

Psychological Ownership and Risk Governance: The Mediating Role of Collectivist Orientation

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Abstract

The purpose of this paper is to report on the results of a study carried out to examine the mediating effect of collectivist orientation in the relationship between psychological ownership and risk governance in Financial Institutions (FIs) in Uganda. The study was based on cross-sectional survey data. Closed ended questionnaires were distributed to 112 Risk Managers in financial institutions in Uganda. Data obtained were analyzed using SPSS and SmartPLS version 3.3.0. The results generated from the study show that both psychological ownership and collectivist orientation positively and significantly influence risk governance. Results further indicate that collectivist orientation partially mediates the relationship between psychological ownership and risk governance of FIs. This study only focused on risk governance in FIs, it is highly possible that the results may not be equally applicable to risks in other sectors. Secondly, our study used a cross sectional and quantitative research design, which means that changes in behavior over time may affect the study findings. The study offers initial evidence on the relationship between psychological ownership and risk governance using evidence from a developing economy. In addition, earlier literature has not tested the mediation effect of collectivist orientation in the relationship between psychological ownership and risk governance in FIs.

Keywords: Psychological Ownership, Collectivist Orientation, Risk Governance, Stewardship Theory, Financial Institutions.

Introduction

Governments across the world recognize that their social and economic activities thrive on the soundness and stability of a country's financial institutions (Barakat & Hussainey, 2013; Mangala & Soni, 2023; Erin *et al.*, 2018). Financial institutions (FIs) act as resource allocation intermediaries that facilitate the tradeoff between surplus and deficit of resources in the modern economy (Gontarek, 2016; Basel Committee on Banking Supervision, 2011; Financial Institutions Act, 2004, 2016). Given the multitude of stakeholders in financial institutions and the complexity of the business value chain handled by FIs, conventional risk management has proved to be inadequate and ineffective in tackling the current and emerging array of risks faced by financial institutions. Consequently, risk governance has emerged as a panacea to the plight and is now a global discourse among boards of FIs, professionals, academicians, and regulators

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(IRGC, 2005; Van Asselt and Renn, 2011). Given that banking activities are riskier than activities of non-financial corporate entities, there is a growing concern about the risk governance mechanisms used by FIs (Karyani *et al.*, 2020; Mehran *et al.*, 2011). Risk governance in banking is important in promoting effective risk management, optimal risk decision making and proper monitoring of the financial entity's risk appetite and risk limits (Aebi *et al.*, 2012; Battaglia & Gallo, 2015; IRGC, 2005; Nahar *et al.*, 2016). Nevertheless, FIs have become bigger and have dramatically expanded into other non-banking businesses such as property management (Mehran *et al.*, 2011). Given such a situation, questions continue to rise about which exact mechanisms could financial institutions use to ensure effective risk governance?

From literature, a number of studies have investigated risk governance in financial institutions (Erin *et al.*, 2018; Karyani *et al.*, 2020; Lundqvist, 2015; Nahar *et al.*, 2016; Stein *et al.*, 2019). However, existing empirical studies indicate that the contribution of psychological ownership and collectivist orientation to effective risk governance in FIs is rarely explored if any. Secondly, to the researchers' knowledge there are no studies conducted to investigate the mediating role of collectivist orientation in the relationship between psychological ownership and risk governance using evidence from sub-Saharan African countries like Uganda. We fill this research gap through a questionnaire survey of 112 FIs and we report that psychological ownership and collectivist orientation positively and significantly predict risk governance in FIs up to the extent of 22.3 %. In addition, collectivist orientation partially mediates the relationship between psychological ownership and risk governance in FIs. This paper is organized as follows: Section two, presents the theoretical framework and literature review. This is followed by the methodology of the study. Section four presents the results and discussion of findings. The paper ends with the summary and conclusion, limitations and areas suggested for future research.

