Developing enterprise risk management model for employees performance within Abu Dhabi National Oil Company (ADNOC) in UAE

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Abstract

Increasing business volatility has revealed the inadequacy of traditional risk management approaches. Enterprise risk management (ERM) is the result of this integrated approach to risk measurement and management (ERM). ERM disclosures have previously been studied using a book-based approach, which did not provide accurate or complete information. But this paper looked at how risk management affects employee performance at the Abu Dhabi National Oil Company (ADNOC) in the United Arab Emirates (UAE). A questionnaire was used to gather data from 311 respondents operating in ADNOC. Smart-PLS is used to test the hypotheses underlying the proposed study. ERM was found to have a significant impact on employee productivity, according to the findings of the study. Employee performance was significantly influenced by ERM as an independent variable, which in turn was mediated by organisational culture (OC). Enterprise risk management implementation has a significant impact on the performance of oil and gas sector employees, according to the findings of this study. Additionally, the study's findings indicated a theoretical contribution to the field of enterprise risk management implementation. Furthermore, it demonstrated a practical improvement in the oil and gas sector's risk management and employee performance in the UAE's ADNOC National Petroleum Corporation.

Keywords: ERM, organizational culture, employee performance, ADNOC, UAE.

1. Introduction

An oil-producing nation, the United Arab Emirates is a member of both the Organization of the Petroleum Exporting Countries (OPEC) as well as the Organization of the Gas Exporting Countries (OGEF) (EIA, 2017). The UAE is working to achieve a more sustainable future. The UAE Energy Strategy 2050 intends to quadruple the share of clean and nuclear energy in the total energy mix while reducing the carbon footprint of power generation by 70%. By the end of 2019, the government wants 10% of all citizens to have access to the internet. But there are some barriers to energy innovation that is sustainable. The nature of sustainable energy innovation, namely: high technological risk, financial risk, and fierce commercial competition from established, low-cost products, whereas an effective solution to

deal with all these risks is one of the most significant systemic barriers to the rapid development of new technologies in O&G industry in UAE (ENR, 2019).The lack of professionalism in government institutions has caused major worry among practitioners and academics in dealing with the creative approach to risk management and its typical types of methods in the previous decade. This achievement could be reflected in the RM success factor on the UAE government's performance (UAE). O&G companies in UAE need of thoroughly examining the method of implementing risk management, as well as the system for determining success criteria, should be taken into account (Humaid et al., 2020). ADNOC is the UAE's market leader in retail and wholesale transportation fuels, principally selling and distributing gasoline and operating

forecourt convenience stores. ADNOC Distribution found 77 of them. Proactive risk management is an important part of the ADNOC's fundamental business activities. By recognizing, understanding, and managing risks in line with a defined risk management policy and procedures, ADNOC risk management method reduces exposure to uncertainty and increases exposure to opportunities (ADNOC Distribution Annual Report, 2020).

It is important to remember that enterprise risk management is not only about protecting business, but also about making it better, allowing businesses to realise their potentials, reduce costs, eliminate overlaps and gaps, and develop plans to manage, accept, or capitalise on certain business opportunities (Tasmin, R., & Muazu, 2017). Employee performance and value can be improved if the above activities are coordinated and implemented properly. ERM reduces production costs and stock price volatility, improves capital efficiency, and creates synergies between various risk management activities when implemented (Zou et al., 2019). As a result of ERM's emphasis on risk awareness, better operational and strategic decisions are said to be made possible. ERM can help companies better understand the total risk associated with their various business activities (Bohnert et al., 2019). A more objective resource allocation framework, they argue, improves capital efficiency, and returns on equity by making it easier for businesses to allocate resources.

