

Vol.2, Issue 2 , December, 2015



13

KADUNA BUSINESS AND MANAGEMENT REVIEW

Published By: Department of Business Administration
Kaduna State University, Kaduna - Nigeria.
ISSN: 2384-7468

Vol.2, Issue 2 , December, 2015



KADUNA BUSINESS AND MANAGEMENT REVIEW

**Published By: Department of Business Administration
Kaduna State University, Kaduna - Nigeria.
ISSN: 2384-7468**

Editorial Board

Dr. Ahmad B. Abdul-Qadir, Kaduna State University, Kaduna, Chairman
Dr. Helen A. Andow , Kaduna State University, Kaduna, Editor-In-Chief
Dr. Saheed Zakeree, Nigerian Defence Academy, Kaduna, Member
Dr. Yusha'u I. Ango, Kaduna State University, Kaduna, Member
Dr. Seth Akutson, Kaduna State University, Kaduna, Member
Dr. Bala Magaji, Ahmadu Bello University, Zaria, Member
Dr. Benjamin K. Gugong, Kaduna State University, Kaduna, Member
Dr. Zainab Dabo, Kaduna State University, Kaduna, Member
Mrs Rahilahtu A. Muhammad, Kaduna State University, Kaduna, Member
Mrs Esher Y. Bagobiri, Kaduna State University, Kaduna, Member
Bilkisu J. Tace, Kaduna State University, Kaduna, Editorial Secretary

Editorial Consultants

Professor Aminu Mika'ilu - Usmanu Danfodiyo University, Sokoto
Professor Samuel K. Msheliza - University of Maiduguri, Maiduguri
Professor Sani A. Abdullahi - Ahmadu Bello University, Zaria
Professor B. C. Onuoha - Kogi State University, Ayigba
Professor Ibrahim G. Umar - Kaduna State University, Kaduna

Published by: Department of Business Administration,
Kaduna State University, Kaduna (KASU)

ISSN: 2384-7468

DEPARTMENT OF BUSINESS ADMINISTRATION

KADUNA STATE UNIVERSITY, KADUNA - NIGERIA

DECEMBER, 2015

*All right reserved: No part of this publication may be reproduced
transmitted in any way or form by any means without the permission
and express acknowledgment of the source*

Printed By

YEHISON NIGERIA LIMITED

☎ :08034715648, 08186159660

E-mail:yehisonniglttd@gmail.com

EDITORIAL NOTE

Kaduna Business and Management Review is a Bi-annual Publication of the Department of Business Administration, Faculty of Social & Management Sciences, Kaduna State University, Kaduna - Nigeria.

The Kaduna Business and Management Review has as its principal goal the promotion of academic excellence in research, specifically in Management Science and the exchange of information between the academic, professional and the business world. Each issue of the journal is designed to inform researchers and practicing application to global world. Articles are carefully selected to provide the reader with an analytical applicable oriented approach to managerial problems.

Correspondence /Submission of Manuscripts

1. All papers for publication in the KBMR must conform with the following:
 - a. Title of the paper in no more than 15 words centred in 16 point font.
 - b. Author(s) names with affiliation address and e-mail appearing below the paper title.
 - c. All texts in Time New Roman and in 12 point font.
 - d. Line spacing through out the paper is single space.
 - e. Abstract in Italics not exceeding 250 words.
 - f. Figures, Tables and charts are included within the body of the paper. Table and Figures should not breach between two pages.
 - g. References provided at the end of the paper arranged in alphabetical order, containing full Bibliographical details must conform to APA style of Referencing.
 - h. Paper should not exceed 15 pages.
2. Electronic copies of corrected paper to be made available to the Journal
E-mail: [kbmrjournal@kasu.edu.ng](mailto:kbmjournal@kasu.edu.ng)

Publication fee

Submitted copies should be accompanied with handling charge of N5,000 or \$30 for processing. Payment is either in cash (in person) or online to:

Acct Name: Department of Business Administration, BANK: FCMB PLC.

Acct Number: 1868335016

Scan the payment slip and send online with the paper

- a. Accepted paper will be published upon payment of N20,000 or \$100 stipulated page charge by the Editorial Board.
- b. The main author will receive one (1) copy of the journal and extra copy goes attracts an addition fee of N2,000 or \$20.

- c. Writers will bear cost of postage of assessed papers and the copies of the journal where applicable.

