Impact of operational risk on corporate financial performance: a literature review

Impact du risqué opérationnel sur la performance financière des entreprises : une revue de littérature

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Abstract

The scandals that have occurred in the financial world, among others, have demonstrated the extent of the phenomenon of operational risk and its management. As for operational risk management, it is a process by which companies identify and evaluate the risks impacting their business, it has become important to implement an operational risk management system because performance cannot be achieved without having addressed the aspects related to operational risk management. In the world of management, performance is the ultimate result of all the efforts made by the company to achieve its objectives. In fact, operational risk has a major impact on the performance of a company, regardless of its sector of activity, because of the impact of this type of failure on the performance and stability of companies. The present contribution is an attempt to review the literature, the purpose of this article is to study the impact of operational risk management on the financial performance of companies, in order to know if risk management has a positive or negative impact on the financial performance of companies.

Keywords : « risk »; «operational risk»; «operational risk management »; «performance»; «financial performance».

Résumé

Les scandales survenus dans le monde de la finance, entre autres, ont démontré l'ampleur du phénomène du risque opérationnel et de sa gestion, la gestion des risques opérationnels est, quant à elle, un processus par lequel les entreprises identifient et évaluent les risques impactant leur activité, il est devenu important de mettre en place un système de gestion du risque opérationnelle car on ne peut atteindre la performance sans avoir abordé les aspects relatifs à la gestion du risque opérationnel. Dans le monde de la gestion la performance est le résultat ultime de l'ensemble des efforts réalisé par l'entreprise afin d'atteindre les objectifs fixés. En effet le risque opérationnel a un enjeu majeur sur la performance d'une entreprise quel que soit son secteur d'activité, à un impact de ce type de défaillance sur la performance et la stabilité des entreprises. La présente contribution se voit un essai de revue de littérature, le but de cet article est d'étudier l'impact de la gestion des risques opérationnels sur la performance financière des entreprises, afin de savoir si la gestion des risques impact positivement ou bien négativement sur la performance financière des entreprises.

Mots clés : « risque » ;« risque opérationnel » ;« gestion des risque opérationnel » ;« performance » ;« performance financière ».

Introduction

Operational risks are receiving more and more attention, especially after the financial scandals (the Barings Bank collapse in 1995, the National Australia Bank loss in 2001, the Enron affair in 2005, the Société Générale case and the latest subprime crisis in 2007). These scandals have shown regulators and financial institutions alike that operational risks come in many forms and can result in losses of almost any size. This is why operational risk management has become a necessity. The economic and financial environment has increasingly become a risk environment. The diversification of the activities of companies and their operations, in order to stand out from the competition, allows them to take enormous risks. Indeed, operational risk is not new, it has always existed, but was often overlooked. The economic and financial literature shows us the interest of mastering operational risk by placing it at the heart of disastrous events and high-profile financial scandals. Operational risk is presented as one of the most powerful catalysts in the weakening of financial performance. Several studies have focused on the link between operational risk management and financial performance. Researchers disagree on the link between operational risk management and financial performance. While Giorgio B. et al (2013), Nocco & Stulz (2006) show a positive link between risk management and organizational performance, other research by Pagach & Warr (2010), Roslida & Normah (2015), indicate that the adoption of a risk management system does not impact the financial performance of the organization. Based on this work, we found it useful to conduct more research on the topic. Our research aims to identify the impact of operational risk management on financial performance in companies. In this research paper we present a literature review on the impact of operational risk management on financial performance. We then answer the question, **what is the impact of operational risk management on financial performance in firms?**

We have structured our paper as follows: the first section presents a theoretical framework on operational risk, the second section elaborates a review of the literature by specifying the concept of performance and the third section describes the impact of operational risk on the financial performance of companies.