Literature Review and Hypothesis Development

Theoretical Foundation

Our paper contributes to risk governance literature by benchmarking the stewardship theory to explain how psychological ownership and collectivist orientation could affect risk governance in financial institutions. Stewardship Theory (Davis *et al.*, 1997; Hernandez, 2008, 2012) explains the importance of stewardship behavior as a way of controlling the risks of opportunistic, individualistic and self-serving behavior among subordinates and managers. This implies that when these self-seeking psychological ethics are well managed, the financial entity could avoid their associated risks (Kacem & El Harbi, 2023). The stewardship view of governance postulates that it is possible for the managers' interests to be similar to those of shareholders (Davis *et al.*, 1997). The theory assumes that when the interests of managers are aligned with those of the principals, managers will act in the best interests of their principals and focus on achieving the corporate mission and objectives of the FI (Nalukenge *et al.*, 2017; Neubaum *et al.*, 2017; Keay, 2017). In the process, managers and board members who psychologically own the institution are motivated by the desire to achieve collective goals by "doing the right thing". Such managers act honestly and collectively when executing tasks aimed at achieving growth through effective risk governance (Hernandez, 2012).

Psychological Ownership and Risk Governance

Prior studies indicate that psychologically experienced ownership is associated with positive organizational outcomes (Avey *et al.*, 2009; Shukla & Singh, 2015; Van Dyne & Pierce, 2004).

According to Pierce *et al.* (2003), employees use their cognitive awareness and emotional attachment to determine the extent, to which they obey organizational rules and regulations when undertaking allocated responsibility. This implies cognitive awareness and emotional attachment as forms of psychological ownership enable organizations to tap into employees' capabilities in executing risk governance roles (Hernandez, 2008). Further research by Pierce *et al.* (2001) about the state of psychological ownership revealed that psychological ownership significantly influences feelings of caring, protection and assumption of risk responsibility for the target. This finding is affirmed by Pierce *et al.* (2003) that people's willingness to assume personal risks or sacrifice personal interests on behalf of a social entity is an outcome of psychological ownership. For example, reporting unethical behaviors and illegal acts in an organization through whistle blowing are acts of risk governance geared towards the wellbeing of the organization. In examining solving stewardship problems with psychological ownership, (Shu & Peck, 2018) found that a strong sense of ownership for the organization significantly influences the sense of responsibility to maintain, protect and enhance its success.

Similar findings were also documented by Pierce *et al.* (2004) in their study of work environment structures and psychological ownership. They found that work environment structure is significantly related to psychological ownership of both the job and the organization. Based on the preceding scholarly arguments, it seems reasonable to predict a positive relationship between psychological ownership and risk governance. This review of literature reveals this hypothesis;

H₁: There is a positive relationship between psychological ownership and risk governance.

Collectivist Orientation (CO) and Risk Governance

According to Yanga (2020), collectivists define themselves as a part or an aspect of a group and as dyads and interdependent amongst actors. Research by Wang *et al.* (2002) highlighted the four key attributes that define collectivists in organizations. For example, they describe themselves by their membership in various social groups, subordination of personal goals to group goals, sacrificing of personal interests for the sake of collective interests and behaving in away driven by the group's social norms, duties, and obligations. Given these attributes, financial institutions with collectivist tendencies are more likely to predict collaboration and effectiveness in risk governance. To the authors' knowledge, studies linking collectivist orientation to risk governance are rare. Available studies have linked collectivist orientation to affective organizational commitment (Wang *et al.*, 2002). In another study, Yang (2020) found that collectivistic orientation significantly enhanced the effectiveness of reciprocal motivators in promoting employees' willingness to cooperate for organizational interest. Further, Ramamoorthy and Carroll (1998), examined the impact of collectivist orientation towards alternative human resource practices and found that collectivism was positively associated with preference for equality-based rewards. In a study by Chiang *et al.* (2015) that investigated the influence of collectivism on continuous improvement, found that collectivist orientation improved or strengthened work climate's effect on continuous improvement. In addition, Jones and George (1998), revealed that collectivism fosters cooperation and willingness to disseminate information more freely among team members. Relatedly, Eby and Dobbins, (1997), also posted that collectivist orientation results into increased cooperation and coordination among team members, which is key to executing risk responsibilities. Given that risk decisions in FIs are made by committees, it is highly probable that collectivist orientation enhances risk governance. The fact

that there is minimal literature on the association between collectivist orientation and risk governance, we try to expand literature by establishing whether collectivist orientation can lead to effective risk governance in FIs by hypothesizing that:

H₂: There is a positive relationship between collectivist orientation and risk governance.

Psychological Ownership, Collectivist Orientation and Risk Governance.