For Further Enquiries Please Contact :

Editor
Helen Andow Afang (Ph.D)
+2348033298479
E-mail: andow.helen@kasu.edu.ng
haandow@yahoo.com

Editorial Secretary
Jennifer Bilkisu Tace
+2348031816469,
E-mail: tace.jennifer@kasu.edu.ng

TABLE OF CONTENTS

ARTICLES

1. The Effect of Cashless Policy on the Profitability of Commercial Banks in Nigeria. 2006-2013
GRACE HEZEKIAH ISA & ENAMP. ABALIS 1
2. Effects of Organizational Citizenship Behavior on the Performance of Deposit Money Banks in Kaduna Metropolis
ABDULMALIK ABUBAKAR YUSUF & KABIRU, JINJIRIRINGIM 15
3. Public Sector Participation in Healthcare Delivery: A Qualitative Interview Based Study on Consumers' Perception of Service Delivery in Nigeria
ROTIMIA. GBADEYAN, JOHNSON O. ADEOTI & M. B. ABINA 33
4. Impact of Risk Management on Organisational Performance
AUN, ISAAC IORTIMBIR & OLOTA, OLUWAYOMI OMOTAYO. 47
5. Impact of Africa Development Bank (ADB) Funding Projects on Agricultural Productivity in Kwara State:(A Case of Fadama II Project)
FAGBEMI, TEMITOPE OLAMIDE, ABDULMUMIN, BILIQUEES AYOOLA ALIU, ISMAIL ADAUDU & SAKARIYAH, OLARILWAN 65
6. Local Governments Capacity in Managing the Education Related (Basic Education) Millennium Development Goals Program in Kaduna State
DALHATU MOHAMMED JUMARE 91
7. Impact of External Debt on Investment in Nigeria
ONIKOSI-ALLIYU SAIDAT O. 111
8. The Impact of Advertisement on Sales in Insurance Companies
HADIZASIDU ABUBAKAR (MRS) & JAMILA MUHAMMAD 121
9. Impact of Unemployment and Inflation on Economic Growth: An Empirical Investigation
NASAMU GAMBO, ESTHER YIMI BAGOBIRI AND VIRGINIA KASSAH 133
10. Politics of Change and Rejuvenation of Democracy: Decline of the PDP and the Rise of the Opposition in Nigeria
MOHAMMED USMAN AND ISHAKU USMAN GADZAMA 151

IMPACT OF RISK MANAGEMENT ON ORGANISATIONAL PERFORMANCE

AUN, ISAAC IORTIMBIR &
OLOTA, OLUWAYOMI OMOTAYO

ABSTRACT

The cardinal objectives of every organisational are entwined in the lubrication of the cogs responsible for the achievement and optimization of organisational performance. Of paramount importance in these cogs is the effective management of risk. The study therefore investigated whether banks carry out critical assessment before advancing credit; whether the intimacy of loan seekers with the authorities of the banks inhibit proper risk evaluation and the extent to which effective risk management impacts on the problems of credit by banks. Primary data were used by this study to achieve these objectives. Data was collated from respondents with the use of questionnaires. Questionnaires were administered to one hundred respondents to elicit information relating to the study with the aid of simple random sampling of which seventy three questionnaires were returned. The data were analysed with the aid of correlation coefficient and multiple regression technique. The result showed a positive relationship between critical assessment and the advancing of credit by banks as the regression $\beta=0.345$ and the correlation coefficient $r=0.381$. The study also revealed a negative relationship between the intimacy of loan seekers and the inhibition of proper risk evaluation as the regression estimates was $\beta=-0.186$, this was considered low but above the significant level. The study further posited a positive impact of effective risk management on the problems involving credit faced by banks. The study therefore concluded that Effective risk management is imperative in achieving increased organisational performance. In light of the above, the study thereby recommended that organisations should intensify their efforts in critical assessment before advancing credit, biases and favouritism should be alleviated in risk evaluation procedures as effective risk management is a veritable means of diminishing the problems of the banks and ameliorating the cogs of the wheels of organisational performance.

INTRODUCTION

In the field of business, it is common to say that 'the higher the risk, the higher the returns,' because risk is associated with the return expected. The environment of business is a dynamic domain controlled by inextricable plethora of variables and lack of perfect information which has increased the degree of uncertainty in the business environment. This uncertainty makes decision making arduous and very risky.

