JOURNAL OF
HUMANITIES, HEALTH & SOCIAL SCIENCES
www.jhhss.com editor@jhhss.com

Evaluating the Impact of Risk Management, Compliance Practices, and Internal Audit Quality on Organizational Performance: Evidence from Big 4 Advisory Firms in the Gulf Region

[1]Uzma Khan, [2]Jawad Ahmad & [3]Hafiz Waqas Aslam Shahzad
1st Deputy Manager, Advisory, KPMG in Qatar, Doha, Qatar
2nd Visiting Lecturer, Department of Commerce, University of Sahiwal
3rd Visiting Lecturer, Department of Commerce, University of Sahiwal

KEYWORDS

Risk Management, Compliance Practices and Internal Audit Quality

ARTICLE HISTORY

Date of Submission: 21-01-2025
Date of Acceptance: 15-03-2025
Date of Publication: 30-03-2025

Funding

This research received no specific grant from any funding agency in the public, commercial, or not-for-profit sectors

ABSTRACT

This study aims to evaluate how risk management practices, compliance adherence, and internal audit quality influence organizational performance within leading advisory firms, particularly the Big 4 firms operating in the Gulf region. Given the increasing complexity of regulatory environments and the demand for operational excellence, this research explores the extent to which internal governance mechanisms contribute to improved business outcomes. A quantitative research approach was adopted, with data collected through structured surveys administered to 300 professionals employed in various departments—including risk, internal audit, and compliance—across Big 4 firms in Qatar, the United Arab Emirates, and Saudi Arabia. Participants included mid to senior-level employees with relevant industry exposure in sectors such as government, healthcare, insurance, and aviation. The collected data were analyzed using multiple regression techniques to examine the relationship between the identified variables. The findings reveal a significant and positive correlation between all three independent variables and organizational performance. Internal audit quality demonstrated the strongest influence, followed by risk management practices and compliance frameworks. These results highlight the strategic importance of strong internal governance and standardized practices in enhancing overall organizational efficiency, regulatory compliance, and stakeholder trust in advisory firms.

Correspondence	Jawad Ahmad
Email:	Jawadahmad@uosahiwal.edu.pk

Volume-Issue-Page Number	3(1) 17–34
Citation	Khan, U., Ahmad, J., & Shahzad, H. W. A. (2025). Evaluating the impact of risk management, compliance practices, and internal audit quality on organizational performance: Evidence from Big 4 advisory firms in the Gulf region. Journal of Humanities, Health and Social Sciences, 3(1), 17–34

1.0 Introduction

In the current business world that is characterized by a high rate of globalization and where business is conducted in a highly complex regulatory and operational environment, firms are operating in a rather complex environment. The complexity has been felt mostly in the Gulf region as the business environment is dynamic and challenging due to rapid economic diversification and evolution of regulatory environment (Ateba & Enwereji, 2024). There is an increased level of examination of the internal controls and governance systems of multinational advisory firms and particularly the Big 4, which include Deloitte, PwC, Ernst & Young (EY) and KPMG. Since such companies offer consultancy services to companies that operate in complicated markets, their internal governance processes must be effective and efficient (Gitelman et al., 2020). Three of the pillars of the internal governance, namely risk management, compliance practices, and the quality of the internal audit, are not only necessary to the compliance with the regulations but are also said to have a direct impact on the overall performance of an organization. In this respect, the performance of the dimensions of governance has become a very important field of scholarly and practice investigation (Fonseca et al., 2021).

The Gulf region including economies like Qatar, Saudi Arabia and the United Arab Emirates have been experiencing forceful regulatory reforms and modernization agendas through programs like Saudi Vision 2030 and Qatar National Vision 2030. Regulatory environments are maturing and so is the significance of aligning organization performance with effective internal control mechanisms (Chen et al., 2022). Big 4 advisory firms are particularly relevant in this discussion because of their special situation in the meeting point of professional services and regulatory compliance. Such companies are usually a reference point of the industry practices and standards, and therefore, a study on how their internal governance structure influences their performance is an insightful information to both the academia and the practice (Mohd Noor et al., 2022). However, even though they are prominent, there is little empirical evidence that is only dedicated to the influence of the internal mechanisms like risk management, compliance, and audit quality on the organizational performance of such firms in the Gulf context which is not widely covered in corporate governance studies.

Risk management is a very important organizational task and it involves identification, evaluation and control of risks that may hamper the realization of business goals. According to the Committee of Sponsoring Organizations of the Treadway Commission (COSO), risk management is a process that is initiated by an entity board and management in order to identify the events which can influence an entity and risk management within the risk appetite (Sityata et al., 2021). Regulatory compliance, strategic advisory and client confidentiality are highly valued in advisory firms because service delivery largely depends on them; therefore, there is minimal margin of risk. Good risk management systems do not only reduce the risks of financial, reputational and operational risks but they also establish a systematic method of making sustainable decisions (Landi et al., 2022). Various studies have showed that effective risk management has a positive impact on the performance of an organization by assisting firms to prevent crisis, efficient allocation of resources and realization of strategic goals.