Higgins (1997, 1998) proposed the two basic self-regulation systems that influence the way individuals select goals i.e. cognitive and emotions. The two unique and independent forms of self-regulation are referred to as psychological ownership. FIs psychologically allocate risks to individual employees especially in the credit section to own them as a risk governance mechanism. This enhances a FI's ability to ensure its workers undertake risks based on their cognitive abilities and affective feelings towards the target (Avey *et al.*, 2009). According to Argwal and Kallapur (2018) when all risk roles and responsibilities are allocated based on expert knowledge and historical evidence, the three lines of defense are collectively geared to the same target (risk governance). Collectivists proactively and psychologically own organizational goals, they align their interests with those of the organization they work for or work groups (Van Dyne & Pierce, 2004). In this regard, collectivism facilitates risk governance through shared knowledge spheres and skills, complementary efforts and synergetic forces that foster achievement of effective risk governance (Hagemann *et al.*, 2021). This means that employees with psychological ownership attributes are able to learn from each other collective behaviors that enrich achievement of mutual goals. We therefore hypothesize that:

H₃: Collectivist orientation mediates the relationship between psychological ownership and risk governance.

Methodology

Design, Population and Sample

This study adopted a cross-sectional and correlational research design. Cross-sectional research design is a type of observational study that analyzes data collected from a population at a single specific point in time (Saunders *et al.*, 2007). The study population is 230 financial institutions (Bank of Uganda, 2017; UMRA, 2022). A sample of 146 FIs was generated using Yamane's formula of 1973 that guides sample selection. According to Yamane, sample size is given by $n = N/(1+N(e)^2)$, where n is a sample size, N is the total population and e is tolerable error (Yamane, 1973). Based on Yamane's approach with a total population (N) 230 and tolerable error (e) 5 per cent. Usable questionnaires were received from 112 respondents, representing a response rate of 77 percent. Simple random sampling without replacement was used to select the financial institutions (Neuman, 2007). The study targeted three respondents per FI who were selected through the purposive sampling method (Field, 2009). These were the risk Director, Finance Director, Executive Director or board member. Given that the unit of analysis was a FI, all responses were aggregated to a FI during data analysis.

Measures and the Questionnaire

A six-point Likert scale questionnaire ranging from strongly disagree to strongly agree was designed and used to measure the opinions of respondents (Dolnicar *et al.*, 2011). According to Dolnicar *et al.* (2011), a six-point Likert scale reduces response biases associated with scales that

have a mid-point. This study used a close-ended questionnaire, because it aimed at calculating the mean ratings of the extent of agreement with the statements given. The questionnaire items were generated by reviewing the existing literature on collectivist orientation, psychological ownership and risk governance from previous studies. The dependent variable (risk governance), was operationalized in terms of structure, formality, centralization and responsibility (Hage & Aiken 1967; Lundquist, 2015). Collectivist orientation was measured by 4 items based on the scale developed by (Wagner, 1995; Wang *et al.*, 2002; Davis *et al.*, 1997; Neubaum *et al.*, 2017). Psychological ownership was measured in terms of cognitive awareness and emotional attachment (self-efficacy, self-identity, belongingness and accountability (Avey *et al.* 2009; Pierce *et al.*, 2001).

Tests of Factorability, Validity and Reliability

In this study, validity and reliability of the measurement items were determined following the recommendations of (Field, 2009). We carried out factor analysis to test for reliability and validity. Factor analysis was run basically to find out the internal consistency of the study instrument. This was achieved through Cronbach alpha coefficient and composite reliability of above 0.7 for all the study variables as recommended by (Cronbach, 1951; Field, 2009). We used the Kaiser–Meyer–Olkin (KMO) to determine the sample adequacy and also used Bartlett’s test to determine our data suitability for factor analysis (Field, 2009). Our results, in Table 1, indicate that the data were suitable for factor analysis. To determine the reliability of study scales, we computed Cronbach’s alpha coefficient. The standardized Cronbach’s alpha coefficients for all the scales were all found above 0.7, as recommended by Field (2009), as follows: psychological ownership, collectivist orientation and risk governance. This study also tested for validity, this included both content and construct validity. For content validity, the content validity index (CVI) was applied to determine the relevance of the questions in measuring the variables. This was achieved through subjecting the questionnaire to a panel of experts and their suggestions were carefully analyzed and incorporated. Construct validity was ascertained by carrying out convergent and discriminant validity following the recommendations of; (Henseler *et al.*, 2015; Saunders *et al.*, 2007).