A number of activities are involved in putting ERM into practise. According to Taylor, 2005, these activities include risk identification, analysis and evaluation of potential risks, risk control, and risk monitoring (Elhoush & Kulatunga, 2019). Implementing ERM in a business is easy to spot when you see these components or activities in play. An additional concern for ERM implementation intensity is a company's risk perception and apprehension. Many companies in today's business world rely heavily on their implementation of enterprise risk management. While ERM is still a relatively new idea in many parts of Asia, it is gaining popularity (Soltanizadeh & Quoquab, 2019). According to previous studies, ERM implementation in the United Arab Emirates (UAE) was considered in

broad terms. According to Faccia et al. (2019), ERM implementation can have a significant impact on an organization's overall performance. They discussed the link between enterprise risk management, financial performance, and the cost of capital. Companies were divided into ERM-adopted and non-adopted groups by Shad et al. (2019) to identify the factors that influence ERM adoption in the business world. We don't know much about the extent to which various industries have implemented ERM yet because it's still relatively new in the UAE (Soltanizadeh & Quoquab, 2019). Finally, in the oil and gas industry, enterprise risk management is an essential part of daily operations.

As a result of their efforts to improve employee performance, organisations are constantly battling to improve their organisational culture. Organizational culture has been identified as an important antecedent of employee performance by many researchers, but in other studies, it is seen as the goal for competitive advantage. To ensure the oil and gas industry's long-term viability, it is imperative that factors affecting business continuity be thoroughly examined. For any organisation, the importance of ERM and organisational culture is so great that an empirical examination is carried out to show their combined impact on employee performance.

2. Theoretical literature and hypothesis development

Companies can use Kaplan and Norton's (1996) Balanced Scorecard (BSC) to measure and improve their internal capabilities and gain a competitive edge over their competitors. Intangible resources such as ERM and organisational culture allow companies to assess the performance of their employees more accurately (Elhoush & Kulatunga, 2019; Mwai, 2018).

2.1 Employee performance

Quantity of output, timeliness of output, presence/attendance at work, efficiency of completed work, and effectiveness of completed work all play a role in determining performance (Ramakrishnan, & Arokiasamy, 2019). An employee's performance is measured by how well they meet predetermined standards

while utilising available resources in a constantly changing environment, as determined by their manager or organisation. Because of this, any evaluation of an organization's performance must be based on the standard or objective it has set for itself. Job performance is the only true indicator of an employee's value, and it is measured by comparing actual output to target output (Hrovatin et al., 2016). Consequently, establishing a performance standard, communicating it to the employee, and measuring actual performance are all necessary steps in achieving a desired level of job performance.

2.2 Enterprise risk management

Enterprise risk management (ERM) is a critical component of risk management that has grown in importance across a wide range of industries in recent years. For example, the 2007–2009 global financial crisis was a perfect example of this, as companies (financial and non-financial) as well as financial regulators, shareholders, rating agencies, and other financial sector stakeholders worldwide struggled to understand how systemic damage was inflicted on institutions that should have had the best ERM practises (Yang et al., 2018). In the eyes of industry experts, advanced ERM is a value-added tool that can help an insurance company develop cutting-edge services. Organizational effectiveness, risk reporting quality, and business performance are all enhanced by ERM (Lam, 2020). It gives insurance companies a competitive edge by enabling them to actively take on acceptable risks in addition to avoiding those that are unacceptable (Oscar &Abor, 2019).

Iqbal et al. (2019) found that one of the most important concepts in strategic management is how well a company's operations are performing. Employees' performance can be improved if they are assured by the company's management that major negative events will not occur because of good control (Irefin & Mechanic, 2018). A firm's ability to meet its goals and objectives, both financially and non-financially, is referred to as firm performance by Stewart (2019). Research into ERM implementation and firm performance shows that most studies show ERM will add value and improve firm performance when properly implemented

(Shad et al, 2019). It has been shown by (Shad et al, (2019) that successful implementation of ERM results in lower cost of capital and improved business performance for shareholders.

Cross-cultural management or partnerships with other countries are also a sign that organisational culture is important in industries like UAE oil and gas companies. Organizational culture would help employees solve problems and improve organisational performance if they knew more about how things work there, too. While agreeing with this, Kotter and Heskett, (2011) say that having an intimate knowledge and awareness of culture should make it easier to analyse organisational behaviour and thus make it easier to be an effective manager. Theory and empirical evidence are both used to come up with the following hypothesis:

H1. Enterprise risk management has a significant effect on employees' performance.
H2. Enterprise risk management has a significant effect on organizational culture.