Organisations recognise this problem and they realise that the failure to act due to lack of perfect information would ultimately result in acting to fail. Therefore, decisions are ridden with varying degrees of risk (Hillson and Murray-Webster, 2011). Risk implies exposure to uncertainty or threat (Kannan and Thangavel, 2008); and 'a decision to do nothing explicitly avoids the opportunities that exist and leaving the threats unmanaged' (Hillson and Murray-Webster, 2007). Conventionally, risk has been viewed as undesirable consequences and adverse events. The consideration of risk from the undesirable perspective is restrictive and deceptive for two main reasons. First, uncertainty may manifest in either negative (threat) or positive (opportunity) form, or both; and second, the way a risk is perceived influences the manner in which it is handled (Hillson, 2002). Managing risks from negative perspective may result to complete omission of opportunities (benefits/gains) in the event being considered. However, perspectives on risk differ, as the risk definition depends on and is affected by the risk observer (Kelman, 2003). Moreover, risk sometimes entails some financial benefits, as firms may derive considerable gains by taking risk. Business developed through greater risk taking (Drucker, 1997). Risk is, therefore, vital to opportunities and threats which may adversely affect an action or expected outcome (Kaye, 2009; Lowe, 2010). Moreover, getting rid of risk weakens the source of value creation; thereby truncates potential opportunities (Knight and Petty, 2001; Grazino and Aggarwal, 2005; Garvan, 2007).

Risk management is an activity which is a subset of project management that is gaining importance because businesses are moving towards globalization and because of the increasing competition (Ahmed et al., 2007). The risk management process consists of a series of steps, which are establishing the context, identifying, analysing, assessing, treating, monitoring and communicating risks, which allow continuous improvement of decision making (Standards Australia, 1999). Boehm W. B. (1991) summarized in his study that software projects disasters and related problems could be eliminated if proper identification and resolving process for these risks could be done properly. Banks like all businesses face various types of risk which arise due to the nature of their activities. The major aim of banks is to maximize profit by managing risk and by providing various financial services (Alimshan, 2011).

In practice, banks majorly operate two kinds of businesses and these include, normal interest based practices called conventional banking and interest free activities. Bank

earn interest by lending out money to customers, thereby transferring the risk to others. Banks also operate interest free activities by trading which could include trading in the foreign exchange and other ventures which earn profit. They share risk with both lenders and borrowers (Ashfaq, 2009). The banking sector in Nigeria is very strategic to the Nigerian economy, because it is the avenue through which the Central Bank of Nigeria (CBN) applies its influence in terms of monetary policy in order to regulate the activity in the economy and also serves as a veritable avenue through which the economy is tweaked. The banking sector is inherently laden with tons of quagmires. These quagmires inhibit the productivity of the sector and the Nigerian economy at large. One of the major problems associated with the Nigerian banking sector is the ineffectiveness of its risk management principles.

The Nigerian system is crippled with inefficiency and this has affected the critical assessment involved in granting credit. The level of corruption and lobbying in the nation has riddled proper risk advancement as credits are being granted on the basis of goodwill and political connections rather than merit. With the humongous problems faced by the banking sector, a veritable solution is needed to mitigate these problems. It is hoped that effective risk management would help to curb these problems and inefficiencies and increase organisational productivity and performance.

This study therefore focused on risk management and the impact it has on organisational performance.

Research Objectives

The broad objective of this study is to investigate the impact of risk management on organisational performance. The specific objectives of this study are to:

- i. determine whether critical assessment is being carried out by banks before advancing credit;
- ii. ascertain whether the intimacy of loan seekers with the authorities of bank inhibit proper risk evaluation;
- iii. examine the extent to which effective risk management have impact on the problems involving credit by banks

LITERATURE REVIEW

Conceptual Framework

According to Knight (1921), risk is uncertain events that may happen in the future but can estimate likelihood of the occurrence. Furthermore, Financial and Management Accounting Committee [IFAC] (1999) stated that risk is an uncertainty that influenced the achievement of organizational objective. Likewise, International Organization for Standardization [ISO] (2009) defined risk as the impact of uncertainty on organization

objective that deviates from the expected both positive and negative side. Moreover, COSKUN (2012) mentioned that risk is events that results in a negative by diminish value creation or existing value of organization. In summary, risk is an uncertainty of the future events which can estimate likelihood of occurrence. The effect of risk can be both positive side, that is, the opportunity to benefits, and the negative side that is a threat to accomplish organizational objective.

Banking risks are classified into credit risk, market risk, and operational risk (Basel Committee on Bank supervision). However, Santomero, (1997) identified four types of risks – systematic risk, market risk, operational risk, and legal risk. Crouhy, Galai and Mark (2006) also made other classifications of bank risk to include market risk, credit risk, liquidity risk, operational risk, legal risk, business risk, strategic risk, and reputation risk. Effect of risk management practices of Nigeria banks typify by liquidity, credit and capital risks on their financial performance. In line with Santomero, (1997) who maintains that the banking industry has long viewed the problem of risk management as the need to control four of the above risks which make up most, if not all, of their risk exposure which are; credit, interest rate, foreign exchange and liquidity risk. While the banks recognize counterparty and legal risks, they view them as less central to their customers, and where counterparty risk is significant, it is evaluated using standard credit risk procedures, and often within the credit department itself.

