, 2005). The internal audit unit of the business must increase the ability to control the risk

management and internal control (Munteamu & Zaharia, 2014).

From the concepts, theories, and related research, the researcher can synthesize variables and their components can be discovered the key components that are as follows (1) Risk Management discovered four components: 1) Strategic Risk 2) Financial Risk 3) Operational Risk 4) Market Risk; (2) Internal Control discovered five components: 1) control environment, 2) risk assessment, 3) control activities, 4) information and communication, and 5) monitoring and evaluation; (3) Internal audit discovered four components: 1) Financial and Accounting Audits 2) Operations Audits 3) Compliance Audits and 4) Information Systems Audits; (4) Liquidity Risk Reduction discovered three components: 1) current ratio 2) Debt to equity ratio and 3) Debt to total assets ratio; (5) Performance discovered four components:1) Return on Equity 2) Return on Assets 3) Gross Profit Margin and 4) Net Profit Margin; and (6) Business Value discovered two components as follows: 1) Tobin's Q Ratio and 2) Economic Value Added (EVA).

Research Objectives

To analyze the confirmatory factor of risk management, internal control, internal audit, liquidity risk reduction, business results, and business value of listed companies on the Stock Exchange of Thailand.

Research Methodology

Research methodology is survey research using quantitative research methods and the Structural Equation Modeling (SEM) technique.

The population and sample groups are 425 companies listed on the Stock Exchange of Thailand from seven industries as follows: (1) forty-eight companies in the Agricultural industry and food-industry groups; (2) thirty-six companies in the consumer goods industry groups; (3) eighty-one companies in the industrial groups; (4) ninety-one companies of Real estate and Construction groups; (5) forty-four companies in the resource industry groups, (6) ninety-two companies in the service industry groups; and (7) thirty-three companies in the technology industry groups with continuous operating results every year until June 2021.

Data collection: Phase 1 collects primary data by using a questionnaire as a research tool that is be divided into five parts, Part 1: A survey (Check List) contains five questions about general information of the respondents and five items of information of listed companies in the Stock Exchange of Thailand.

Part 2: Opinions on risk management of companies listed on the Stock Exchange of Thailand contain twenty questions.

Part 3: Opinions on Internal Audit of Companies Listed on the Stock Exchange of Thailand contain twenty questions.

Part 4: Opinions on the Company's Internal Control Listed on the Stock Exchange of Thailand contain twenty questions.

Part 5: Comments and other suggestions, It's an open-ended question.

Out of all the questionnaires of five computers, there are three parts of the Rating Scale: 2, 3, and 4.

The scoring scales for each question are as follows:

5 means most agree
4 means very much agree
3 means moderately agree
2 means less agree
1 means least agree

Phase 2 collects secondary data from the annual financial statements of listed companies on the Stock Exchange of Thailand from the Company's financial database for five years from 56-1 Form from 2016 to 2020. In terms of financial risk reduction, performance, and business value using a data record as a research tool.

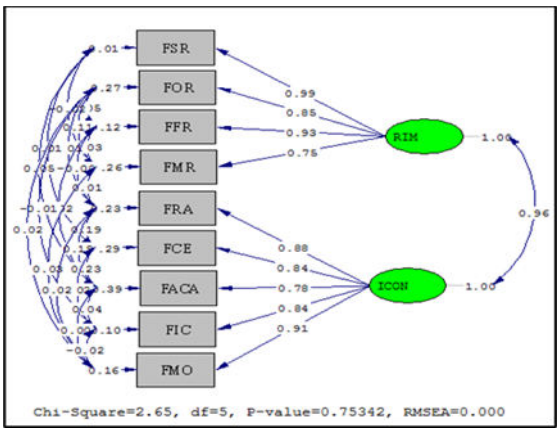
The data analysis was a reliability analysis of the observed variables as suitable indicators for the latent variables defined by Confirmatory Factor Analysis was used to verify the suitability and validity of the Structural Equation Model. It consists of determining the component weights and the R^2-values. The covariance of the indicators was examined using a statistical program.

Research Results

The table shows the validity results of the external latent variable measurement model.