2.3 Organizational culture

Organizational culture is defined as a collection of norms, beliefs, principles, and ways of behaving that contribute to the distinctive character of each organisation (Stewart & Brown, 2017). According to Nikpour (2017), culture contributes to the process of making sense. That is, it assists employees in comprehending organisational events; as a result, employees can communicate more efficiently and effectively, forming mutual relationships as a result of shared mental models of reality. This results in improved performance. The pervasiveness of culture in organisational life provides support for the hypothesis that cultural factors may be associated with organisational performance. However, despite its apparent importance, scholars disagree on the precise nature of the relationship between organisational culture and job performance. In other words, no widely accepted causal relationship exists between organisational culture and job performance of employees. Numerous studies on the effect of organisational culture on job performance have thus far produced inconclusive and occasionally contradictory findings (Kotter & Heskett, 2011). Previous research indicates that

firms that incorporate employee performance into their management strategy will have higher employee performance. This research will examine the following hypothesis statement in light of this claim.

H3: Organizational culture has a significant effect on employees' performance.

## 2.4 Mediating role of organizational culture

Organizational culture is more important than ever in today's evolving business environment because risks tend to interrupt sustainable operations, lowering an organizational performance. However, these risks can be handled by risk management practices to integrate with organizational culture, resulting in greater organizational performance (Quinn., 2018). ERM is frequently preformed under unpredictable supply conditions and high degree of uncertainty which increase the degree of risk on the organizational culture (Nikpour, 2017). Thus, organisational culture may act as a buffer between ERM and an institution's employees' performance (Rabbani et al., 2019). Thereby, the relationship between risk management, employee's performance is hypothesized to be mediated according to the following hypothesis statement.

H4: OC mediates the relationship between ERM and employees performance.

2.5 Theoretical Gap

Theoretically, scholars have carried out various studies of the Balanced Scorecard theory (BSC). The review of literature shows that the adoption of BSC's perspective in O&G sector is limited (Lyu, et al., 2016; Al-Qubaisi & Ajmal, 2018), other scholars have been more questioning about the role of BSC on employees performance, and are trying to prove the more clear-cut relationship between BSC and organizational performance (Aminaimu & Yudi, 2019), while in UAE there is a lack of empirical studies for the theoretical assertion of BSC on organizational culture and employees performance in O&G companies. Thus, this research established the association between BSC and organizational culture at O&G companies, and the challenges faced in implementation of the Balanced Scorecard in ADNOC. Thereby, the aim is filling this gap and extending the knowledge on BSC in O&G industry, explaining the relationship between the BSC and employees performance. However, many researchers argued that ERM framework in oil and gas industry. These are the key variables that a good ERM framework should include some of them as recommended by (Gatzert et al., 2019 & Khan et al., 2016). This is where my research came, it came to fill in this huge gap as ERM framework employed in oil and gas industry should be very strong looking at the abundant risk associated with the oil industry. However, Figure 1 shows conceptual research model that has been designed with the reference of previous literature. It shows enterprise risk management on left hand side, whereas employees performance on the right hand side. Both extremes has been connected with the arrows which show the relationship dimension amidst the variables through organizational culture as mediator.

Figure 1. Research Framework
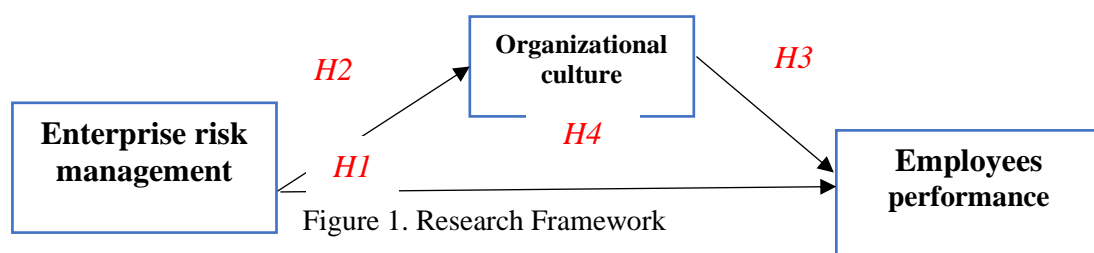
3. Research methodology