1- Operational risks related to the company's activity

Risk is inherent to business (Olivier,2008). It has always existed and, according to economists, constitutes its essence. Creating a company is already taking a risk. Its survival is never guaranteed. Even large companies have no guarantee of survival. Enron, Arthur

Andersen, Alstom and Parmalat are examples of multinationals that have disappeared or had to fight for their survival. All companies, regardless of their size or the nature of their activity, are faced with risk, and it is for this reason that risk management has become a major concern, as companies today consider that a sustainable competitive advantage is essential. Taking into account the management of operational risks within companies is now an essential and primordial point within the framework of a good corporate governance, a management of operational risk appropriates, identifies, evaluates, controls and ensures a rigorous follow-up.

1-1 History of operational risk management

The study of risk management began after the Second World War; it dates back to the period 1955 - 1964. Engineers developed models for managing technological risks of which it is part of the operational risk that is currently managed, by financial institutions (Bari,2016). However, many business risks were either uninsurable or very expensive to insure. It was also during the 1980s that companies began to consider financial risk management, which became complementary to pure risk management for many companies. The acceleration of the movement over the last twenty years, and more particularly since the beginning of the 21st century, linked to the increasing complexity of interrelationships between economic actors, accompanied by interdependencies that too often exceed the capacity of humans to apprehend them, requires the use of complexity theory (Jean & Nicolas,2016). In a regularly updated document, the authors of the OCEG Red Book note that, "The environment in which organizations operate is now more complex and demanding than ever. Even small and medium-sized businesses, not-for-profit organizations, and public sector actors are facing challenges that only large international companies have faced in the past. Stakeholders, both internal and external, are no longer satisfied with high performance; they also demand transparency in management. The risks and regulatory demands placed on organizations today are a dense and changing thicket that can strike without warning. To top it off, the costs of controlling these risks tend to be out of control. In short, in many organizations the status is neither sustainable nor acceptable." (Jean & Nicolas,2016). The explosion of the scope of risk management practice, as well as its expansion to all strategic and operational managers, implies the development of a battery of tools available to all. Risk management has evolved considerably since its emergence as a technical function six decades ago in some US companies whose insurance budgets justified having an in-house specialist. This evolution is the result of both the frustration of practitioners who felt the limits of the exercise, and the reflection of academics from different backgrounds who have tried to develop a scientific basis for designing specific instruments. International risk regulation started during the 1990s (Bari,2016) and financial firms developed internal risk management models and capital formulas to protect against unanticipated risks. Similarly, risk management governance became essential, integrated risk management was introduced and the first risk manager positions were created. The managerial practices of risk management of the decades 1990 - 2000 (Sourour,2018) have been transformed and now require the consultation of all employees of the organization (COSO II, 2005). The contribution of the internal auditor to Enterprise Risk Management (ERM), little understood empirically, is conceived as an innovation since it cannot be considered as a traditional practice. The fraud of the trader Kerviel, who managed to circumvent the internal control procedures, highlights the importance of operational risk management, in this context the Basel standard was implemented Basel I (1988) then Basel II (2004) and more recently under Basel III (2010) attempt to improve risk management, then Basel IV (2019), (Haouat, 2011). The key to any management is knowledge; therefore, to manage operational risks, it is necessary to know them, that is to say, to identify them and then assess it. In a word, the analysis of operational risks becomes one of the key missions of any operational manager. Learning the panoply of operational risk analysis must therefore be part of the curriculum of any future manager, engineer, administrator and even politician.

