



EFFECT OF RISK MANAGEMENT COMMITTEE ATTRIBUTES ON FINANCIAL PERFORMANCE OF LISTED DEPOSIT MONEY BANKS IN NIGERIA

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Abstract

This study examined the effect of risk management committee attributes on financial performance of listed deposit money banks in Nigeria. The study used census sampling approach to arrive at thirteen (13) listed deposit money banks in Nigeria from the population. Secondary data was collected from the audited annual reports of the thirteen (13) listed deposit money banks in Nigeria from the period covering 2018 to 2022. The study's dependent variable which is financial performance was measured by return on assets (ROA) and the independent variable of risk management committee attributes was represented by size, independence and meetings, while firm size was used as a control variable in the study. With the conducting of diagnostic tests the Ordinary Least Square Robust (OLS) regression technique of data analysis was used to test the hypotheses formulated in the study. The regression results established that risk management committee size and risk management committee independence have positive and significant effect on financial performance of listed deposit money banks within the period of the study. Hence, the study concluded that risk management committee size and risk management committee independence impact on financial performance of listed deposit money banks in Nigeria. In line with this, the study recommended that management of listed deposit money banks in Nigeria should increase the number of their risk management committee size and the number of independent directors on the committee as doing so will improve the performance of these banks.

Keywords: risk management committee attributes, financial performance, deposit money banks, Nigeria

1. Introduction

In contemporary corporate finance, financial performance serves as a pivotal metric for evaluating an organization's overall efficiency and value creation. For banks, this is particularly critical, given the systemic importance of financial institutions in ensuring economic stability. Financial performance reflects how well a firm uses its resources to generate earnings relative to its assets, equity, and liabilities. Return on Assets (ROA) as a measure of financial performance, is defined as the ratio of profit before tax to total assets. ROA is widely accepted as an effective

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measure of how efficiently bank assets are employed to generate profits (Oyedokun, 2019; Abubakar et al., 2023).

Corporate organizational failure has been an issue of concern to many business owners and stakeholders around the world. The collapse of financial institutions such as Silicon Valley Bank, Credit Suisse, Signature Bank, First Republic Bank, have given the reason for the reassessment of challenges that led to the collapse of financial institutions across the globe (Cable News Network Business, 2023). The banking institutions in the process of carrying out their operations are greatly exposed to risks which affect their performance and, in some cases, resulting to the failure of these banks.

Even with the several measures put in place by government and financial agencies such as International Monetary Fund (IMF) to caution the effect on creditors and other stakeholders. Within this framework, the Risk Management Committee (RMC) plays a strategic role, especially in financial institutions where managing risk is integral to sustainability. As a subset of the board committee structure, the RMC is responsible for identifying, assessing, and mitigating risks that could impair the bank's financial health and operational integrity. Given the increasing regulatory demands and stakeholder expectations, RMCs have become vital instruments of risk oversight and financial stability.

To assess the effectiveness of risk governance mechanisms, this study focuses on specific attributes of the Risk Management Committee (RMC), operationalized through three key proxies: Risk Management Committee Size (RMCS), measured as the total number of members serving on the committee (Omotoye et al., 2021). Risk Management Committee Independence (RMCIN), defined as the proportion of independent members to the total members of the committee (Lamidi et al., 2022); and Risk Management Committee Meetings (RMCM), which captures the frequency of committee meetings annually as an indicator of the committee's level of activity and oversight (Aliyu et al., 2021). Additionally, firm size was introduced in the study as a control variable to account for the potential influence of organizational scale on financial performance, recognizing that larger banks may have more diversified operations, access to resources, and risk mitigation capacities that could independently affect performance outcomes. Firm size is measured as the logarithm of total assets, allowing for a standardized comparison across banks of varying sizes (Abdullahi et al., 2023).

In Nigeria the banking sector has witness financial crises that have resulted to the failure of banks. These crises where as a result of credit risk issues from the ever-increasing level of non-performing loans in the financial institutions. According to Ogbebor, et al. (2020), the major causes of the credit risk are insiders dealings and corrupt staff of the top managements of these banks. In the case of Skye Bank Plc, a total loan amounting to ₦446 Billion Naira was drawn from the Skye Bank Plc to corporate individuals and insiders and were not accounted in any of the bank's previous annual reports and this also resulted to a credit risk which eventually led to the failure of the Bank (Daily Trust, 2018).