Reasons for Business Risks Management

According to Gupta (2011) business enterprises in Nigeria should manage risks by implementing and maintaining enterprise risk management (EMR) because:

- a. Evolution of several risks from events around the world. It is necessary that firms' should effectively manage these risks in order to survive in the global dynamic business environment;
- b. People are more aware of the level of service to expect, and the recourse they can take if they have been wronged;
- c. People are now more likely to sue firms for damages. Taking the steps to reduce injuries could help in defending against a claim;
- d. Courts are often sympathetic to injured claimants and give them the benefit of the doubt. Thus, organisations are held to very high standards of care;
- e. Organisations are perceived as having a lot of assets and/or high insurance policy limits to take care of damages and liability towards customers and third party; and
- f. Organisations are vicariously liable, i.e. being held liable for the actions of their employees, volunteers and contractors (Gupta, 2011; Lam, 2001; Coşkun, 2012).

Risk Management

A major objective of bank management is to increase shareholders' return epitomising bank performance. The objective often comes at the cost of increasing risk. Bank faces various risks such as interest risk, market risk, credit risk, off balance risk, technology and operational risk, foreign exchange risk, country risk, liquidity risk, and insolvency risk (Tandelilin, kaaro, Mahadwartha & Supialatna 2007). The bank's motivation for risk management comes from those risks which can lead to bank under performance. Issues of risk management in banking sector have greater impact not only on the bank but also on the economic growth (Tandelilin et al, 2007). Tai (2004) concludes that some empirical evidence indicates that the past return shocks emanating from banking sector have significant impact not only on the volatilities of foreign exchange and aggregate stock markets, but also on their prices, suggesting that bank can be a major source of contagion during the crisis. Banks which better implement the risk management may have some advantages: (i) it is in line with obedience function toward the rule; (ii) It increases their reputation and opportunity to attract more wide customers in building their portfolio of fund resources; (iii) It increases their efficiency and profitability. Cebenoyan and Strahan (2004) find evidence that banks which have advanced in risk management have greater credit availability, rather than reduced risk in the banking system. The greater credit availability leads to the opportunity to increase the productive assets and bank's profit.

Theoretical Framework

The theoretical framework of this study focused on two theories so as to model the subject matter effectively. These theories are COSO's enterprise risk management theory and the agency theory.

COSO's Enterprise Risk Management Theory

The Profounder of the Enterprise Risk management theory is unknown as researchers believe it evolved over time and was built upon by plethora of subsequent studies and literature, the most significant of which was developed by the Committee of Sponsoring

Organizations (COSO).

Enterprise Risk Management (ERM) in business includes the methods and processes used by organizations to manage risks and seize opportunities related to the achievement of their objectives. ERM provides a framework for risk management, which typically involves identifying particular events or circumstances relevant to the organization's objectives (risks and opportunities), assessing them in terms of likelihood and magnitude of impact, determining a response strategy, and monitoring progress. By identifying and proactively addressing risks and opportunities, business enterprises protect and create value for their stakeholders, including owners, employees, customers, regulators, and society overall. ERM can also be described as a risk-based

approach to managing an enterprise, integrating concepts of internal control, the Sarbanes-Oxley Act, and strategic planning. ERM is evolving to address the needs of various stakeholders, who want to understand the broad spectrum of risks facing complex organizations to ensure they are appropriately managed. Regulators and debt rating agencies have increased their scrutiny on the risk management processes of companies. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) defines enterprise risk management as: "...a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives." The COSO definition is intentionally broad and deals with risks and opportunities affecting value creation or preservation. Uncertainty presents both risk and opportunity, with the potential to erode or enhance value. Enterprise risk management enables management to effectively deal with uncertainty and associated risk and opportunity, enhancing the capacity to build value.

Value is maximized when management sets strategy and objectives to strike an optimal balance between growth and return goals and related risks, and efficiently and effectively deploys resources in pursuit of the entity's objectives. Enterprise risk management encompasses (Tandelilin et al, 2007):

- Aligning risk appetite and strategy – Management considers the entity's risk appetite in evaluating strategic alternatives, setting related objectives, and developing mechanisms to manage related risks.
- Enhancing risk response decisions – Enterprise risk management provides the rigor to identify and select among alternative risk responses – risk avoidance, reduction, sharing, and acceptance.
- Reducing operational surprises and losses – Entities gain enhanced capability to identify potential events and establish responses, reducing surprises and associated costs or losses.
- Identifying and managing multiple and cross-enterprise risks – Every enterprise faces a myriad of risks affecting different parts of the organization, and enterprise risk management facilitates effective response to the interrelated impacts, and integrated responses to multiple risks.
- Seizing opportunities – By considering a full range of potential events, management is positioned to identify and proactively realize opportunities.
- Improving deployment of capital – Obtaining robust risk information allows management to effectively assess overall capital needs and enhance capital allocation.