Variables	Factor loading				
	Coefficient	SE	t	Factor Score	R^2
FSR	0.99	0.015	64.21	0.96	0.99
FOR	0.85	0.017	49.11	-0.04	0.73
FFR	0.93	0.016	57.22	0.02	0.87
FMR	0.75	0.017	45.16	0.06	0.69
FRA	0.88	0.017	50.86	0.18	0.77
FCE	0.84	0.018	47.19	0.05	0.71
FACA	0.78	0.019	40.39	-0.16	0.61
FIC	0.84	0.015	57.06	0.36	0.88
FMO	0.91	0.017	54.56	0.21	0.84

Chi-Square = 2.65, df = 5, p = 0.75342, RMSEA = 0.000, GFI =1.00, AGFI = 0.99



1 Confirmatory Factor Analysis (CFA)

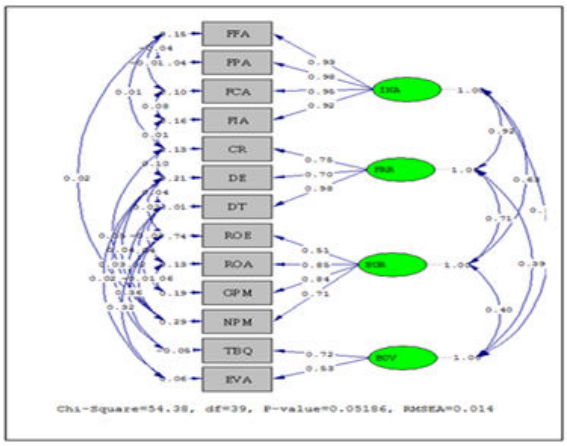
1.1 The analysis of external latent variables found that external latent variables consisted of risk management (RIM) and internal control (ICON), classified into nine aspects, namely, strategy (FSR), operational (FOR), finance (FER), and Markets (FMR), Risk Assessment (FRA), Control Environment (FCE), Control Activities (FACA), Information and Communications (FIC), and Monitoring and Evaluation (FMO). The results of the correlation matrix analysis with values of Chi-Square Bartlett's test = 36698.788 df = 78, p = 0.000 differed statistically from zero at the .01 level. It showed that the correlation coefficient matrix of the

observed variables is not an identity matrix, variables are correlated enough to be used for composition analysis, and the KMO index is .937. The results of measurement model analysis Chi-Square = 2.65, df = 5, p = 0.75342, RMSEA = 0.000, GFI=1.00, AGFI = 0.99, indicating that the external latent variable measurement model harmonized with the empirical data. When considering the sub-factors of external latent variables found that the variables were loaded in the indicators of risk management (RIM) and internal control (ICON), i.e. strategy (FSR), with a factor loading of 0.99 percent and a co-variance of the Risk management indicators (RIM) at 99.0 percent, followed by finance (FFR), with a factor loading of 0.93 and co-variance of the risk management indicators (RIMs) at 87.0percent, the least was marketing (FMR), with a factor loading of 0.75percent and a co-variance of risk management indicators (RIM) at 69.0percent. Confirmatory Factor Variable Analysis for the external latent variable factor found the Risk Management Measurement (RIM) and Internal Control (ICON) models were harmoniously consistent with the empirical data, with the four harmonious indices that passed the acceptance criteria, namely index value χ2 /df = 0.530. GFI = 1.000 AGFI = 1.000 and RMSEA = 0.000. Therefore, it can be concluded that Structural Equation Model is appropriate and harmonious with empirical data.

The table shows the validity results of the internal latent variable measurement model.

