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Faculty of Management
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The Impact of Business Risk Management on Organizational Control Effectiveness

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1. Chapter 1: Introduction

1.1. Research Background

The banking sector plays a vital role in economic development by facilitating financial intermediation, mobilizing savings, and supporting investment activities. Due to the nature of banking operations, banks are exposed to a wide range of risks that may threaten their financial stability and operational continuity. Business risk in the banking sector includes credit risk, liquidity risk, market risk, operational risk, and compliance risk. The increasing complexity of financial products, technological innovation, and regulatory requirements has further intensified these risks.

Effective control systems are essential for banks to manage and mitigate business risks. Internal controls help ensure the reliability of financial reporting, compliance with banking regulations, protection of assets, and efficiency of operations. International frameworks such as the Basel Accords and the COSO Internal Control Framework emphasize the importance of integrating risk management with internal control systems in banks.

Recent global financial crises and banking failures have highlighted weaknesses in risk management and control mechanisms within financial institutions. As a result, regulators and stakeholders increasingly demand stronger risk-based controls to enhance transparency, accountability, and financial stability. Therefore, examining business risk and control in the banking sector is crucial to improving bank performance and maintaining public confidence.

1.2. Research Problem

Business risk management has become a central concern for banks and financial institutions worldwide, particularly following major financial crises that exposed critical weaknesses in risk identification and control systems. In the banking context, the relationship between business risk management and organizational control effectiveness is of paramount importance, as inadequate risk controls can lead to financial losses, regulatory penalties, and reputational damage. Despite the recognized importance of both domains, gaps remain in understanding how specific risk management practices translate into measurable improvements in control effectiveness.

1.2.1. Theoretical Gaps

Despite a growing body of literature on enterprise risk management (ERM) and internal control systems individually, there is limited theoretical integration of the two disciplines in the banking context. Most existing theoretical frameworks treat risk management and internal control as parallel but separate processes, rather than as interdependent systems. Additionally, there is insufficient theoretical development explaining the causal mechanisms through which specific risk management practices enhance the five components of the COSO Internal Control Framework, particularly in banking institutions operating under Basel III and IV regulatory regimes.

1.2.2. Practical Gaps

At the practical level, many banking institutions continue to operate with fragmented risk management and internal control functions, leading to duplicated efforts, inconsistent risk-control alignment, and blind spots in the overall control environment. Surveys of banking professionals reveal that risk assessment outputs are frequently not incorporated into control design processes, and that monitoring activities are often conducted independently of risk management cycles. This operational disconnect results in control systems that are not adequately calibrated to the risk profile of the institution. The main research question arising from these gaps is: To what extent does the maturity and integration of business risk management practices impact the effectiveness of organizational control systems in banking institutions?

1.3. Research Significance

This study carries significant importance at both the theoretical and practical levels, addressing a critical gap in the understanding of how business risk management shapes organizational control effectiveness in the banking sector.

1.3.1. At the theoretical level

At the theoretical level, this research contributes to the growing body of literature on integrated risk-control governance by establishing a

conceptual model that links business risk management maturity to the five components of the COSO Internal Control Framework. It advances organizational theory by proposing that risk management and internal control should be treated as a unified governance system rather than separate compliance functions. The study also extends ERM research into the banking context, offering theoretical insights applicable to Basel-regulated financial institutions and contributing to discussions in accounting, finance, and management literature on the determinants of control effectiveness.

1.3.2. At the practical level

At the practical level, the findings provide bank executives, internal auditors, risk officers, and board members with actionable insights into how strengthening risk management practices can directly enhance control environments. The study offers guidance on aligning risk assessment cycles with control design and monitoring processes, thereby reducing control deficiencies and improving regulatory compliance. For regulators and supervisory authorities, the research highlights areas where risk-based control requirements can be strengthened in banking regulations, contributing to greater financial system stability and stakeholder confidence.