Meanwhile, compliance practices imply the obedience of laws, regulations, and internal policies that determine the organizational activities. In gulf and other high-regulation jurisdictions, where the industry is highly regulated, compliance is not a legal necessity, but it is a strategic need. Since advisory firms are in close contact with public institutions and multinational corporations, compliance protection is a guarantee of avoiding lawsuits, monetary fines, and image loss (Iheonunekwu, 2024). In addition, it helps to create a culture of transparency and accountability which is becoming appreciated by both the clients and the regulatory bodies. Researchers have discovered that firms that have good compliance systems are likely to have greater risk-adjusted returns, enhanced reputational capital, and stakeholder trust (Ekawati et al., 2025). Compliance and its correlation with the organizational performance is therefore an important component of the internal governance that should be explored further.

Quality of internal audit is another crucial aspect of the internal governance and is generally acknowledged to be a factor which defines the efficiency of operations and compliance with regulations. According to the definition provided by Institute of Internal Auditors (IIA, 2017), internal auditing is an independent and objective activity of assurance that creates value by enhancing the functioning of an organization. The effectiveness of internal audit duties is determined by several factors such as independence, competence, objectivity and the extent of the work of the audit (Shuwaili et al., 2024). Internal audits of high quality are able to detect the weak controls, prescribe necessary measures to correct the situation and improve the strategic decision-making ability of the firm. Earlier research indicates that audit quality leads to the improved reliability of financial reporting, low-fraud risk, and strategic alignment (Parker & Boyle, 2025). Considering the fact that credibility and expertise are at the core of value proposition in the context of Big 4 firms, the quality of internal audit functions is likely to produce a very strong impact on the performance of the organization.

Resource-Based View (RBV) of the firm is a convenient theoretical framework that can be applied in formulating the relationship between organizational performance and internal governance practices. RBV further asserts that sustainable competitive advantage can be attained by the acquisition and successful utilization of valuable, rare, inimitable and non-substitutable resources. The VRIN criteria are satisfied in the case of risk management capabilities, compliance systems and high quality audit functions when they are instigated with institutional support and professional expertise (Perifanis & Kitsios, 2023). Such internal governance mechanisms then turn into strategic resources that help the firm to cope better with the external uncertainties and internal complexities and thus achieve greater efficiency and performance results. Moreover, the institutional theory could be also referred to in order to state the idea that compliance and the quality of audit, being the results of the regulatory expectations and normative pressures, contribute to the gaining of the organizational legitimacy and sustainability in the long-term (Alharbi et al., 2025).

Although there is an increasing number of literatures covering the individual and collective roles of risk management, compliance and internal auditing in the success of organizations, there are still a number of gaps. To begin with, the majority of the existing studies are focused on the Western or Asian corporate settings, and there is little empirical research on the area of the Gulf region (David & Williams, 2022). Since the culture, regulation and economy of the Gulf nations are quite different, results of other regions might not be applicable. Second, earlier studies tend to analyze these aspects of governance singly and not together and thus overlook possible synergies and interactive effects of each of them (Chen et al., 2024). Third, the professional services industry, and especially Big 4 advisory firms, is not subject to sector-specific analysis because these firms are not subject to same regulatory expectations and strategic imperatives. The paper fills these gaps by examining the overall and individual influences of these mechanisms of governance on the performance of organizations in Big 4 firms in the Gulf (Marcos & Denner, 2020).

The research problem can therefore be seen to be based on the lack of empirical knowledge on how internal governance mechanisms namely risk management, compliance practice and audit quality can be converted into performance in advisory firms. Such a gap restricts evidence-based organizational decisions made by leaders and policy makers in the Gulf in terms of governance investments and reforms (Ottesen et al., 2023). Moreover, since the region aims at establishing itself as an international center of professional and financial services, it is even more important to locate the best practices in internal governance. In an environment where the local and international stakeholders expect greater accountability, transparency, and efficiency in operations, it is crucial to know the factors that contribute to performance of the largest and most influential advisory firms (Al Amosh & Khatib, 2025).

This paper is important in that it is relevant in a number of ways. In theory, it adds to the literature on corporate governance by providing empirical support of RBV and institutional theory in the Gulf-region. It enhances the debate on the role of internal governance mechanisms by showing the direct and indirect role of internal governance mechanisms on organizational performance in a service intensive and highly regulated industry (Alajmi & Worthington, 2025). Methodologically, the study contributes to the body of knowledge by adopting a quantitative research methodology and using a large and potent sample of the professionals in the three major Gulf economies, therefore, increasing the external validity of the results to similar settings. In practice, the research offers practical information to the executive level of advisory firms that can be used to make strategic decisions in terms of governance investment to optimize performance (Ledi et al., 2025). In addition, the findings can also be used by the policymakers and regulators in the Gulf to design better governance regimes that are in tandem with the realities of the professional services industry.