Variables	Factor loading				
	Coefficient	SE	t	Factor Score	R^2
FFA	0.93	0.017	55.37	.24	0.85
FPA	0.98	0.016	61.86	.52	0.96
FCA	0.95	0.016	58.65	.17	0.90
FIA	0.92	0.017	55.14	.00	0.84
CR	0.75	0.014	53.86	.28	0.82
DE	0.70	0.015	47.27	-.37	0.71
DT	0.98	0.015	63.64	1.05	0.99
ROE	0.51	0.021	24.56	.54	0.26
ROA	0.85	0.017	48.59	.05	0.84
GPM	0.84	0.018	45.87	.48	0.79
NPM	0.71	0.017	41.42	.40	0.64
TBQ	0.72	0.011	64.15	.03	1.10
EVA	0.53	0.010	51.83	3.62	0.84

Chi-Square = 54.38, df = 39 , p = 0.05186, RMSEA = 0.014, GFI =1.00, AGFI = 0.99



1.2 The analysis of internal variables found that internal variables consisted of internal audit (INA), liquidity risk reduction (FRR), Business results (BUR), and business value (BUV) classified into thirteen aspects, namely: Financial Audit Accounting (FTA), Operations Audit (EPA), Compliance Audit (FCA), Information Technology Audit (TIA), Current Ratio (CR), Debt to Total Assets (DE), Debt to Equity Ratio (DT), Return on Assets (ROE), Return on Equity (ROA), Gross Profit Margin (GPM), Net Profit Margin (NPM), Financial to Business Value Ratio (TBQ), and economic value added (EVA). The results of the correlation analysis among the thirteen factors of the pairs revealed that the correlation of the observed variables was significantly different from zero at the .01 level with a high correlation that is financial to business value (TBQ) ratio and economic value added (EVA). The correlation matrix is analyzed by Chi-Square

Bartlett's test = 36698.788 df = 78, p = .000, differed statistically from zero at the .01 level. This indicates that the observed variable correlation coefficient matrix is not an identity matrix and variables are correlated enough to be used for composition analysis and KIMO index = 0.909, indicating that the variables were suitable for composition analysis. The results of the measurement model analysis were Chi-Square = 54.38, df = 39, p = 0.05186, RMSEA = 0.014, GFI = 1.00 AGFI. = 0.99, indicating that the internal latent variable measurement model is in harmony with the empirical data. When considering the sub-factors of internal latent variables found that variables were loaded to the Internal Audit Identification (INA) significance, liquidity risk reduction (FRR), business results (BUR), and business value (BUV), were operational audits (FPA) and Debt to Equity Ratio (DT) with a factor loading of 0.98 percent on both sides and has covariance of the internal audit indicator (INA) and liquidity risk reduction (FRR) was 96.0 percent and 99.0 percent, respectively, followed by the financial audit accounting (FFA) with a factor loading of 0.93 percent and has the covariance of the Internal Audit Indicator (INA) of 85.0 percent, the lowest one is the Return on Assets (ROE), with a factor loading of 0.51 and the covariance of the internal audit indicator (INA) of Performance (BUR) at 26.0 percent. Confirmatory Factor Variable Analysis for the internal latent variable factor in an internal audit (INA), liquidity risk reduction (FRR), business results (BUR), and business value (BUV) found that the four latent variables measurement models were consistent with empirical data with the four harmonious indices that passed the acceptance criteria, namely index value $\chi 2$ /df = 1.394 GFI = 1.00 AGFI = 0.990 and RMSEA = 0.014. Therefore, it was concluded that the Structural Equation Model was appropriate and harmonized with the empirical data.

Conclusion

The external latent variables consisted of nine factors: risk management (RIM) and internal control (ICON), classified into nine aspects, namely, strategy (FSR), operational (FOR), finance (FER), and Markets (FMR), Risk Assessment (FRA), Control Environment (FCE), Control Activities (FACA), Information and Communications (FIC), and Monitoring and Evaluation (FMO) found that both external latent variable measurement models be appropriate and harmonized with statistically significant empirical data at the 0.01 level.

The Internal latent variables consist of internal variables consisting of (1) internal audit (INA), (2) liquidity risk reduction (FRR), (3) business results (BUR), and (4) business value (BUV) are classified into thirteen aspects, namely: Financial Audit Accounting (FTA), Operations Audit (EPA), Compliance Audit (FCA), Information Technology Audit (TIA), Current Ratio (CR), Debt to Total Assets (DE), Debt to Equity Ratio (DT), Return on Assets (ROE), Return on Equity (ROA), Gross Profit Margin (GPM), Net Profit Margin (NPM), Financial to Business Value Ratio (TBQ), and economic value added (EVA) found that all four latent variable measurement models were appropriate and harmonized with statistically significant empirical data at the 0.01 level.