Results and Discussion

Descriptive Statistics

A summary of the descriptive statistics for the study variables is indicated in Table 1. The statistics show that the mean and standard deviation scores for psychological ownership, collectivist orientation and risk governance were in the range of 4.93 and 5.04 and 4.99, and the standard deviation scores were 0.56, 0.77 and 0.52 respectively. This suggests that, on average, the variables of psychological ownership, collectivist orientation and risk governance are feasible and exist within the study organizations. The standard deviation values for the study variables are small as compared to the mean, this implies that the calculated means highly represent the observed data. Secondly, it shows that the study participants may have had a close or similar understanding of the study variables and lastly, it indicates that the sample closely reflects the population (Field, 2009; Saunders *et al.*, 2007). Field (2009) posited that mean values demonstrate the summary of the data while the standard deviations establish the extent to which the mean values represent the data. This is intended to establish whether the statistical mean values fit the observed data well (Field, 2009; Nalukenge *et al.*, 2017).

Correlation Analysis Results

In this study, the Pearson correlation coefficient was used to determine whether or not there are relationships between the study variables as hypothesized from the literature. The correlation results in Table 1 show that there is a significant positive relationship between psychological ownership and risk governance ($r = .499^{**}$, $p < 0.01$). This means that a positive change in psychological ownership brings about a positive change in risk governance. Thus, H1 is supported. The study results also show a significant positive relationship between psychological ownership and collectivist orientation. This implies that a unit change in psychological ownership will lead to a positive change in collectivist orientation. Finally, collectivist orientation is significantly and positively associated with risk governance ($r = .319^{**}$, $p < 0.01$). This means that a positive change in collectivist orientation will lead to .319 change in risk governance. Thus, H2 is preliminarily supported. The correlation analysis results also indicate that each of the dimensions of psychological ownership had a positive and significant association with risk governance.

Table 1. Descriptive statistics and correlation analysis results

Variable	Mean	SD	1	2	3
Risk governance	4.99	0.52	1		
Psychological ownership	4.93	0.56	.499**	1	
Collectivist orientation	5.04	0.77	.319**	.522**	1

** . Correlation is significant at the 0.01 level (2-tailed); $N = 112$

Source: Created by authors from data analysis

Regression Analysis Results

Given that the preliminary results from the bivariate correlations between the independent and the dependent variables have supported our hypotheses, we further ran a hierarchical regression analysis by following the guidelines set by (Aiken and West, 1991), to further substantiate our hypotheses (see Table 3). To establish the contribution of the independent variables to the dependent variable, a hierarchical regression analysis was found most suitable (Field, 2009). Table 2, Model 1, is the starting model with only the control variables used in this study. The results show that the control variables do not make a significant contribution to the variance in risk governance. This indicates that our models are not affected by confounding factors and therefore the models are highly dependable. In Model 2, psychological ownership was entered and found significant (standardized $\beta = 0.251$) and contributes 5.8% of the variation in risk governance in FIs. In Model 3, collectivist orientation was entered and found significant (standardized $\beta = 0.473$) and collectivist orientation accounts for 14.9% of the variation in success of SMEs. The overall model is statistically significant ($\text{sig} = 0.000$) with two predictor variables (psychological ownership and collectivist orientation) accounting for 22.3% of the variance in risk governance in FIs. In terms of hypothesis testing, H1 and H2 are confirmed. It is worth informing the reader that we used standardized β and not the unstandardized to report our regression results shown in Table 3. This is because, the latter takes on real values with no common measurement and yet this study had control variables which were measured differently from the study variables. According to Field (2009), standardization is a process of converting a variable into a standard unit of measurement and the unit of measurement typically used is the

standard deviation unit. Therefore, standardization permits the investigator to make statistical comparisons when data from different components of measurement have been utilized. In terms of hypothesis testing, H_1 and H_2 are confirmed.