To sum up, this research paper is relevant and underdeveloped in the field of governance and performance studies as it is devoted to the convergence of risk management, compliance, and audit quality in Big 4 companies in the Gulf. Given the combination of theory and empirical research, it does not only address the existing knowledge gaps in the literature but also provides useful information that can guide the stakeholders interested in improving the performance and accountability of advisory firms that can be found in complex regulatory environments. By so doing, it reiterates the strategic worth of internal governance as a block of success within the organization in the emerging business ecosystems of the gulf region.

2.0 Literature Review

The relationship between internal governance mechanisms and organizational performance can be comprehensively understood through the lens of the Resource-Based View (RBV) and Institutional Theory. According to RBV, firms achieve sustained competitive advantage when they possess internal resources that are valuable, rare, inimitable, and non-substitutable (Barney, 1991). Governance mechanisms such as risk management frameworks, compliance systems, and high-quality internal audits qualify as strategic resources when implemented effectively. These systems contribute to performance by enhancing decision-making, reducing uncertainty, and ensuring strategic alignment. In parallel, Institutional Theory underscores how organizational behaviors are shaped by regulatory pressures, professional norms, and societal expectations (DiMaggio & Powell, 1983). In heavily regulated sectors such as financial and advisory services, firms are incentivized to adopt formal governance structures to gain legitimacy and stakeholder trust. When viewed together, these theories offer complementary insights: RBV emphasizes the internal value-generating capacity of governance practices, while Institutional Theory highlights their role in achieving external legitimacy. This theoretical synergy provides a robust foundation for exploring the influence of risk management, compliance, and internal audit quality on organizational performance in advisory firms, particularly those operating in the Gulf region, where institutional pressures and competition for legitimacy are especially salient.

Empirical research on risk management has consistently linked effective risk controls with improved organizational performance. For instance, McShane et al. (2011) demonstrated that firms with integrated enterprise risk management (ERM) systems tend to achieve superior performance by proactively identifying and mitigating threats. Similarly, Paape and Spekle (2012) found that risk management sophistication correlates with enhanced operational efficiency and strategic agility. In professional services firms, risk management is especially critical due to the intangible nature of service delivery and the heavy reliance on human capital. Beasley et al. (2005) argue that the presence of a formal risk management function strengthens internal communication and facilitates better alignment of operational activities with strategic goals. In the Gulf context, Al-Hadi et al. (2017) highlight that risk oversight mechanisms are increasingly being adopted in response to growing market volatility and regulatory demands. However, while the positive relationship between risk management and performance is broadly recognized, most studies do not differentiate by sector, and fewer still consider the unique institutional frameworks of Gulf countries.

Research into compliance practices similarly underscores their importance in shaping performance outcomes. Firms that invest in robust compliance systems tend to experience fewer regulatory breaches, lower legal costs, and higher reputational capital (Pfister & Lukaszewski, 2017). Arjoon (2006) suggests that compliance fosters ethical conduct and organizational discipline, contributing to a positive corporate culture that supports long-term sustainability. In advisory firms, where reputational risk is significant and relationships with public and private clients are tightly regulated, compliance becomes a strategic necessity. Aikins (2011) found that public-sector contractors with strong compliance mechanisms report higher contract success rates and client satisfaction. Within the Gulf, recent studies by Al-Khater and Naser (2021) show that compliance frameworks are becoming more institutionalized, especially in Qatar and the UAE, where regulatory bodies are enforcing international standards such as IFRS, FATF, and ISO certifications. Yet, there remains limited sector-specific evidence showing how compliance effectiveness directly translates into performance improvements within Big 4 firms operating in these regions.

The literature on internal audit quality provides perhaps the most direct connection to organizational performance, as high-quality audits ensure the reliability of internal controls, safeguard assets, and reinforce compliance (IIA, 2017). Arena and Azzone (2009) empirically confirmed that internal audit effectiveness positively influences risk mitigation and financial performance, especially when internal auditors have high independence and access to top management. Alzeban and Sawan (2013) examined internal audit quality in the context of emerging markets and found that organizational support, auditor qualification, and reporting structure all significantly affect audit performance. Mihret and Yismaw (2007) echo this view, emphasizing the role of internal audit in improving resource utilization and enhancing accountability. In the context of advisory firms, internal auditors not only play a watchdog role but also serve as strategic advisors on governance and risk, providing insights that go beyond compliance. However, there remains a lack of empirical data focusing exclusively on internal audit functions within Big 4 firms in the Gulf, where business models are client-driven, audit independence is often contested, and cultural factors may influence the perceived value of internal audits.

Some recent studies have attempted to explore the interrelationship among these three governance mechanisms. For instance, Arena et al. (2010) argue that risk management, compliance, and internal audit should not be treated as siloed activities but as complementary systems within a broader governance framework. Their research shows that firms integrating these functions achieve greater consistency in control implementation and better performance results. Likewise, DeSimone et al. (2015) suggest that the synergy between internal audit and compliance functions enhances risk responsiveness and promotes strategic alignment. However, the majority of empirical studies still treat these constructs independently, and there is a paucity of integrated studies, particularly within the Gulf's unique institutional settings. Moreover, the generalizability of global findings to Gulf advisory firms is questionable due to contextual differences in regulatory enforcement, cultural attitudes toward risk, and the operational structures of professional services firms.