The investigation planned for setting up the impact of improving the enterprise risk management for ADNOC employee's performance in the UAE. The questionnaire responses are directly filed in the computer program (SPSS) for analysis. The primary data obtained using questionnaires aimed to collect data from middle and top-level administrators and staff. To assess the answers of the participants, a closed-ended questionnaire and the Likert scale (1-5) were used. During the survey stage, the researcher delivered questionnaires to a sample of 400 ADNOC respondents. The final number used for the analysis = 311 valid questionnaires. Purposive

sampling was used in the survey process. While secondary data from reports and previous studies provided more evidence on the impact of enterprise risk management for employees performance. smart-PLS has been utilized to test the hypotheses and model fit of the conceptual framework. smart-PLS combines factor analysis and multiple regression analysis. It is used to look at how measured variables and latent constructs are linked structurally (Tarka, 2017). smart-PLS has been used in the sciences, business, and other fields so as in this study (Bollen and Pearl, 2013).

3.1 Demographic analysis

Table 1 provides an overview of the demographics of the participants in this study. About 31.2% of the respondents were female, while the remaining 68.1% were male. According to the respondents' ages, 40.2% were between the ages of 15 and 29. The second highest representation of age were 30 to 44 with 35.4 percent. Similarly, 60 and above years old represent 7.7 percent in the age group. The working department (position) shows that

HSE/Risk Management has highest number of working departments in the data represent 35.7 percent, likewise, Human Resource (HR) has 25.7 percent and Operation department represents 21.2 percent of the total population. We asked the respondents about having professional certificate, 73.3 percent have professional certificates while 26.7 respondents do not hold any professional certificates.

The working experience inclination of the respondents showed that 33.8 percent have working experience with the port for 6 to 10 years. The respondent's 29.6 percentage shows 11 to 15 years of working experience while 15.4 percent have 0 to 5 years of working experience, whereas 15.8 percent have worked more than 16 years and above of experience are demonstrated in Table 4.4. Those who responded had a variety of educational backgrounds, with more than half (60.1%) having bachelor's degrees, 20.6% having master's degrees, 10.9% having diploma education, and 7.7% having PhD degrees.

Table 1: Socio-demographic Characteristics of the Respondents

		Frequency	Percent
Gender	Male	214	68.8
	Female	97	31.2
	Total	311	100
Age	15-29 year	125	40.2
	30-44 years	110	35.4
	45-59 years	52	17.7
	60 and above	24	7.7
Your Department of Working	HR	80	25.7
	HSE/Risk Manag	111	35.7
	Operation	66	21.2
	Engineering/Maintenance	54	17.4
Years of Experience	0-5	48	15.4
	6-10	105	33.8
	11-15	92	29.6
	16-20	49	15.8
	21-25	17	5.5
Professional Certificate	Yes	228	73.3
	No	83	26.7
Level of Education	Diploma	34	10.9
	Degree	187	60.1
	Master's	64	20.6
	PhD	24	7.7

3.2 Convergent validity

To further validate the measurement model's convergent validity, additional analysis was conducted to determine the composite

reliability and AVEs of the latent constructs. The composite reliability and AVEs of the constructs in the research model are shown in Table 2. As a result, the composite reliability

values, which indicate how well the indicators represent the latent construct, all exceeded the recommended minimum threshold of 0.7. Similarly, the reported AVEs demonstrated that

all values fall within the 0.5 minimum threshold (Hair et al., 2014). As a result, the convergent validity requirement was met.

Table 2: Reliability measurement model

	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
EP	0.919	0.935	0.675
ERM	0.915	0.932	0.665
OC	0.873	0.900	0.531

3.3 Discriminant validity
The discriminant validity result using the Fornell-Larcker criterion is shown in Table 3. According to this criterion, discriminant validity is achieved when the square root of the AVE of the target construct is greater than the correlation between the target construct and

other model constructs (Ali, Kim & Ryu, 2016). As illustrated in Table 3, the diagonal values corresponding to the square root of each construct's AVE are greater than the correlations between other constructs in the model, satisfying the discriminant validity criterion.