Table 2. Hierarchical Regressions Analysis

Item	Model 1	Model 2	Model 3	Model 4	Tolerance	VIF
Constant	5.039	2.79	3.961	2.713		
Psychological ownership		0.492		0.459	0.715	1.399
collectivist orientation			0.305	0.611	0.677	1.476
Control variables						
Firm age	0.003	0.016	-0.018	0.011		
Firm size	-0.132	-0.07	-0.057	-0.058		
Meetings	0.732	0.012	0.057	0.013		
Model F	0.786	9.153	3.213	7.354		
R Square	0.021	0.255	0.107	0.258		
Adjusted R Square change	-0.006	0.227	0.074	0.223		
R Square change	0.021	0.235	0.086	0.236		
F change	0.786	33.543	10.293	16.86		
Note(s): **Significant at the 0.01 level						
Source: Primary Data						

Mediation Tests

To test for the mediating effect of collectivist orientation in the relationship between psychological ownership and risk governance, we followed the steps recommended when using PLS-SEM to assess the mediation effect that relies on ordinary least regression analysis (Bontis *et al.*, 2007). Through the path coefficient analysis, PLS generates and indicates the relationships required to test for mediation. The following four causal steps recommended by Bontis *et al.* (2007) are; to first, establish a relationship between the independent and dependent variables. Secondly, to establish a relationship between the independent and the mediator variables. Thirdly, to establish a relationship between the mediator variable with the dependent variable. Lastly, to ensure that the relationship between the independent and the dependent variables, should reduce significantly for mediation to occur.

In this study, bootstrapping was done twice using 5,000 subsamples at 95% confidence level to ensure the stability of the results of the mediation paths (H3) in the model Table 3 and Figure 1 (Hair *et al.*, 2017; Hair *et al.*, 2019). Bootstrapping was used first without a mediator and second, in the presence of a mediator construct. The rule of thumb according to Hair *et al.* (2017), is that initially if the direct path is not significant, then there is no mediation effect and when the direct path is significant, a mediator variable is introduced and bootstrapped again to test the significance of the indirect path. If the indirect path is not significant, then there is no mediation. However, if it is significant, then the Variance Accounted For (VAF) is computed. Hair *et al.* (2017) recommend that; if a value is less than 20% it indicates no mediation, a value is between 20% and

80% indicates partial mediation and a value of 80% and above shows full mediation. The results shown in Table 3, fulfil the first three steps. Then in the fourth step, we tested the mediating effect of collectivist orientation in the relationship between psychological ownership and risk governance. The results presented in Table 3 and PLS-SEM in Figure 1 reveal that collectivist orientation partially mediates in the relationship between psychological ownership and risk governance (β 5 0.123, $p = 0.05$), (VAF 65.08%) given that the VAF is in the range suggested by (Hair *et al.*, 2017).

Table 3. Mediation tests

Hypothesized direct path	B	δ	t-value	p Values	95% Bca confidence	
Collectivist orientation-risk Governance	0.277	0.105	2.636	0.008	0.053	0.469
Psychological ownership- collectivist orientation	0.416	0.110	3.769	0.000	0.185	0.616
Psychological ownership-risk governance	0.051	0.138	0.371	0.711	0.209	0.337
Specific indirect effects						
Hypothesized direct path	B	δ	t-value	p Values	95% Bca confidence	
Psychological ownership -> Collectivist orientation	0.115	0.049	2.344	0.019	0.022	0.216
Risk governance						
Total effects						
Collectivist orientation-risk Governance	0.277	0.105	2.636	0.008	0.053	0.469
Psychological ownership- collectivist orientation	0.416	0.110	3.769	0.000	0.185	0.616
Psychological ownership-risk governance	0.166	0.143	1.162	0.245	0.117	0.442