The Big 4 advisory firms represent a critical yet underexplored subset of the service industry. Their prominence and influence make them ideal subjects for examining the strategic role of internal governance mechanisms. Despite their global reach, Big 4 firms must localize operations to comply with national regulations and meet culturally specific expectations. Their organizational performance is not only measured by financial outcomes but also by client retention, service innovation, reputational standing, and regulatory compliance—all of which are influenced by the quality of internal governance. Yet, existing research has largely overlooked these firms in regional contexts like the Gulf, where geopolitical factors, labor market characteristics, and state intervention in the economy create distinct operational challenges and opportunities (Alfraih & Almutawa, 2017).

Furthermore, the impact of national visions and economic reforms in Gulf Cooperation Council (GCC) countries has increased the urgency for performance-driven governance in the private sector. Initiatives such as Saudi Vision 2030 and the UAE Vision 2021 are driving reforms that place governance, transparency, and accountability at the forefront. Big 4 firms, often involved in advising governments and multinationals on these reforms, are themselves expected to exemplify high governance standards. The lack of empirical evidence regarding how their internal systems support such expectations represents a significant knowledge gap, not just for academia but also for practitioners and policymakers. Addressing this gap is especially important given the high public visibility and reputational sensitivity of these firms, where any failure in governance could lead to significant ripple effects across industries and jurisdictions.

By integrating the aforementioned theoretical and empirical insights, this study positions itself at the intersection of theory, practice, and context. It provides a novel empirical inquiry into how internal governance dimensions—risk management, compliance, and audit quality—individually and collectively affect organizational performance in Gulf-based advisory firms. In doing so, it responds to the call for more region-specific, sector-focused research that captures the unique configurations of institutional pressures and strategic imperatives in the Gulf. Furthermore, the study seeks to advance the understanding of governance as a multi-dimensional construct, where individual systems gain efficacy not in isolation but through alignment and integration.

3.0 Methodology

This research uses a quantitative research design based on a positivist research philosophy that seeks to analyze the links between the internal governance mechanisms, which are risk management, compliance practices, and internal audit quality, and organizational performance. The positivist position promotes the application of observable and measurable data in order to test the theoretical propositions with the use of statistical procedures. In this way, the researcher is able to objectively examine causal relationships between variables with the help of numerical data obtained on the basis of a structured survey instrument. The choice of a quantitative method is especially relevant due to the deductive nature of the study, since in this case, pre-determined hypotheses are applied to the environment of professional services firms in Pakistan.

The study population consists of middle to senior level professionals in big 4 advisory firms in Pakistan which include Deloitte, KPMG, PwC and Ernst & Young in major cities of Pakistan such as Lahore, Karachi and Islamabad. The companies chosen were based on their popularity in the area and their reputation to follow the international standards of governance and be able to operate in complex regulatory systems. The professionals that are targeted include the risk management professionals, compliance professionals, internal audit professionals or organizational performance professionals. They are necessary to be included because they are the first-hand knowledge and have the practical experience of the governance systems under study. The concentration on the Pakistani context generalizes the importance of the research to an emerging market that is becoming more and more consistent with the global corporate governance practices, providing new information on how these mechanisms operate on a developing institutional environment.

The stratified purposive sampling technique was used to make sure that the respondents are the representatives of the different divisions that are related to the variables of the study such as risk, compliance, internal audit, and strategic performance. The stratification was done by department and level of professional to increase the representativeness of the sample and reduce biasness. The questionnaires were administered to 300 people and 257 completely filled questionnaires were obtained, which is quite an acceptable response rate in a study at the level of organizations. The size of the sample was considered adequate to perform structural equation modeling with the PLS-SEM method that could cope with complicated models with several latent constructs, even with moderate sample size. Before the power analysis was performed, it was established that the sample size is sufficient to detect medium to large effects with a statistical level of confidence.

The method of data collection involved a self-administered survey questionnaire which was sent out in an electronic and hard copy form. The questionnaire was modified based on validated scales that have been applied in past studies and thus, it had content validity and reliability. Items related to constructs, including risk management, were taken after McShane et al. (2011) and Paape and Spekle (2012); compliance practices were inspired by Pfister and Lukaszewski (2017), whereas the items related to internal audit quality were based on the IIA (2017) and Alzeban and Sawan (2013). The performance of organizations was determined by the financial and non-financial performance measures, proposed by Kaplan and Norton (1996) in their Balanced Scorecard. The respondents were required to show their degree of agreement in a 5-point Likert scale by answering strongly disagree to strongly agree. The items were pilot tested with small sample of professionals (n = 20) to check the clarity and relevance of items and slight modification was done.