These capabilities inherent in enterprise risk management help management achieve the entity's performance and profitability targets and prevent loss of resources. Enterprise

Agency Theory

During the 1960s and early 1970s, economists explored risk sharing among individuals or groups (e.g., Arrow, 1971; Wilson, 1968). This literature described the risk-sharing problem as one that arises when cooperating parties have different attitudes toward risk. Agency theory broadened this risk-sharing literature to include the so-called agency problem that occurs when cooperating parties have different goals and division of labour (Jensen & Meckling, 1976; Ross, 1973). Specifically, agency theory is directed at the ubiquitous agency relationship, in which one party (the principal) delegates work to another (the agent), who performs that work. Agency theory attempts to describe this relationship using the metaphor of a contract (Jensen & Meckling, 1976). Agency theory is concerned with resolving two problems that can occur in agency relationships. The first is the agency problem that arises when:

- (a) The desires or goals of the principal and agent conflict and
- (b) It is difficult or expensive for the principal to verify what the agent is actually doing.

The problem here is that the principal cannot verify that the agent has behaved appropriately. The second is the problem of risk sharing that arises when the principal and agent have different attitudes toward risk. The problem here is that the principal and the agent may prefer different actions because of the different risk preferences. Because the unit of analysis is the contract governing the relationship between the principal and the agent, the focus of the theory is on determining the most efficient contract governing the principal-agent relationship given assumptions about people (e.g., self-interest, bounded rationality, risk aversion), organizations (e.g., goal conflict among members), and information (e.g., information is a commodity which can be purchased). Specifically, the question becomes: Is a behaviour-oriented contract (e.g., salaries, hierarchical governance) more efficient than an outcome-oriented contract (e.g., commissions, stock options, transfer of property rights, market governance)?

The agency theory is applicable in a variety of settings, ranging from macro level issues such as regulatory policy to micro level dyad phenomena such as blame, impression management, lying, and other expressions of self-interest. Most frequently, agency theory has been applied to organizational phenomena such as compensation (e.g., Conlon & Parks, 1988; Eisenhardt, 1985), acquisition and diversification strategies (e.g., Amihud & Lev, 1981), board relationships (e.g., Fama & Jensen, 1983; Kosnik, 1987), ownership and financing structures (e.g., Argawal & Mandelker, 1987; Jensen & Meckling, 1976), vertical integration (Anderson, 1985; Eccles, 1985), and innovation (Bolton, 1988; Zenger, 1988). Overall, the domain of agency theory is relationships that mirror the basic agency structure of a principal and an agent who are engaged in cooperative behaviour, but have differing goals and differing attitudes toward risk.

The functionality of Agency theory to this study lies in its risk implications. Organizations are assumed to have uncertain futures. The future may bring prosperity, bankruptcy, or some intermediate outcome, and that future is only partly controlled by organization members. Environmental effects such as government regulation, emergence of new competitors, and technical innovation can affect outcomes. Agency theory extends organizational thinking by pushing the ramifications of outcome uncertainty to their implications for creating risk. Uncertainty is viewed in terms of risk/reward trade-offs, not just in terms of inability to preplan. The implication is that outcome uncertainty coupled with differences in willingness to accept risk should influence contracts between banks and customers.

The Agency theory shall serve as the prototypical model of this study.

Empirical Framework

Risk management has been empirically reviewed over time and this has led to ample amount of literature available, among which include:

Basel Committee on Banking Supervision (1982) stated that lending involves a number of risks. In addition to risk related to the creditworthiness of the borrower, there are others including funding risk, interest rate risk, clearing risk and foreign exchange risk. International lending also involves country risk. Basel Committee on Banking Supervision (2006) observed that historical experience shows that concentration of credit risk in asset portfolios has been one of the major causes of bank distress. This is true both for individual institutions as well as banking systems at large.

Robert and Gary (1994) state that the most obvious characteristics of failed banks is not poor operating efficiency, however, but an increased volume of non-performing loans. Non-performing loans in failed banks have typically been associated with regional macroeconomic problems.