Discussions

According to the research objectives, it found that risk management, internal control, internal audit, liquidity risk reduction, business results, and business value of all 6 measurement models were appropriate and harmonized with statistically significant empirical data at the 0.01 level. This can explain that (1) the factors of risk management consist of strategic, financial, operational, and marketing factors. It is an essential factor in various events or if any changes occur that, when it happens, may negatively affect the achievement of the objectives of the business. Assessment of risks from such factors for executives applied as a guide in developing a plan to control, prevent, or reduce its impact to an acceptable level. (2) Factors of internal control include the control environment, corporate risk assessment, the control activities of the organization, the information and communication of the organization, and monitoring and evaluation are key factors in accordance with international standards COSO 2013. (3) The internal audit consists of financial audit, accounting, and operational auditing, compliance inspection, and information technology auditing are factors of a comprehensive audit of all processes come to the activities of the entity's operations that executives can use as a tool to verify, monitor and assess the efficiency and the effectiveness of the operation to meet the objectives as well. Therefore, risk management, internal control, and internal audit have a system and efficiency that reduces liquidity risk. The condition of the business can be measured from the financial ratio, current ratio, debt to total assets ratio, and debt to equity ratio. The result will be able to reflect how good the liquidity of the business is. Measuring business results and business value can be o measured from Return on Assets (ROE), Return on Equity (ROA), Gross Profit Margin (GPM), Net Profit Margin (NPM), Financial Ratio (TBQ), and Economic Value Added (EVA). Such financial ratios will help executives, investors, and shareholders or related parties can obtain information for analysis of business results and business values for consideration of new projects or for investors to use in making investment decisions. This is consistent with a study by Laisasikorn & Rompho (2014) which found the relationship between successful enterprise risk management systems and performance measurement systems. Financial performance of Thai listed companies in the globalization era, businesses are always faced with uncertainty. To successfully meet all risks, the Enterprise Risk Management System (ERMS) and the Performance Measurement System (PMS) were established to create sustainable growth. The success of ERMS and PMS was positively correlated with the financial performance of the organization. It is measured by return on assets (ROA), return on equity (ROE), and earnings per share (EPS). An entity must develop, improve, and use both systems to gain competitive advantages and maintain business growth. Risk management must be managed to an acceptable level. This is consistent with research by Soilean (2010) that found a weak risk management system was a key contributor to the 2008 financial crisis in the United States (USA). Majeed et al., (2020) found that the factors of internal control related to management are the

basis for determining efficiency in financial performance by measuring performance in the form of Return on Assets (ROA), Return on Equity (ROE), and effectiveness helps achieve increased shareholder value (Awdat, 2015). Effective internal audits can prevent potential losses to the organization by the loss that may occur affect the financial performance and liquidity of the company (Subhi & Stannisic, 2016), even the organization of internal control and internal auditing of insurance companies should provide complete, reliable and impartial information about with financial statements regarding assets and risks. Bad internal controls against money laundering can lead to effective management of financial and economic activities, assets, and risks as well as ensuring cost-effective and efficient performance (Salimova, 2016).

Recommendations

Recommendations for implementation

1. The Risk Management Department of companies listed on the Stock Exchange of Thailand can use the research results to formulate Risk assessment plans for various activities of business operations to set guidelines for risk prevention. Internal control is done by internal control units appropriately and adequately. The Internal Audit Department uses it as a guideline for formulating an internal audit plan continually in accordance with the risk control plan to reduce the opportunities that may affect the organization's damage or may negatively affect the achievement of systematic and continuous organizational objectives.

Recommendations for next research

1. The next study can study the other potential factors or new risk factors that may affect the objectives or business goals according to the current situation that has changed and analyzed, such as the risk of economic recession from the impact of an epidemic that has spread throughout the world or risks arising from the effects of foreign exchange rates or interest rates trade war or economic war, etc.

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