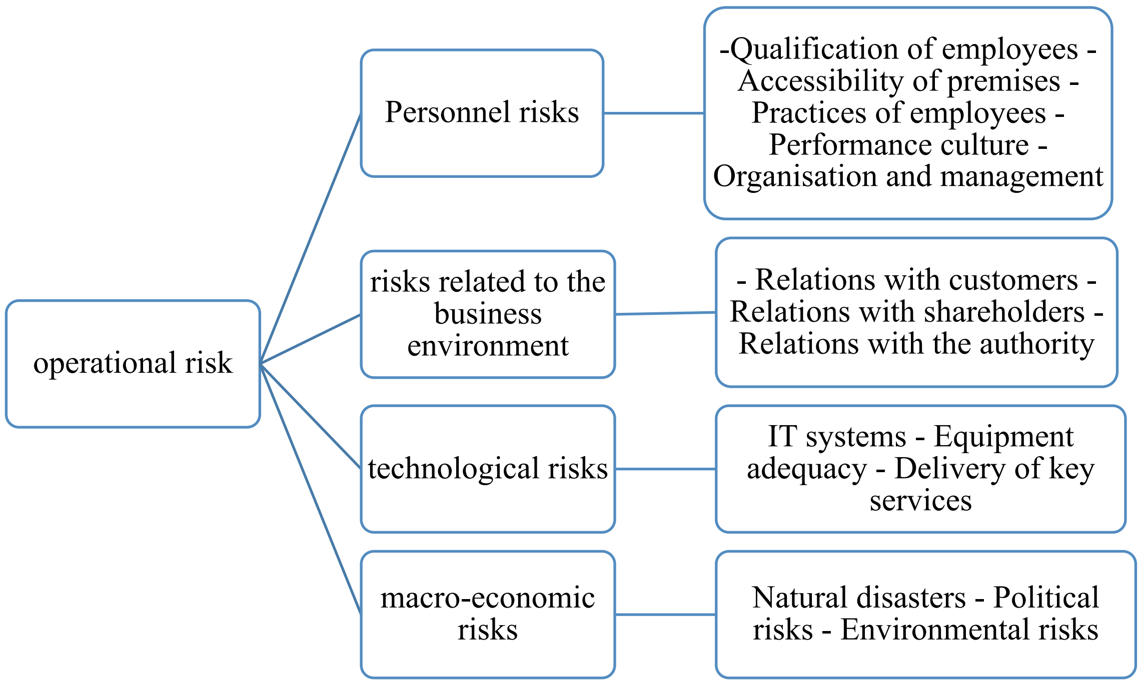
1-2 Concept of operational risk

According to the commonly accepted definition used in the European Directive (Daniel, 2006), "operational risk" is the risk of loss resulting from inadequate or failed internal procedures, personnel and systems, or from external events. According to (Jean david dersa, 2015): the concept of operational risks is extremely broad: it expresses all the risks that can cause damage, loss, cost, created or suffered during the performance of the current activity of the company: infrastructure, production cycles, distribution, logistics process, document management, etc. According to (Danièle,2006), operational risk takes into account legal and administrative risks, technical and technological risks, such as risks associated with information systems, management and procedures, and environmental risks, such as economic, political, social, systemic and climatic risks. This is not easy, because this aggregation of heterogeneous risks makes it difficult to identify operational risk precisely, especially as its manifestations are often difficult to isolate. According to (Laurent,2019): 'Operational risk can be defined as the risk that does not depend on how a company is financed, but rather on how it operates its business. It has three sources: internal risk (e.g. fraud), external risk (any uncontrollable external event, such as a geopolitical event) and strategic risk (such as a price war triggered by competition). Other definitions present operational risk as the risk of loss resulting from malfunctions in information systems, internal control, or human or technical error." Prior to the implementation of Basel 2, operational risk was defined by what it was not: neither market risk nor credit risk. This marginal position was reinforced by the low visibility of risk, particularly in the financial statements. The expenses inherent in operational risk were not automatically identified as such. The Basel Committee defines operational risk as "the risk of direct or indirect loss resulting from failed or inadequate internal processes, systems and people, or from external events" (Benoit & Jean, 2004). Operational risks are different from others because they are risks inherent in the natural course of the company's business or activities. Poor risk management can result in the presentation of an inconsistent risk profile that exposes the company to very large losses that influence its performance and output. After much discussion and inspiration from the definition provided by BBA, ISDA and PWC (1999), the Basel Committee proposed the following definition: operational risk is "the risk of loss due to inadequate or failed internal procedures, personnel, systems or external events" (BCBS, 2003). In short, operational risks materialize all the direct or indirect impacts generated by the company in its daily activity, in its operating cycle, regardless of its size or nature of activity. Within the risk pyramid, they appear immediately after the financial risks, resulting from the company's "operational core". Their analysis will be carried out by major process families. So an operational risk is a risk of loss from inadequate or failed internal processes, people and systems or external events, as well as the agreements of Basel II allows the financial company to better understand and enrich their risk culture, especially if they took into account the operational risk which is a diffuse risk, ie can be found within all departments of a company, as well as operational risks will materialize all the direct or indirect impacts generated by the company in its daily activity, while Bale III imposed a reinforcement of the required capital (common shares and results put in reserves), measures of taking into account the significant risks (in particular those related to the activities of trading of securities, of the risk of counterparty for the activities on derivatives), while Bale III aims at reinforcing the stability of the system of the company or a bank thanks to measures which are applied from 2013, while Bale IV considered as a new regulatory wave for the financial industry. Indeed, the operational risk is directly after the financial risk, it represents the operational heart of each company.