Koehn and Santomero (1980) and Kim and Santomero (1988), suggest that bank risk taking has pervasive effects on bank profits and safety. Bobakovia (2003) asserts that the profitability of a bank depends on its ability to foresee, avoid and monitor risks, possible to cover losses brought about by risk arisen. This has the net effect of increasing the ratio of substandard credits in the bank's credit portfolio and decreasing the bank's profitability (Mamman and Oluyemi, 1994). The banks supervisors are well aware of this problem, it is however very difficult to persuade bank managers to follow more prudent credit policies during an economic upturn, especially in a highly competitive environment. They claim that even conservative managers might find market pressure for higher profits very difficult to overcome.

a) Simple correlation:

$$r = \frac{\sum(X - \bar{X})(Y - \bar{Y})}{\sqrt{\sum(X - \bar{X})^2} \sqrt{\sum(Y - \bar{Y})^2}}$$

Where N= number of observations

Σ = summation

X= independent variable (Risk management)

Y= dependent variable (Organisational Performance)

Coefficient of determination = r^2

a) Ordinary least square Regression analysis:

$$Y = a + bX + e$$

Where:

Y = dependent variable

a = intercept

b= coefficient of X

e = error term

b) Multiple regression

ANALYSIS AND DISCUSSION

Testing of Research Hypothesis

Hypothesis 1

H_{01} : There is no significant relationship between the critical assessment carried out by banks and the advancing of credit by banks.

Table 1: Regression and Correlation Estimates between Critical Assessment and Credit Advancement

Model	Coefficients (B)	Correlation	P-Value
Constant	1.528	0.381	.001
Critical Assessment	0.345		

Source: Author's Computation

Dependent variable: Credit Advancement

From table 1 above, the regression estimate (0.345) indicates that an increase in Critical assessment leads to a higher likelihood of credit advancement. The correlation estimate (0.381) shows a positive relationship between critical assessment and credit advancement. The P-Value (0.001) which is less than 0.05 indicates that the test is significant at 0.05 significant level.

Decision: Therefore, the null hypothesis is rejected on the basis that the p-value is less than 0.05 and the study concludes that there is significant relationship between credit

advancement and critical assessment carried out by banks.

Hypothesis 2

H₀₂: There is no significant relationship between the intimacy of customers with the authorities of the bank and proper risk evaluation.

Table 2: Regression and Correlation Estimates between Intimacy and Risk Evaluation

Model	Coefficients (B)	Correlation	P-Value
Constant	3.089	0.203	.086
Intimacy	-0.186		

Source: Author's Computation

Dependent variable: Risk Evaluation

From table 2 above, the regression estimate (-0.186) indicates that intimacy of loan seekers is proportional to risk evaluation. The correlation estimate (0.203) shows a positive relationship between intimacy and risk evaluation. However, the P-Value (0.086) which is greater than 0.05 indicates that the test is insignificant at 0.05 significant level.

Decision: Therefore, accept the alternative hypotheses on the basis that the P-Value (0.086) is greater than 0.05 conclude that there is significant relationship between the intimacy of customers with the authorities of the bank and proper risk evaluation.

Hypothesis 3

H₀₃: There is no significant relationship between effective risk management and the impact of problems involving credit by banks.

Table 3: Regression and Correlation Estimates between Risk Management and Reduction of Credit Problems

Model	Coefficients (B)	Correlation	P-Value
Constant	1.453	0.361	.002
Risk Management	0.470		

Source: Author's Computation

Dependent variable: Reduction of Credit Problems

From table 3 above, the regression estimate (0.470) indicates that risk management is proportional to reduction of credit problems. The correlation estimate (0.361) shows a positive relationship between risk evaluation and reduction of credit problems. The P-Value (0.002) which is <0.05 indicates that the test is significant at 0.05 significant level.

Decision: We therefore reject the null hypothesis on the basis that the p-value is less than 0.05 and conclude that there is significant relationship between risk evaluation and reduction in credit problems.

SUMMARY

This study was carried out with the primary objective of determining the impact of risk management on organizational performance. The study limited its scope to the banking sector using First bank as a case study. The study further looked into determining if critical assessment is being carried out before advancing credit to customers by banks. The study also ascertained if the intimacy of loan seekers with the authorities of bank inhibit proper risk evaluation. The study finally examined the extent to which effective risk management impact the problems involving credit by banks. The research indicated that critical assessment is being carried out by banks before the advancement of credit as there is a significant positive relationship between critical assessment and the granting of credit by banks as the regression shows.

The study also revealed that the intimacy of loan seekers with the officials of banks does not inhibit proper risk evaluation by banks as the evidence indicates a negative relationship between the intimacy of loan seeker with bank officials and the risk evaluation carried out by banks, this result is in line with the findings of Robert and Gary (1994) state that the most obvious characteristics of failed banks is not poor operating efficiency but an increased volume of non-performing loans. Non-performing loans in failed banks have typically been associated with regional macroeconomic problems. The study further revealed that risk management reduces the problems of banks positively as there is a significant positive relationship between effective risk management and the reduction of the problems faced by banks, this also aligned with findings of Koehn and Santomero (1980) and Kim and Santomero (1988), suggest that bank risk taking has pervasive effects on bank profits and safety.