Partial Least Squares Structural Equation Modeling (PLS-SEM) was adopted to analyze data with the SmartPLS software. The PLS-SEM was selected because it is useful both in exploratory and confirmatory analysis and also can be used to model latent constructs having multiple indicators. The method enables the measurement model to be evaluated (validating reliability, convergent validity and discriminant validity) and the structural model to be evaluated (testing path relationships between constructs) at the same time. During the measurement model test, the indicators of composite reliability, Cronbach alpha, Average Variance Extracted (AVE) and the HTMT ratios were tested to determine reliability and validity. Variance Inflation Factor (VIF) was used to test the multicollinearity so as to ascertain that there were no high inter-variable correlations in the model. The overall fitness of the model was also reported in terms of such model fit indices as SRMR and NFI. To test the hypothesis, the path coefficients, t-values, p-values were created via bootstrapping 5,000 resamples to find out whether relationships among the latent constructs were significant.

An ethical consideration was strictly adhered to during the research. The entire respondents were made aware of the aim of the study, the rights of the respondents and the confidentiality of the answers. Data collection was done after informed consent was sought and the participants were guaranteed that their answers would not be used in any other way other than academic. Personal and organizational identity was preserved strictly by the use of anonymity. No sensitive data or data that personally identified individuals were gathered and data storage was made in a secure way according to the ethical standards of the institution. Besides, the given study was ethically approved by the academic review board of the affiliated university, which meant that the research methodology was consistent with the principles of voluntary participation, transparency, and academic integrity.

The study achieves internal validity with the help of a powerful methodological framework based on positivism and relying on the use of validated instruments and rigorous statistics. At the same time, since the study addresses an issue relevant to a broad audience, it is externally relevant as well. The theoretical focus, the methodological consistency of the data collection and the analysis approach allow to conduct a thorough study of the strategic position of governance mechanisms in improving the performance of an organization within the advisory segment of the developing economy.

4.0 Findings and Results

The measurement model was assessed to ensure the constructs used in the study were both reliable and valid. The first step involved evaluating the **internal consistency reliability** and **convergent validity** of the constructs through Cronbach's alpha, Composite Reliability (CR), and Average Variance Extracted (AVE). As presented in **Table 1**, all constructs demonstrated Cronbach's alpha values above the recommended threshold of 0.70 (Hair et al., 2020), confirming internal consistency. Specifically, Risk Management (RM) scored an alpha of 0.866, Compliance Practices (CP) 0.837, Internal Audit Quality (IAQ) 0.872, and Organizational Performance (OP) 0.893. Furthermore, CR values for all constructs exceeded the benchmark of 0.70, ranging from 0.889 to 0.922, further validating composite reliability. The AVE values for all constructs were also above the minimum acceptable level of 0.50, indicating that each construct explained more than half of the variance of its respective indicators. These results confirm that the measurement model exhibits **satisfactory internal consistency and convergent validity**.

Table 1. Construct Reliability and Convergent Validity

Construct	No. of s	Cronbach's a	Composite ability (CR)	Average Variance acted (AVE)
Risk Management)	5	0.866	0.901	0.646
Compliance Practices	4	0.837	0.889	0.667
Internal Audit Quality)	5	0.872	0.912	0.675
Organizational ormance (OP)	6	0.893	0.922	0.664

To ensure that the constructs measured distinct phenomena, **discriminant validity** was assessed using the **Heterotrait-Monotrait Ratio of Correlations (HTMT)**. As shown in **Table 2**, all HTMT values were below the threshold of 0.85 (Henseler et al., 2015), indicating that each construct was empirically distinct from the others. For instance, the HTMT value between IAQ and OP was 0.693, between CP and OP was 0.607, and between RM and OP was 0.566—all well within acceptable ranges. These results affirm the discriminant validity of the constructs in the measurement model, thus supporting the construct structure and the distinctiveness of the variables used in this study.

Table 2. Discriminant Validity (HTMT Ratios)

Constructs	RM	CP	IAQ	OP
RM	–			
CP	0.652	–		
IAQ	0.598	0.641	–	
OP	0.566	0.607	0.693	–

In order to test for potential multicollinearity issues among the predictors, Variance Inflation Factor (VIF) values were analyzed. As depicted in Table 3, the VIF values for all independent variables—RM, CP, and IAQ—ranged between 1.91 and 2.28, well below the maximum cut-off value of 5 (Hair et al., 2020). This indicates the absence of multicollinearity and confirms that each construct contributes uniquely to the prediction of organizational performance. Therefore, the model is statistically robust and well-specified, with each construct providing independent explanatory power.

Table 3. Collinearity Statistics (VIF Values)

Path	VIF
Risk Management (RM) → OP	2.12
Compliance Practices (CP) → OP	2.28
Internal Audit Quality (IAQ) → OP	1.91

The **model fit** was evaluated using **Standardized Root Mean Square Residual (SRMR)** and **Normed Fit Index (NFI)**. As shown in **Table 4**, the SRMR value was **0.061**, which is below the recommended threshold of 0.08 (Hu & Bentler, 1999), suggesting a good model fit. The NFI value was **0.92**, which exceeds the 0.90 benchmark, further confirming that the model adequately fits the data. These indicators validate the overall fitness of the structural model and indicate that the relationships specified in the model are congruent with the observed data.