1-3-Components of operational risk

Operational risk is backed by three specific components (Djekna & Timba, 2018): legal risks, IT risks, social and psychosocial risks. According to Dufour (2015), while legal risks are lawsuits following non-compliance with certain obligations, social risks are strikes, riots, psychosocial risks are suicides and IT risks are breakdowns of a server or facilities paralyzing the activity. The diagram below describes all the components of operational risk according to Djekna & Timba (2018).

Figure 1: Components of operational risk



Source: Djekna & Timba, (2018).

In general, operational risk includes overheads, personnel costs and extrinsic factors that have a direct or indirect relationship with the performance of financial assets, as shown in figure 1. Generally, operational risk includes overheads, personnel expenses and extrinsic factors that have a direct or indirect relationship with the performance of financial assets. Enterprise risk management consists of eight interrelated components. These components are (Maki,2004):

Figure 2 : Risk management components

Internal environement	• Encompasses the tone of an organisation and establishes the basis for how risk is perceived and handled by an entity's staff, including risk appetite, integrity and ethical values, and the environment in which they operate.
Definition of objectives	•Objectives must exist before management can identify potential events affecting their achievement. Enterprise risk management ensures that a process for setting objectives .
Identification of the events	•Internal and external events affecting the achievement of an entity's objectives should be identified, distinguishing between risks and opportunities.
Risk evaluation	•Risks are analysed, taking into account their probability and impact.
Reponse to risk	•Management chooses responses to risk, avoid, accept, reduce or share risk.
Controle activities	•Policies and procedures are established and implemented to help ensure that risks are effectively addressed.
Information and communication	•Relevant information is identified, captured and communicated.
Controle	•The company's overall risk management is monitored and changes are made where necessary.

Source: Authors

Enterprise risk management is not strictly a serial process, where one component only affects the next. It is a multi-directional and iterative process in which almost all elements can and do influence each other in either a direct or indirect way - see Figure 2.

Generally, ERM allows companies to have a better knowledge and manage to a wide range of risks in an integrated way across the company. In can add other objective set by (Sophie & Jean 2014) risk management is in ensuring that under all circumstances, no matter how great the loss incurred, the company will still have sufficient resources to achieve its core objectives. As a corollary, the risk manager must meet this objective with the minimum of resources.

2- Performance within companies

Performance is a complex concept to grasp. A quick search of the literature shows that there are many definitions of performance, which contributes to making the concept a "catch-all word" that has been given many meanings (Saulquin & Maupetit, 2004; Saulquin & Schier, 2007, p.59). It highlights divergences according to the authors and it seems difficult to reach an a priori agreement on the definition of this concept (Villarmois, 2001; Bouquin, 1986; Bescos et al., 1993; Bourguignon, 1995; Lebas, 1995; Bessire, 1999). Recently, this concept has been used in the managerial literature to evaluate the implementation by the company of communicated sustainable development strategies (Capron & Quairel, 2005; Boutti, 2010). Financial performance is the company's ability to generate a result at a lower cost. A company is successful when it is profitable, i.e. when results (profits) are achieved with the minimization of costs. Financial performance is measured in two different ways: it can be market-based or accounting-based (Djenka & Timba, 2018).

2-1 Concept of performance

The word performance entered the English dictionary in the 15th century with the verb "to perform" which means to accomplish a task with the results that follow and the success that can be attributed to it. In French language dictionaries, performance is defined as an official statement recording a result achieved at a given moment "t", always with reference to a context, an objective and an expected result, whatever the field. TALKHOKHET. D&MOUTMIHI. (2020).