CONCLUSION

Evidence from the theoretical and empirical framework indicates a positive relationship between risk management and organizational performance. The study concluded that critical assessment is being carried out by banks before advancing credit. Therefore banks should intensify the efforts and schemes of critical assessment before advancing

credit in order to boost organizational outcome. The study further concluded that the intimacy of loan seekers with the officials of the banks does not inhibit proper risk evaluation done by banks as knowing top officials does not affect an individuals' chances of getting a loan and biases are not considered in granting credit to customers. Organizations should avoid any form of lobbying and bias in risk evaluation so as to foster merit in credit advancement. The study also concluded that effective risk management reduces the problems involving credit by banks as it abates the rate of non-performing loans, boost productive efficiency of resources and mitigates the occurrence of absconded funds. Banks have to improve their risk management techniques in order to further mitigate problems and alleviate snags associated with performance of the organization.

In light of the above, the study finally concludes that risk management impacts organizational performance positively as it optimizes the dividends of advancing credit through the use of critical assessment, eliminates evidence of bias associated with granting credit and abates the problems faced by banks in advancing credit.

RECOMMENDATIONS

From the findings and conclusions presented above, the following recommendations were made to further improve the impact of risk management on organizational performance.

1. Banks should provide trainings to their staff in risk management so as to further boost their knowledge on the critical assessment of risk and further minimize the occurrences of unfavourable business transactions.
2. Nigerian banks should endeavour to leave no stone unturned when evaluating credit worthiness of loan seekers as lobbyist without adequate collateral tend to use political connections and bank connections to seek loans and this can further inhibit proper risk evaluation.
3. Managers of the banks with high loan to deposit ratio need expert knowledge of credit risk management. This would avail them the understanding of how to balance the merits of giving out more loans with the attending risk.
4. Managers of banks with high ratio of non-performing loans to total loans also have to improve their credit risk management policies in consideration of their role as agents of proprietors whose wealth are at stake with such ratio.
5. The Central Bank of Nigeria should ensure strict adherence of all the banks to the stipulated credit risk management policies. Also, the reports presented to the CBN should be further verified by carrying out further analysis on the published annual reports

REFERENCES

- Ahmed A., Kayis B., Amornsawadwatana S. (2007), A review of techniques for risk management in projects, *Benchmarking: An International Journal*, 14(1), 22-36.
- Barry W. Boehm, Tutorial: Software Risk Management, Les Alamitos, CA, IEEE Computer Society, 1989. Boehm W. B. (1991), *Software Risk Management: Principles and Practices*, IEEE Software, pp 32-41.
- Basel Committee on Bank Regulation (2004): "*International Convergence on Capital Measurement and Capital Standards*", BIS, June.
- Basel Committee on Banking Supervision (1982): "*Management of Banks' International Lending*", Country Risk Analysis and Country Exposure Measurement and Control. www.bis.org
- Basel Committee on banking Supervision (1999): "*Principles for the Management of Credit Risk*", CH-4002 Basel, Switzerland Bank for International Settlements.
- Basel Committee on banking Supervision (2001): "*Risk Management Practices and Regulatory Capital: Cross-sectional Comparison*". Basel Committee on Banking Supervision, www.bis.org
- Basel Committee on Banking Supervision (2006): "*Studies on Credit Risk Concentration*", An Overview of the Issues and a Synopsis of the Results' from the research Task Force Project. www.bis.org
- Basel Committee, (1998): "*International convergence of capital measurement and capital standards*", Basel Committee on Banking Supervision
- Basel Committee, (1999): "*Principles for management of credit risk*", Basel Committee on Banking Supervision.
- Bobakovia, I. V. (2003): "*Raising the Profitability of Commercial Banks*", BIATEC, Volume XI, retrieved on April, 2005 from <http://www/nbs.SK/BIATEC/>
- Cebenoyan, A. & Strahan, P. (2004). Risk Management, Capital Structure and Lending at Banks. *Journal of Banking and Finance*, 28, 19-43.
- Central Bank of Nigeria (2006). Code of Corporate Governance for banks in Nigeria