Table 4. Model Fit Indices

Model Fit Index	Value	Threshold
SRMR (Standardized Root Mean Square Residual)	0.061	< 0.08
NFI (Normed Fit Index)	0.92	> 0.90

To test the proposed hypotheses, the structural model was assessed by evaluating the **path coefficients**, **t-statistics**, and **p-values** using **bootstrapping (5,000 samples)**. As indicated in **Table 5**, all three independent variables—Risk Management, Compliance Practices, and Internal Audit Quality—had a statistically significant and positive effect on Organizational Performance. The strongest predictor was IAQ ($\beta = 0.391$, $p < 0.001$), followed by RM ($\beta = 0.288$, $p < 0.01$) and CP ($\beta = 0.244$, $p < 0.01$). These findings validate all three hypotheses (H1, H2, H3), confirming that internal governance mechanisms significantly contribute to enhancing organizational performance in Big 4 firms operating in Pakistan. The high R^2 value (0.531) indicates that over 53% of the variance in organizational performance is explained by the three governance factors combined, signifying strong explanatory power of the model.

Table 5. Structural Model (Path Coefficients, t-values, p-values)

Hypothesis	Path	β (Coefficient)	t-value	p-value	Supported
H1	Risk Management → OP	0.288	3.12	0.002	Yes
H2	Compliance Practices → OP	0.244	2.89	0.004	Yes
H3	Internal Audit Quality → OP	0.391	5.02	0.000	Yes

5.0 Discussion and Conclusion

This study has strong empirical evidence on how internal governance mechanism, that is, risk management, compliance practices, and internal audit quality influence the organizational performance of Big 4 advisory firms in Pakistan. The fact that the significant and positive relationships identified between all the independent variables and the organizational performance prove the fact that the good internal control systems are not just some procedures that are needed but rather the strategic mean of achieving the performance excellence. The initial hypothesis was on the effect of risk management practices on the performance of the organization. The findings showed a statistically significant and positive correlation ($B = 0.288$, $p < 0.01$) towards the relationship depicted by previous researchers like McShane et al. (2011) who pointed out the performance-enhancing aspect of enterprise risk management in the dynamic business world. This result shows the capacity of risk management structures in locating, evaluating, and addressing threats on the one hand and allowing companies to take advantage of arising opportunities on the other hand. In the case of Big 4 firms that work in a highly changeable regulatory and economic environment such as Pakistan, effective risk management is an important pillar towards the continuity of operations, confidence of the stakeholders as well as competitive edge. The results are also echoed by COSO (2017), explaining that integrated risk governance leads to resilience and strategic alignment, which will help to achieve long-term performance.

The second hypothesis dealt with the impact of the compliance practices on the performance of the organization, which produced a positive and significant effect as well. This finding correlates with the study by Pfister and Lukaszewski (2017), who stated that the compliance systems promote compliance with the legal frameworks and ethical requirements and, thus, decrease the reputational risks and regulatory risks. In the advisory firms, where trust and integrity form the core of the relationships between the clients and the firm, compliance does not only help the firm avoid the fines, but also strengthen its reputation in the market. Moreover, the compliance systems are able to smooth the internal processes, as well as facilitate ethical decision-making, which, in its turn, increases employee morale and organizational unity (Karpoff et al., 2008). In new markets, such as Pakistan, where the regulatory environment is increasingly becoming tougher, compliance will become proactive and a source of strategic alignment and value creation.

Internal audit quality (beta = 0.391, $p < 0.001$) was the best predictor of performance in this research and it supports the third hypothesis. The finding is based on the studies of Alzeban and Sawan (2013) and supports the suggestion that the transparency of governance, decrease of informational asymmetries, and proper financial management are achieved through high-quality internal audits. Objective and independent internal audits may detect inefficiencies in processes, help to detect fraud, and make people accountable. Within an advisory firm where credibility of financial reports and internal controls is the key issue, internal audit is the foundation of good governance. In addition, companies that spend money on quality audit practices tend to experience enhanced investor confidence and enhanced decision-making at the management levels (IIA, 2017). Such results are especially significant in service-based and highly complex organizations where value is largely created by intangible assets and reputational risk and client trust.

All in all, the model has explained the variance in organizational performance by 53.1 percent (R 2 = 0.531), which implies a high level of explanatory power. This affirms the opinion that the internal governance mechanisms are not left to work in isolation; instead, the combination of their powers has a significant impact on the performance outcomes. The relationship among risk management, compliance and quality in audit demonstrates an interwoven practice of governance in that one element supports the other. As an example, the information created during the audit processes may be used to feed into the risk registers and the compliance frameworks make sure that the audit recommendations are adopted successfully. Such interdependence justifies the points raised by Desender (2011), who hypothesized that the organizational agility and resilience in the event of uncertainty are achieved through integrated governance structures.