The concept of performance remains a difficult concept to identify in the field of management science, its notion still remains vague in the majority of companies especially that of small business. The performance of an organization is based on the criteria of effectiveness, efficiency (effectiveness), (Djenka & Timba, 2018). Recurrent and shared notions appear to define the notion of performance. Around this concept gravitate elements of measurement, such as effectiveness and efficiency. A word of polysemic character, the classic definition of performance refers to the idea of accomplishment, or even exceeding an objective, (OBAME& CARGNELLOCHARLES,2020). Performance is the degree to which the desired goal is achieved. According to (Michel,2002): the notion of performance within the company can be defined as the degree of achievement of the desired goal (. This performance includes two essential components: Effectiveness: the maximum degree of achievement of the objectives set for the organization. Efficiency: the search for the "optimal" allocation of resources between activities. According to the majority of the literature consulted, there are several conceptually acceptable but distinct definitions of performance depending on the field involved and the context of use. According to Bonvoisin, et al (2008), results from the joint achievement of three sub-notions: relevance, effectiveness and efficiency. Performance can be defined by this formula:

Performance = Effectiveness + Efficiency + Economy + Relevance

Bourguignon (1995) notes that the concept is widely used without a unanimous definition, which reflects the polysemy of the word. She proposes an integrative definition articulated around three primary meanings (Dominique 1999):

- Performance is success. It does not exist in itself and is a function of the representations of success, which vary according to the organizations and the actors. Performance cannot be limited to productivity, which only describes its economic dimension.
- Performance is the result of action. Performance measurement is understood here as the ex post evaluation of the results obtained.
- Performance is action. It is a process, not a result that appears at a given moment. In general, sustainable performance does not exist without risk management as a performance lever. show the internalization of the concern for performance by companies by tracing its rise to power within management control and its dissemination to all departments in the organization. The authors distinguish four periods (Guenoun, 2009)
- From the 1920s to the 1950s, the concept of standard, which can refer to both physical units and costs, structured management tools around production management. Performance = Effectiveness + Efficiency + Economy + Relevance

- From the end of the 1950s, marketing became a major concern in many sectors of activity. Partial costs, the concepts of contribution, margin, break-even point, develop. They become the main preoccupation of companies and consultants.
- The 1980s were marked by the Japanese threat to American and European industries and competition through quality. The management control is the interpreter of these new priorities by integrating the measurement of quality in the dashboards, by revisiting the mode of calculation of the cost of quality thanks to the hidden costs which displace the rules of arbitration between cost and quality, by integrating the Total Quality Management (TQM).
- The 1990s were characterized by the importance of financial concerns and the emphasis on the concept of performance. This concept is broader than profitability. It includes the stressing of administrative or, more generally, functional services that must participate in the creation of value.

2-2- The dimensions of performance

In most research on performance, it is necessary to distinguish levels or dimensions, the number of which varies. (Dominique, 1999) identifies four dimensions: social (value of human resources), economic (economic efficiency), political (legitimacy of the organization with external groups) and systemic (sustainability of the organization). The notion of performance is multidimensional, like organizational goals, it is subjective and depends on the references chosen (goals, targets). Based on this definition, the classification of performance allows us to identify several forms: financial performance and non-financial performance, organizational performance and strategic performance, etc. In fact, the content of the term performance depends on the nature of the performance, in the following, we present some forms of performance.

- Economic performance: is long analyzed in the past through financial, accounting and stock market indicators, the performance of an organization has several dimensions: the economic dimension, the social dimension, the political dimension and the systemic dimension, (Djekna &Timba,2018).
- Financial performance: Performance can be financial or non-financial. Financial measures have been used for a very long time, however, the literature criticizes this type of performance measure, as it is often outdated, lacks foresight and is short-term

oriented, however, states that it is difficult to establish or evaluate profit through a non-financial performance measure, conclude in their study by specifying that non-financial measures are often focused on the long term and do not have an immediate effect on the company. Financial performance is the company's ability to generate results at a lower cost. A company is successful when it is profitable; when results are achieved with the minimization of costs. (Assienin & Ouattara,2016).