Table 3: Fornell-Larcker criterion

	Employees Performance	Enterprise Risk Management	Organizational Culture
Employees Performance	0.822		
Enterprise Risk Management	0.880	0.815	
Organizational Culture	0.705	0.687	0.728

4. Results
4.1 Structural model evaluation
It was demonstrated in the preceding section that all of the recommended criteria for measurement model validity were met, completing the first stage of the two-stage PLS-SEM evaluation process. This section discusses the second stage of the process. The evaluation of structural models is a five-stage process that

includes collinearity assessment, significance testing of structural model relationships, determining the level of R2, determining the effect size, and determining the model's predictive relevance (Hair et al., 2014). The structural model is depicted in Figure 2, along with the t-values of the respective path coefficients and factor loadings.
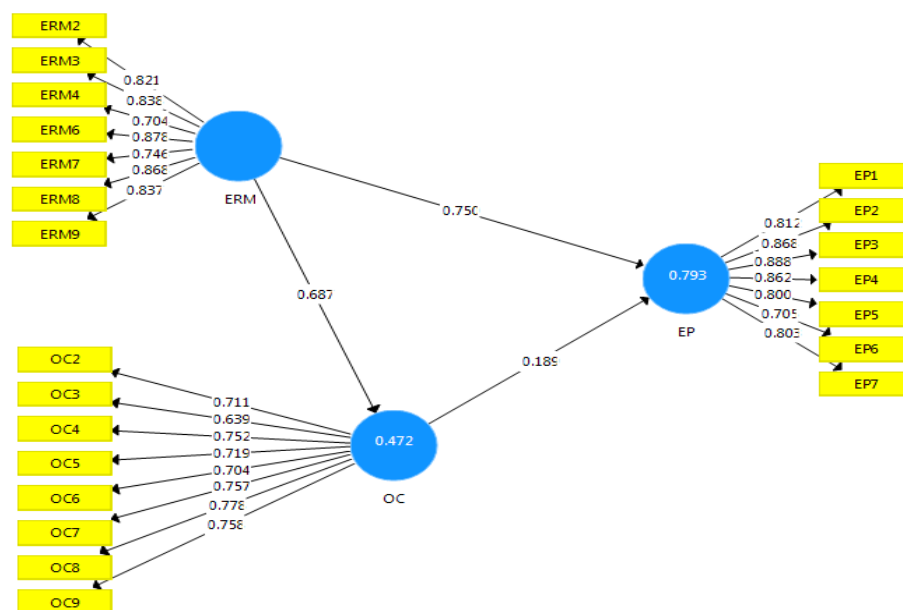

Figure 2: Structural model

4.2 Path Coefficient

The path coefficients represent the hypothesised relationship in the structural model between the endogenous latent construct (Employee Performance), the exogenous latent constructs (Enterprise Risk Management), and the mediating construct (Organizational Culture). The magnitude and significance of the estimates indicate the strength of the relationship. Path coefficients near +1 are considered to represent strong positive relationships, whereas those near -1 are considered to represent strong negative relationships (Hair et al, 2014). The significance of the path estimates is determined using the critical t-value for significance testing at a 5% level of significance using the bootstrapping procedure in the Smart PLS-SEM software.

Table 4: Path coefficient

	Beta	T Statistics (|O/STDEV|)	P Values	$f2$	R^2
ERM -> EP	0.750	20.897	0.000	0.791	
ERM -> OC	0.687	23.633	0.000	0.805	
OC -> EP	0.189	5.084	0.000	0.082	0.793

The path coefficients (β) are listed in Table 4 along with their associated t-values, p-values, and $f2$ values. As illustrated in the table, all three paths exhibit significant positive correlations. Enterprise risk management and organisational culture had the strongest positive significant path relationship (=.687, t=23.633, p.050), while organisational culture and employee performance had the weakest positive significant path relationship (β =.189, t=5.084, p.050). Similarly, enterprise risk management and employee performance demonstrated a positive and statistically significant relationship, with path estimates of (β =.255, t=4.370, p<.05).