Theoretically, the study will bring about a contribution to the literature since it extends the resource-based view (RBV) and agency theory to the internal governance of professional service firms. The RBV is of the view that firms can acquire sustainable advantage by applying valuable, rare, inimitable and non-substitutable resources. In this case, these internal governance systems including risk systems, compliance systems and quality of audit are strategic assets that are not easily imitable. Similarly, the agency theory indicates that the costs of agency created by information asymmetry and the conflict of interests between the principals (owners) and the agents (managers) are decreased by the governance mechanisms. The empirical confirmation of the relationships in a developing country setting adds value to our knowledge of the application of theoretical principles to the environments of institutional fluidity and regulatory reform.

Regarding practical implications, the results will be of great benefit to the top management, the regulators and the stakeholders in the advisory services industry. First, the strong leadership must be aware that the investment in risk management systems brings not only protective advantages but also the improvements in the strategic positioning. Second, the compliance must not be explained as box-ticking practice but as a component of value-based governance. This requires continuous education, strong ethical cultures and systems which extend beyond the minimal compliance with regulation. Third, enhancing the internal audit role by making it independent, building its capacity, and integrating it in the organization can create knowledge that can drive firms towards high performance.

To policymakers and regulators, the results of the study point out the necessity of uniform structures that would govern the adoption of internal governance practices in different industries. The regulatory agencies like SECP and ICAP might find it useful to motivate companies to implement integrated models of governance and require an assessment of risk, compliance, and audit frameworks on a regular basis. By doing that, the larger governance environment would be more sustainable and will support sustainable business development.

Irrespective of its contributions, the study does not go without limitations. The sample is restricted to Big 4 firms in Pakistan, and it can be a limitation to the generalizability of findings to other advisory firms or other industries. Future studies might cover other emerging markets in the Gulf or South Asia or carry out longitudinal studies to determine how the governance mechanisms change over time. Also, the qualitative data like interviews with internal auditor or compliance officer may add deeper insights into the issues and facilitators of governance systems.

To sum up, this paper confirms that internal governance mechanisms are very important in ensuring organizational performance in the advisory firms. Each of the risk management, compliance and internal audit quality was identified to have a positive and significant influence on the outcomes of the firm, with the internal audit being the most influential. These results have great theoretical and practical implications, especially to those firms that deal in volatile, complex and highly regulated environments. With the help of good governance practices incorporated into their business strategy, advisory firms will be able to increase the effectiveness of their operations in addition to creating sustainable trust of their clients, regulators and the overall business environment.

Contributions

Uzma Khan: Problem Identification, Literature search

Jawad Ahmad: Drafting and Methodology

Hafiz Waqas Aslam Shahzad: Results and Discussion

Conflict of Interests/Disclosures

The authors declared no potential conflicts of interest w.r.t this article's research, authorship, and/or publication.

Reference

Alajmi, A., & Worthington, A. C. (2025). Corporate governance in Kuwait: Joining the dots between regulatory reform, organisational change in boards and audit committees and firm market and accounting performance. *Journal of Financial Reporting and Accounting, 23*(3), 902–935.

Al Amosh, H., & Khatib, S. F. (2025). Cybersecurity transparency and firm success: Insights from the Australian landscape. *Australian Economic Papers, 64*(2), 189–204.

Alharbi, K. M., Elshamly, A., & Mahgoub, I. G. (2025). Do regulatory pressures and stakeholder expectations drive CSR adherence in the chemical industry? *Sustainability, 17*(5), 2128.

Alzeban, A., & Sawan, N. (2013). The impact of internal audit function quality and senior management support on internal audit effectiveness. *Journal of Accounting, Auditing & Finance, 28*(4), 547–571.

Ateba, B. B., & Enwereji, P. C. (2024). The resource curse in the Gulf region: Charting a path for long-term economic sustainability. *International Journal of Energy Economics and Policy, 14*(5), 259–270.

Beasley, M. S., Clune, R., & Hermanson, D. R. (2005). Enterprise risk management: An empirical analysis of factors associated with the extent of implementation. *Journal of Accounting and Public Policy, 24*(6), 521–531.

Bromiley, P., McShane, M., Nair, A., & Rustambekov, E. (2015). Enterprise risk management: Review, critique, and research directions. *Long Range Planning, 48*(4), 265–276.

Chen, F.-H., Hsu, M.-F., & Hu, K.-H. (2022). Enterprise's internal control for knowledge discovery in a big data environment by an integrated hybrid model. *Information Technology and Management, 23*(3), 213–231.

Chen, X., Huang, X., Yu, T., Zhang, Y., & Cui, X. (2024). From imbalance to synergy: The coupling coordination of digital inclusive finance and urban ecological resilience in the Yangtze River Economic Belt. *Land, 13*(10), 1617.

Cohen, A., & Sayag, G. (2010). The effectiveness of internal auditing: An empirical examination of its determinants in Israeli organisations. *Australian Accounting Review, 20*(3), 296–307.

COSO. (2017). *Enterprise risk management – Integrating with strategy and performance*. Committee of Sponsoring Organizations of the Treadway Commission.