- Social performance: concerns the state of social or human relations in the company and reflects the company's capacity to pay attention to the social field. It is a central concept in business ethics research (Bertrand, 2010).
- Organisational performance: concerns the way in which the company is organised to achieve its objectives and the way in which it achieves them, will emphasize that it is a performance directly related to the efficiency of the organizational structure and not to its possible social or economic consequences.
- Sales performance: also called marketing performance is the performance that is linked to the satisfaction of the needs of the company's customers.
- Strategic performance: Also called long-term performance, strategic performance is that which uses a system of excellence as a measurement indicator. The factors necessary for the achievement of this performance are among others: the growth of activities, a well thought out strategy, a dynamic corporate culture, a strong motivation of the members of the organization or a system of will aimed at the long term, the ability of the organization to create value for its customers, the quality of management and product for customers, the control of the environment, (Bertrand, 2010).

2-3-The factors that explain the performance of companies

Several factors explain the performance of companies, the latter depending on the size and nature of the company's activity, identifies five categories: management factors, production factors, sales factors, customer contact factors, skill factors. These are factors related to the leader of the company and in a broad way to the configuration of the management team.

The other two are those attached to the profile of the company and socio-cultural factors. The latter category is very important for the development of the firm. Despite the absence of a significant functional relationship between the degree of consideration of socio-cultural factors in business behavior and performance (Bertrand, 2005). Even if there is not a significant relationship between the social network and performance, the existence of such a network is a key factor in the distribution of products in the case of companies.

In an environment strongly marked by technological development, underlines that ICT "Information and Communication Technology" positively influence the commercial performance of companies by improving their information system.

3- The impact of operational risk management and financial performance

During the 1970s, the use of derivatives as instruments for managing various insurable and non-insurable risks began and developed very rapidly during the 1980s. It was also during the 1980s that companies began to consider the financial management of operational risks, which became complementary to pure risk management for many companies. Operational risk management and financial performance (Bessis, 1995) is a classic approach, but it is important because it is the starting point for operational risk management. Indeed, the concept of performance has been the subject of many modes of operationalization by management researchers. For a long time, this concept has been reduced to a simple dimension focused on the financial dimension alone (Bertrand, 2010). Risk management contributes to the improvement of the financial performance of the company by allowing (Ghandari,2011):

- To create and preserve the company's value, assets and reputation by identifying and analyzing the company's main potential threats and opportunities. It thus aims to anticipate risks rather than suffer from them.
- To secure the company's decision-making and processes in order to promote the achievement of its objectives by identifying the main events and situations that could significantly affect the achievement of the company's objectives. Controlling these risks thus helps to achieve the said objectives.
- Promote consistency of actions with the company's values: Many risks reflect a lack of consistency between the company's values and daily decisions and actions. These risks mainly affect the company's credibility.
- Mobilize the company's employees around a common vision of the main risks and make them aware of the risks inherent to their activity.

3-1 The relationship between operational risk management and financial performance

Financial performance according to accountants gives a historical idea of the evaluation of the (accounting) profitability of the company. The first attempts to theorise portfolio management were made with the work of Markowitz (1952), who studied the performance and optimisation process of portfolios, based on their profitability and risk level. This is a utility maximisation approach in an expectation-variance plane. The contribution of his theory is reflected in the definition of an "efficient frontier". According to this definition, the efficient portfolio corresponds to the most profitable portfolio for a given level of risk, or the least risky for a given level of profitability. Various non-efficient portfolios, also called dominated portfolios, find themselves rejected or eliminated because they do not lie on the efficient frontier; they are either too risky (for a given level of profitability) or unprofitable (for a given level of risk), (Bari,2016). With equal profitability, the investor will choose the less risky stock; with equal risk, he will choose the more profitable stock. Markowitz (1952), the founder of portfolio theory, reports that diversification allows for a given level of profitability to reduce risk, or for a given level of risk to improve profitability. Indeed, if the profitability of a portfolio is equal to the average of the profitability of the assets that make it up, on the other hand, the risk of a diversified portfolio is lower than the average of the risks of the assets that make it up. Despite these criticisms, Markowitz's model (1952) is at the origin of scientific developments in finance, and it paved the way for other works devoted to the evaluation of performance itself, and gave rise to several models. Thus, single-factor or multifactor models appeared with the work of Sharpe (1963; 1964), Lintner (1965), Treynor (1965) and other models that followed, notably those of Ross (1976), Fama and French (1992; 1993), Carhart (1997), etc. With the aim of revealing a relationship between the risk and profitability of financial assets, the work of several researchers (Sharpe, 1964; Mossin, 1966; Lintner, 1965) gave rise to a new model called the Capital Asset Pricing Model (CAPM). Lacoste (1997) confirms the existence of three risk-return relationships: positive (Amit et al., 1998), negative and non-existent. (Marsh and Swanson, 1984). Faced with these contradictions, research has tested other variables that can explain the relationship (diversification, size, industry the competitive rank). (Bari,2016).