The results in Table 3 indicate that the entire structural model's three exogenous constructs have a significant effect on the endogenous latent construct (R2=.793). This demonstrates that when the exogenous latent constructs are combined, they account for approximately 79% of the variance in the endogenous latent construct. This indicates that enterprise risk management and organisational culture together predict individuals' intentions to contribute effectively to the description of employee performance effects.

Cohen's (1988) guidelines are used to determine the effect size, with $f2$ values of .02,.15, and .35 indicating small, medium, and large effects, respectively. The $f2$ values for the various path relationships in the structural model are presented in Table 3. The findings indicate that enterprise risk management has a significant impact on organisational culture, as measured by effect sizes of $f2$=0.805. Similarly, all other constructs have a sizable effect on the R-square. Enterprise risk management and employee performance, as well as organisational culture and employee performance, have significant effects on the R-square value, as indicated by the $f2$= 0.791 and 0.082 values, respectively.

4.3 Hypotheses testing

The PLS-SEM analysis was used to test the hypotheses. Table 5 summarises the results of the test. As indicated in the table, certain hypotheses were accepted based on the 95% confidence interval.

Table 5: Hypothesis testing

Hypotheses	Path	Beta	T- Statistics	P Values	Decision
H1	ERM -> EP	0.750	20.897	0.000	Supported
H2	OC -> EP	0.189	5.084	0.000	Supported
H3	ERM -> OC	0.687	23.633	0.000	Supported

	Mediation analysis (indirect effect)				
H4	ERM -> EP	0.130	4.897	0.000	Supported

As a result of the findings, enterprise risk management has a significant positive effect on employee performance (β =.750, t=20.897, p.050). These findings corroborate those of other studies conducted in other countries (Yang et al., 2018). Successful ERM implementation, according to Shad et al, (2019), creates value for shareholders through decreased cost of capital and improved business performance. In terms of organisational culture and employee performance, it had a significant positive effect (β=-.0.189, t=5.084, p>0.05). However, this research's findings corroborate those of numerous studies conducted in developed countries. Individuals and values are engaged in organizational culture, which maintains ownership and motivates management to create competitive advantage (Oscar &Abor, 2019). Organizational culture and marketing innovation have a significant positive impact on financial organization performance (Aboramadan, et al., 2019). The results also showed that enterprise risk management has a significant positive impact on organizational culture (β=.687, t=23.633, p< .050). These findings are consistent with other empirical findings that organizational culture as the critical success factor in managing risk effectively (Oscar &Abor, 2019; Aboramadan, et al., 2019; Yang et al., 2018Yang et al., 2018). Stewart & Brown, (2017) investigated the impact of organizational culture on organizational performance in the Ghanaian banking industry. The study surveyed 296 respondents from nine Ghanaian banks. The findings indicate that there is a correlation between organisational culture and performance.

As revealed by the result, enterprise risk management and employee performance has been positively and significantly mediated by organizational culture (β=0.130, t=4.897, p< .050). These findings were in accordance those of other studies conducted in a wide range of countries (Lee, Shiue and Chen, 2016). Institutional culture influences organisational performance, and various aspects of organisational culture have been suggested to influence various aspects of organisational performance (Stewart & Brown, 2017). The

four functions of organizational culture are to give members a sense of belonging, develop commitment, strengthen corporate ideals, and form behaviours through control mechanisms (Yang et al., 2018). Based on prior research and findings, it has been determined that organizational culture has a favourable impact on organizational performance and enterprise risk management. The performance of financial organizations is significantly influenced by organizational culture and marketing innovation (Aboramadan, et al., 2019). The current research has shown that enterprise risk management and employee performance relationships has been positively influenced by organizational culture. It signifies the importance of organizational culture weightage in oil and gas industry in UAE.