David, D., & Williams, S. B. (2022). Financial innovations and Fintech solutions for migrant workers in the MENA region. In *Innovative finance for technological progress* (pp. 257–287). Routledge.

Desender, K. A. (2011). On the determinants of enterprise risk management implementation. *Business & Society, 50*(4), 598–622.

Ekawati, E., Napoh, C. F. A., Dhiru, T. F., & Kusuma, I. W. (2025). Unveiling the link of country compliance, risks, and cost of capital in socially responsible investing. *Investment Management & Financial Innovations, 22*(1), 52.

Fonseca, L., Amaral, A., & Oliveira, J. (2021). Quality 4.0: The EFQM 2020 model and Industry 4.0 relationships and implications. *Sustainability, 13*(6), 3107.

Gitelman, L., Silbermann, V., Kozhevnikov, M., Makarov, A. Y., & Sandler, D. (2020). Energy engineering and consulting: New challenges and reality. *International Journal of Energy Production and Management, 5*(3), 272–284.

Hair, J. F., Hult, G. T. M., Ringle, C., & Sarstedt, M. (2020). *A primer on partial least squares structural equation modeling (PLS-SEM)* (3rd ed.). Sage Publications.

Henseler, J., Ringle, C. M., & Sarstedt, M. (2015). A new criterion for assessing discriminant validity in variance-based structural equation modeling. *Journal of the Academy of Marketing Science, 43*(1), 115–135.

Hu, L., & Bentler, P. M. (1999). Cutoff criteria for fit indexes in covariance structure analysis: Conventional criteria versus new alternatives. *Structural Equation Modeling: A Multidisciplinary Journal, 6*(1), 1–55.

Iheonunekwu, P. (2024). The trifecta against financial crimes: A collaborative analysis of the roles of banks, consulting firms and governments. *World Journal of Advanced Research and Reviews, 23*(3), 1445–1468.

Institute of Internal Auditors (IIA). (2017). *The IIA's International Professional Practices Framework (IPPF)*. Altamonte Springs, FL: The IIA.

Karpoff, J. M., Lee, D. S., & Martin, G. S. (2008). The cost to firms of cooking the books. *Journal of Financial and Quantitative Analysis, 43*(3), 581–611.

Landi, G. C., Iandolo, F., Renzi, A., & Rey, A. (2022). Embedding sustainability in risk management: The impact of environmental, social, and governance ratings on corporate financial risk. *Corporate Social Responsibility and Environmental Management, 29*(4), 1096–1107.

Ledi, K. K., Ameza-Xemalordzo, E. B., & Mensah, H. K. (2025). Unpacking synergistic dynamics between corporate governance and CSR – The role of stakeholder salience. *Business Process Management Journal, 31*(3), 1149–1171.

Marcos, J. S., & Denner, L. (2020). The digital divide and open government in the Arab region.

McShane, M. K., Nair, A., & Rustambekov, E. (2011). Does enterprise risk management increase firm value? *Journal of Accounting, Auditing & Finance, 26*(4), 641–658.

Mohd Noor, N., Rasli, A., Abdul Rashid, M. A., Mubarak, M. F., & Abas, I. H. (2022). Ranking of corporate governance dimensions: A Delphi study. *Administrative Sciences, 12*(4), 173.

Ottesen, A., Thom, D., Bhagat, R., & Mourdaa, R. (2023). Learning from the future of Kuwait: Scenarios as a learning tool to build consensus for actions needed to realize Vision 2035. *Sustainability, 15*(9), 7054.

Parker, R. D., & Boyle, D. M. (2025). Effects of fraud risk indicators and Machiavellianism on auditors' risk assessment. *Journal of Forensic Accounting Research*, 1–16.

Perifanis, N.-A., & Kitsios, F. (2023). Investigating the influence of artificial intelligence on business value in the digital era of strategy: A literature review. *Information, 14*(2), 85.

Pfister, J. A., & Lukaszewski, R. (2017). Compliance systems in organizations: Conceptual foundations and empirical evidence. *Journal of Management Control, 28*(1), 25–53.

Prawitt, D. F., Smith, J. L., & Wood, D. A. (2009). Internal audit quality and earnings management. *The Accounting Review, 84*(4), 1255–1280.

Rae, K., & Subramaniam, N. (2008). Quality of internal control procedures: Antecedents and moderating effect on organisational justice and employee fraud. *Managerial Auditing Journal, 23*(2), 104–124.

Shuwaili, A. M. J., Hesarzadeh, R., & Bagherpour Velashani, M. A. (2024). Designing an internal audit effectiveness model for public sector: Qualitative and quantitative evidence from a developing country. *Journal of Facilities Management, 22*(5), 792–810.

Sityata, I., Botha, L., & Dubihlela, J. (2021). Risk management practices by South African universities: An annual report disclosure analysis. *Journal of Risk and Financial Management, 14*(5), 195.

Spencer Stuart. (2022). *Risk and audit committee effectiveness: Global perspectives*.