Several studies have examined the influence of the solvency ratio, as an operational risk management instrument, on the behaviour of companies in the face of operational risk and on their financial performance. Koehn and Santomero (1980), Kim and Santomero (1988), Rochet (1992) and Shrieves and Dahl (1992) find a negative influence on their performance accompanied by excessive risk taking. Nevertheless, other authors, such as Aggarwal and Jacques (1998), find that risk decreases in banks that increase their capital levels to comply with regulatory requirements and they are immune to financial distress. Barth et al (2004) do not find any significant influence of capital level on bank behavior, (Bari,2016).

Previous work shows some disagreement regarding the link between risk management practices and the financial performance of firms. Many researches (Hoyt, Moore &Liebenberg, 2006; Nocco & Stulz, 2006) establish a positive link between risk management and firm performance. While other research such as Pagach & Warr (2010), Ballantyne (2013), Tahir and Razali (2011), RoslidaRamlee and Normah Ahmad (2015) argue that the adoption of a risk management system has no effect on the financial performance of the firm.

3-2 Operational risk management has a positive impact on the financial performance of companies

The work of Nocco and Stulz shows how risk management creates shareholder value. They present the benefits of the operational risk management framework. According to them, operational risk management creates value for the company and it is a competitive advantage. (Assienin & Ouattara, 2016).

The research of Giorgio Stefano Bertinetti, Elisa Cavezzali and Gloria Gardenal (2013) investigated the impact of the adoption of "operational" risk management on firm value and the determinants of risk management choice. They worked on a sample of 200 firms, which included both financial and non-financial sector firms. The researchers showed that operational risk management had a positive impact on the value of companies. (Assienin & Ouattara, 2016) Oldfield and Santommero (1997) develop a framework for analyzing operational risk management practices in companies (Tchuigoua & Lamarque, 2009). For these authors, three strategies allow them to mitigate the impact of risks on their performance:

- Passive management including portfolio diversification as highlighted by portfolio theory,
- Transfer of risk,
- Active risk management when the organization chooses to internalize risk management. This scheme proposed by Oldfied and Santomero assumes a positive

relationship between operational risk and profitability. This is not the case for operational risk. It is wealth-destroying (Jimenez and Merlier, 2004).

3-3 Operational risk management has a negative impact on the financial performance of companies