5. Discussion

The construct of UAE ADNOC oil and gas industry constructs were validated through Exploratory Factor Analysis (EFA) and reliability analysis. Following the recommended practices for EFA and reliability the constructs were assessed through SPSS version 23. All the constructs were reliable for further analysis except for three items with low loadings or loading on other variable position were removed in the initial stage. To clarify the relationships, impact between ERM and employee's performance the PLS-SEM tool Smart-PLS software were also employed. The findings of this study supported previous research indicating that organisational culture influences an organization's performance (Shad et al, 2019). The organisational culture fosters interaction between individuals and values, which helps retain ownership and motivates management to achieve competitive advantage (Oscar & Abor, 2019). Organizational culture has the potential to boost job satisfaction and foster a better understanding of the relationship between problem solving and organisational success (Aboramadan, et al., 2019). Additionally, cultural values are critical in establishing a connection between cultural influences and organisational personality. On the basis of previous research and assertions, it has been determined that organisational culture has a positive effect on organisational

performance (Stewart & Brown, 2017). Organizational culture and marketing innovation have a sizable positive effect on the performance of financial organisations (Aboramadan, et al., 2019). To get the clear view of such effects of variables on dependent variable the researcher employ PLS-SEM for the validation. However, mediating variable have strong enough effects on the dependent variables that can also be improved to the framework. To clearly understand the framework formulation, we studied and summarized different frameworks of ERM studied in recent past. It is reasonable to expect management to ensure that no significant negative events occur as a result of effective control in order to increase the likelihood of organisational success (Oscar & Abor, 2019) and improve employee performance. Stewart & Brown (2017) defined firm performance as the ability of a business to achieve its financial and non-financial goals and objectives.

6. Practical implications

This research will be beneficial to all managers in the UAE ADNOC oil and gas industry who are responsible for risk management functions. By determining the effect of staff capacity on firms' ERM implementation, managers can identify appropriate and effective methods for increasing staff capacity on ERM within their organisations to improve employee performance. The research findings will add to the body of knowledge by elucidating how UAE firms manage risks in a local context. A framework for enterprise risk management would be developed for researchers, policymakers, professionals, and chief risk officers. This framework would serve as a guide for future research, assess current risk management systems, and serve as a foundation for new policies and guidelines in a changing business environment.

7. Limitations of the research

The research covers risk issues in ADNOC oil and gas industry. However, the findings could not be generalized, as they represent the views of the sampled oil and gas sectors and other stakeholders. The second limitation is the respondents' inadequate knowledge and understanding of the concept of ERM, perhaps giving rise to inappropriate answers in the survey questionnaire which might affect the research findings. The respondents were asked to indicate the extent of certain features in their respective organizations, in which their re-sponges might have been biased. The design and methodology of the quantitative research, specifically the use of SPSS and PLS as statistical tools for data analysis, may have limited the findings. A combination of additional analysis tools could have provided additional insight into the relationships between the research variables.

8. Conclusion and recommendations

This research will quantify ERM and close a knowledge gap in the field. As a result, organisational culture is used to explain the relationships between ERM and employee performance in this research. Thus, organisational culture can serve as the end goal for achieving rewards and recognition, as well as a method and technique for improving employee performance (Tasmin, R., & Muazu, 2017). This research thus recommends continued adoption of ERM towards improved employee's performance of oil and gas sector in UAE. Additionally, the research recommends that management in the oil and gas sector review risk pricing and supplier evaluation mechanisms with the goal of developing mechanisms to mitigate political interference in risk pricing and to improve the accuracy of data collected during the supplier evaluation process. These would contribute to further cost and lead time reductions in procurement. This, in turn, will help the government achieve its goal of transforming the UAE into an advanced economy by 2030. Additionally, this research can serve as a resource for Financial Analysts, Risk Managers, Rating Agencies, and Industry Practitioners looking to implement ERM. Furthermore, the researcher suggests that the findings and policy recommendations will be of vital assistance to the oil company's stakeholders in general, both in the UAE and around the world. As regards the research design, further research could employ a mixed-method (quantitative and qualitative) approach, to overcome any issue of information bias.

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