Chapter 7
The Effect of Business Strategy and Stock Market Listing on the Use of Risk Assessment Tools

ABSTRACT

This chapter includes an empirical study aimed at exploring the effect of business strategy and stock market listing on the use of risk assessment tools. The study is based on a sample of large manufacturing firms. First, drawing from academic literature, the chapter provides an overview of risk management, regarded as the set of principles, frameworks and processes for managing risk, and considered as a critical aspect of MCS. Then, following a congruence approach as a form of contingency fit, research hypotheses are developed, focusing on two separate relationships: the relationship between business strategy and the use of risk assessment tools and the relationship between stock market listing and the use of risk assessment tools. Results reveal that the use (and the perceived usefulness) of risk assessment tools are not affected by business strategy, while an association is found between the use of risk assessment tools (and the perceived usefulness of risk maps) and stock market listing.

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INTRODUCTION

In the evolving competitive environment, firms are under continuous pressure to review and adapt their business strategies and operating models, due to the high levels of environmental uncertainty. The occurrence of uncertain and unplanned events may be caused by a number of factors, such as the actions of customers and suppliers across the world, growing rivalry in the marketplace, macroeconomic factors and stakeholders' demands (Clarke & Varma, 1999). In this context, the use of risk management practices has gained prominence as a critical factor to the success of financial and non-financial firms.

Risk management (RM) can be generally regarded as the set of principles, frameworks and processes for managing risk, where risk can be considered as the likelihood that some factor or event will prevent an organization from achieving its objectives (Bhimani, 2013). As noted by Fraser and Simkins (2016), RM was traditionally viewed from a narrow perspective, mostly involving insurance or finance (hedging) issues and focusing on the exposure to specific potential events (e.g., occupational safety and health, changes in currency or interest rates, credit risk). However, since the mid-90s, as an effect of a number of economic and social causes, RM has shifted from that narrow and calculative conception to a broader and managerial one (Power, 2007). In particular, RM can be approached from different angles. On one hand, RM has become a crucial component of contemporary corporate governance reforms, in the wake of some corporate disasters and even more after the 2008 financial crisis. Many rules and codes of corporate governance (mainly based on the "comply or explain" principle) have been introduced worldwide to regulate more carefully the composition and the functioning of the corporate tripod (board, shareholders and management). These reforms were aimed at providing a more efficient set of internal controls for monitoring company behaviors in the interest of the different groups of stakeholders, and placed emphasis on the ex-ante risk identification and treatment (Riccaboni et al., 2014). On the other hand, the concept of risk has also increased in importance, because of the growing awareness that organizational objectives should not be defined without a complete analysis and evaluation of the different types of risk that can influence their achievement. This awareness has led to the diffusion of risk management models and tools supporting the strategic management processes and performance measurement, with the aim to provide information to managers for planning and control purposes. From this angle, RM has entered the domain of MCS (Bozzolan, 2008; Mikes,