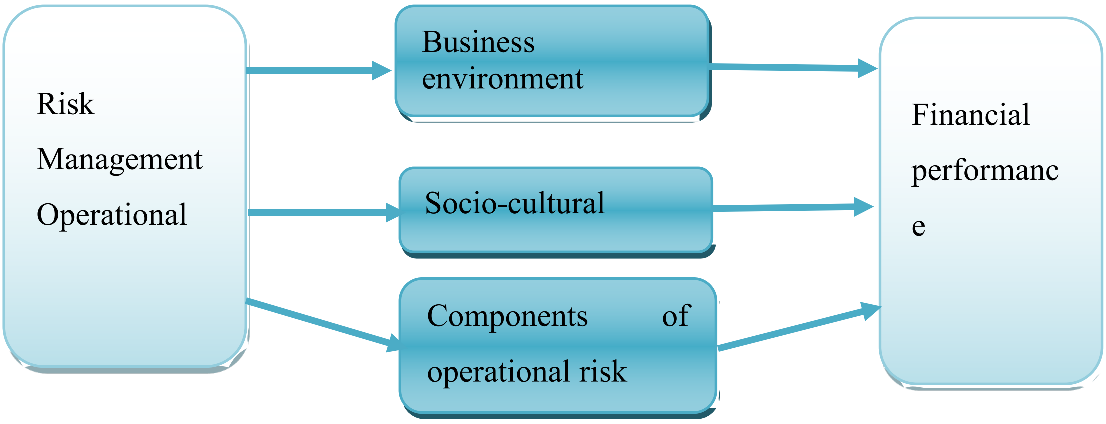
RoslidaRamlee and Normah Ahmad (2015) in their study analyze the financial performance within the non-financial firm. The authors collected the data from a sample of 74 companies among which they had companies with risk management committee and others without operational risk management committee. Financial performance was measured by ROE, ROA, Tobin's Q. The results of their study showed no significant impact of operational risk management on the financial performance of non-financial firms. According to their studies, companies applying operational risk management are not more successful than the one not applying operational risk management. (Assienin & Ouattara, 2016)

GenrikhLukianchuk, MSc (2015) conducted his study on the impact of operational risk management on the performance of small and medium enterprises (SMEs). The data used was obtained from a financial database that provides the information about the companies. The author selected a sample of 208 companies from all major industries. The results of the study, not allowed to verify the link between operational risk management and financial performance. (Assienin & Ouattara, 2016).

Pagach and Warr studied the effects of operational risk management on the financial performance of firms based on the analysis of financial, asset and market characteristics. They used a sample of 106 firms that hired a risk manager to accompany them in the practice of operational risk management. (Assienin & Ouattara, 2016). Their results from their sample did not support the proposition that operational risk management creates value. Pagach and Warr believe that the proponents that operational risk management positively impacts the financial performance of the firms must provide the risk management implementation program and the indicators from which the performance of this program can be measured, in order to confirm whether operational risk management has effects on the financial performance of the firms.

At the end of our literature review, we were able to build a conceptual model that we will try to apply in an empirical approach in order to explore the different factors that influence the success of the project. we will try to apply in an empirical approach in order to explore the different factors and validate the hypothesis of our research "the relationship between operational risk management operational risk management and financial performance within firms". Our conceptual model based on our literature review is as follows.

Figure 2: Conceptual model for operational risk management and financial performance



Source: Authors

Conclusion

Through this article, we have tried to address the concept of risk operational risk and performance within companies, we have found that these notions have undergone a meteoric evolution.

Today's business environment has become more complex and sophisticated, making companies more exposed to various risks, including operational risks. The development of industrialization, the increasing complexity of organizational activity and the advent of new technologies induced by the modernization process have dramatically changed the nature and scope of risks. The source of threats is shifting. Operational risks, induced by this evolution of society, are no longer linked to exogenous factors and are no longer located in nature, but become the very essence of human action and constitute, in a way, the price of its glory and progress. In this new era, risks are intertwined, intermingled and added together. They are characterized by their magnitude, their unpredictability and their devastating nature, both for the company and for the environment around it. In order to preserve their sustainability and competitiveness, companies are therefore required to manage their risks in an integrated and proactive manner, especially operational risk, in order to improve business performance and achieve the set objectives. Generally, the development of an adequate environment within the companies allows a better management of the operational risks in order to improve the performance of the companies, because the operational risk influences the financial performance through several channels (organizational, macro-financial, external...). Generally, good operational risk management has an impact on the financial performance of companies, regardless of their size or nature of business.

Indeed, there are inherent limits to any system or device, its limits result from many factors, including uncertainties related to the outside world, the business environment, human or technical malfunction... These limitations open the way to future research, our research work can be completed by an enrichment of a conceptual model includes the importance of operational risk management in order to achieve financial performance within companies. In conclusion, we propose that future research should highlight the importance of operational risk management and its influence on the financial performance of companies.

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