Source: Primary Data

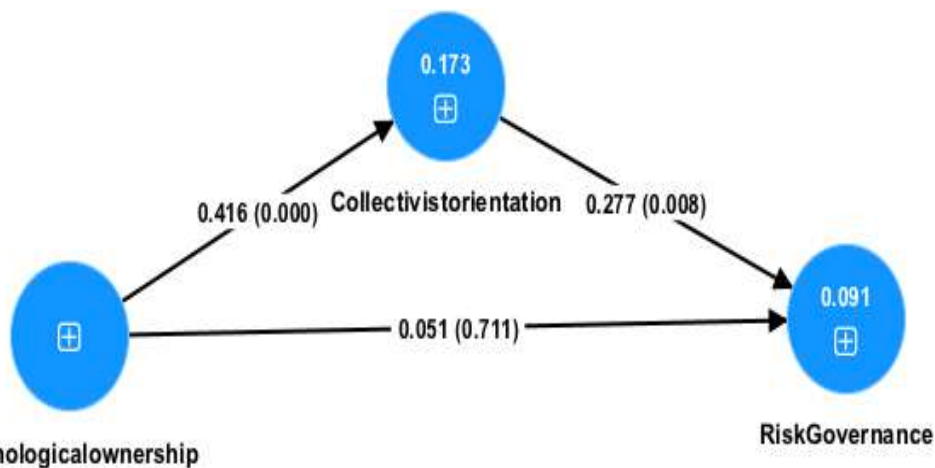


Figure 1. Mediation model

Source: Mediation analysis model created by the authors

Discussion

According to the present study results, psychological ownership and collectivist orientation are significant predictors of risk governance in FIs. We further note that collectivist orientation partially mediates the relationship between psychological ownership and risk governance in FIs. This suggests that risk managers and the board of FIs should embrace actions, methods and practices that propel cooperation, teamwork, trust and feelings of risk ownership among all their workers so as to promote and conserve effective risk governance of their FI. Given that the stewardship theory emphasizes alignment of managers' interests with those of their principals, it's essential for those aiming at effective risk governance to unselfishly assist their FIs by subordinating their personal interests in favor of organizational interests (Davis *et al.*, 1997). It is upon such stewardship governance mechanisms that managers as organizational leaders are estopped from acting opportunistically and in a self-serving manner thus achieving effective risk governance. The study results further support the stewardship theory given that employees who possess a collectivistic attitude tend to protect the interests of the group and those of the organization, hence enhancing risk governance.

Regarding H1, this study empirically finds that psychological ownership significantly and positively influences risk governance in FIs. This means that when employees psychologically own risks, it encourages accountability, and builds self-efficacy levels by enticing staff to be extra cautious with risks they are undertaking and be cognitively aware of the implications of their behaviors. Thus, employees innovate ways and ideas that prevent errors and ensure protection of their demarcated territory or responsibility. This finding agrees with VandeWalle *et al.* (1995), who indicated that employees with higher levels of psychological ownership exhibit extra role behavior that benefits the organization. They further note that psychological ownership results into a strong sense of responsibility. This finding is also consistent with Hou *et al.* (2009), who posited that psychological ownership improves governance by reducing agency problems. Regarding H2, our results also indicate that collectivist orientation positively impacts risk governance in financial institutions. This implies that a unit change in collectivist orientation results into a change in risk governance in FIs. As such, when risk managers assume responsibility for risk governance in FIs that are collectivistic oriented they improve the quality of their risk decisions, adherence to rules, compliance to structures of authority and ensure that employees thoroughly execute their responsibilities. Our findings are consistent with Menard *et al.* (2018), who posited that collectivism positively influenced concerns of information protection. Further, our study findings substantiate those of Driskell and Salas (1992) and Hagemann *et al.* (2021), who found that collective orientation was associated with effective team performance on decision-making tasks, negotiation tasks, and executing tasks all of which are key to risk governance.

Summary and Conclusion

This study aimed to establish the mediation effect of collectivist orientation in the relationship between psychological ownership and risk governance in FIs in Uganda. The above objective was achieved through a questionnaire survey of 112 financial institutions representing a response rate of 77 percent. Results indicate that psychological ownership and collectivist orientation are significant predictors of risk governance in FIs. Results further reveal that collectivist orientation is a partial mediator of the relationship between psychological ownership and risk governance.

Overall, our study offers important implications for academics, practitioners and regulators. Academically, our study contributes to the existing literature by providing initial empirical evidence on the contribution of psychological ownership and collectivist orientation on risk governance in FIs. The study further confirms that collectivist orientation partially mediates the relationship between psychological ownership and risk governance in FIs. For practitioners, the findings are important for the board members and risk managers in monetary institutions in ensuring that they promote the practice of collectivism throughout the financial institution. For regulatory agencies, it is important that Ugandans get massive sensitization and awareness about the dangers of risks embedded in utilizing services of financial institutions, thus creating safety and confidence in financial institutions sector.

Like other studies, the present study has limitations and also offers directions for further research. First, this study only focused on risk governance in FIs in Uganda, it is highly possible that the results may not be equally applicable for other sectors that faces risks in different work settings. Secondly, our study uses a cross-sectional research design, which means that changes in behavior over time may affect the study findings. Lastly, our predictor variables only explain 22.3% of the variance in risk governance in FIs in Uganda, this implies that there are other predictors of risk governance. Future research could explore other determinants of effective and sustainable risk governance in FIs.

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