- post-Consolidation. Retrieved from www.cenbank.org/out/Publications/.../2006/corp.Govpost%20con.pdf
- Committee of Sponsoring Organizations of the Treadway Commission [COSO]. (2004). Enterprise risk management-Integration framework: Executive summary. New York: COSO.
- Coşkun, Y. (2012). Financial failure and risk management. *Sermaye Piyasası Dergisi*, 10(2), 100109.
- Crouhy, M.; Galai, D. & Mark,. (2006). *The Essentials of Risk Management*. McGraw-Hill. USA
- Drucker, P. F. (1977). *Management - An abridged and revised version of management: Tasks, responsibilities, practices*. London: Pan Books.
- Financial and Management Accounting Committee (IFAC). (1999). *Enhancing Shareholder Wealth by Better Managing Business Risk*. New York: IFAC.
- Garvan, J. R. (2007). Risk management: The unifying framework for business scholarship. *Risk Management and Insurance Review*, 10(1), 1-12.
- Graziano, C., & Aggarwal, R. (2005). C-Suites gaining another member. *Financial Executive*, 21(7), 42-44.
- Gupta, P. K. (2011). Risk management in Indian companies: EWRM concerns and issues. *The Journal of Risk Finance*, 12(2), 121-139.
- Gupta, P.K. (2004). Enterprise risk management - sub-optimality to optimality. *Journal of Insurance & Risk Management*, 2(4).
- Hillson, D. (2002). What is risk? Towards a common definition. *Inform: Journal of the Institute of Risk Management*, 11-12. Retrieved 22 April 2012, from: <http://www.riskdoctor.com/pdf-files/def0402.pdf>.
- Hillson, D. (2006). Integrated risk management as a framework for organisation success. PMI Global Conference proceedings, Seattle USA. Retrieved 22 April 2012, from: <http://www.risk-doctor.com/pdf-files/adv13.pdf>.
- Hillson, D. A., & Murray-Webster, R. (2004). Understanding and managing risk attitude. Retrieved 23 April 2012, from: <http://www.kent.ac.uk/scarr/events/finalpapers>

/Hillson%20%2B%20MurrayWebster.pdf.

Hillson, D. A., & Murray-Webster, R. (2007). Understanding and managing risk attitude (2nd ed.). Aldershot, UK: Gower.

Hillson, D. A., & Murray-Webster, R. (2011). Using risk appetite and risk attitude to support appropriate risk taking: A new taxonomy and model. *Journal of Project, Program & Portfolio Management*, 2(1), 29-46.

Kannan, N., & Thangavel, N. (2008). Risk management in the financial services industry. *Academic Open Internet Journal*, 22(7). Retrieved 14 April 2012, from: <http://www.acadjournal.com/2008/V22/part7/p1/>.

Kaye, B. (2009). Risk management. London: The Chartered Insurance Institute.

Kelman, L. (2003). Defining risk. *Flood Risk Net Newsletter*, 2, 6-8.

Kim, D. and Santomero, A. M. (1988): "Risk in Banking and Capital Regulation", *The Journal of Finance*, 43(5)

Knight, F. (1921). Risk, uncertainty and profit. Boston: Houghton Mifflin

Koehn, M. and Santomero A. M. (1980): "Regulation of Bank Capital and Portfolio Risk", *Journal of Finance* 35(5).

Kosmidou, K. (2008). Measurement of Bank performance in Greece. *South-Eastern Journal of Economics*, 1, 79 – 95

Lam, J. (2001). Risk management - The CRO is here to stay. New York, NY: Prentice-Hall.

Lowe, S. W. (2010). Risk management. London: The Chartered Insurance Institute.

Mamman, H. and Oluyemi, S. A. (1994): "Bank Management Issues and Restoring the Health of Nigerian Banks through Improving the Quality of Management/Employee", *NDIC Quarterly*, 4(4)

Owojori A. A., Akintoye I. R. and Adidu F. A. (2011): The challenge of risk management in Nigerian banks in the post consolidation era, *Journal of Accounting and Taxation* 3(2), 23-31

- Robert D. and Gary W. (1994): "Banking Industry Consolidation: efficiency Issues" working paper No. 110 presented at the financial system in the decade ahead: Conference of the Jerome Levy Economics Institute April 14-16, 1994.
- Santomero, A. (1995). Financial Risk Management: The Whys and Hows. *Journal of Financial Markets, Institutions and Investments*, 4, 1995.
- Santomero, A. M. (1997). Commercial Banking Risk Management: an Analysis of the Process. The Wharton Financial Institutions Center. USA. Available in web form <<http://fic.wharton.upenn.edu/fic/papers/95/9511.pdf>>, viewed 20.06.2010.
- Santomero, A., and Trester, J. (1997). Structuring Deposit Insurance for a United Europe. *European Financial Management*, 1997 forthcoming.
- Tandelilin, E., Kaaro, H., & Mahadwartha, P.A., Supriyatna, (2007). Corporate Governance, Risk Management, and Bank Performance: Does Type of Ownership Matter? EADN WORKING PAPER No. 34.