The poor performance of the banking sector of Nigeria revealed by the Financial Stability Report of the Central Bank of Nigeria (CBN) in 2016, the reports stated that the financial status of the Nigerian DMBs is very weak and not promising as their primary duties of financial intermediation and money creation may be affected in relation to their poor performance. In almost all major banking performance indicators. Additionally, the solvency and liquidity stress test

conducted by the CBN in 2022 to determine and analyze the banking institutions weaknesses and risks in order to evaluate the financial soundness and fitness of the financial institutions shows that capital adequacy of the banking sector declined to 13.17% as against the regulatory threshold of 15% required for banks with international operations, with an increase in the non-performing loans by 4.97% (CBN, 2022).

In line with this poor financial performance indicators, it is argued that the DMBs in Nigeria might be declaring profit, but their long-term strength and opportunities which depends largely on their ability to maximize shareholders wealth with reasonable level of financial performance metrics is very weak and this may threaten their going concern goal. For an entity to avoid threat of going concern, it is imperative for management to utilize companies' asset profitability in order to achieve corporate objectives.

Several mechanisms have been put in place in the corporate world to reduce agency problems and associated costs in order to safeguard the shareholders wealth and improve corporate performance. One of such mechanisms is the corporate governance mechanisms to monitor the firms' management system, risk control and financial compliance in the preparation and presentation of financial report (Adepoju, 2020).

From the review conducted on prior literature in this field, it was established that many studies have been conducted using board attributes as the independent variable against financial performance of listed DMBs. For example, Usman and Yahaya, (2023) examined how attribute impacted value of firms in Nigeria; Abubakar et al. (2023) assessed the effect of board size, independence, board gender, and board meetings on financial performance. Aernon et al. (2023) evaluated board size, independence, meetings, board gender, and diversity on financial performance of DMBs. With the exception of Chukwujekwu, et al.'s (2020) who researched on the how risk management committee impacted financial performance of Nigerian banks, none of these studies examined the association between risk management committee characteristics and financial performance. To that purpose, this study will evaluate the effect of risk management committee on the financial performance of listed deposit money banks in Nigeria.

The main objective of this study is to examine the effect of Risk Management Committee attributes on the financial performance of listed deposit money banks in Nigeria. Specifically, the study seeks to:

1. Assess the effect of risk management committee size on financial performance of listed deposit money banks in Nigeria.
2. Determine the effect of risk management committee independence on financial performance of listed deposit money banks in Nigeria.
3. Assess how the frequency of risk management committee meetings affect financial performance of listed deposit money banks in Nigeria.

To guide empirical investigation, the study formulates the following null hypotheses:
H₀₁: Risk Management Committee Size has no significant effect on the financial performance of listed deposit money banks in Nigeria.

H₀₂: Risk Management Committee Independence has no significant effect on the financial

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performance of listed deposit money banks in Nigeria.

H₀₃: Risk Management Committee Meeting has no significant effect on the financial performance of listed deposit money banks in Nigeria.

This study is significant for several stakeholders, regulators, investors, board members, and academics seeking empirical insights into how internal governance mechanisms influence performance in the banking sector. It fills a critical gap in literature by focusing exclusively on Risk Management Committees, an often-overlooked element of corporate governance, especially in emerging economies like Nigeria. The scope of the study is limited to listed deposit money banks in Nigeria over a specific period, ensuring focused and robust analysis. The motivation stems from increasing calls for accountability and resilience in the banking sector, where robust governance mechanisms are linked to long-term performance and risk containment.

2. Literature Review

In this section, the study covers the conceptual, empirical and theoretical review of the study.

Conceptual Review

Financial Performance

According to Abdullahi, et al., (2023) the concept of "performance" has two levels, including efficiency and effectiveness. In this regard effectiveness is the degree to which objectives are attained, whereas efficiency is the ratio between input and output. According to management's motivation theory, performance is defined as the volume of work a staff completes. Performance is the strategic outcome that a business employs to accomplish its goals. Any corporate management or business owner's top priority is efficiency (Dahiru et al., 2016). The organization's ability to accomplish its set goals, including a measure of overall competitiveness, is the level of performance. A company's performance can provide corporate management with information about the financial and non-financial conditions at the time of evaluation. (Abdullahi, et al., 2023).

Financial performance which can be the firms' ability to maximize earnings from available assets and resources, which can also be used to mean the general measurement of an organization's total financial power within a particular time. Financial performance examines an organization's effectiveness and efficiency in attaining its objective of wealth generation and manage its assets, liabilities and financial benefits of stakeholders (Olusola et al., 2022). According to Igwe, et al., (2017), performance is a matrix for how effectively a management team generates income using all available resources. Because it can be used to forecast the company's future earnings, investors are interested in a company's success. Some of the many metrics used by academics to evaluate performance include the Return on Asset, Price Earnings Ratio, and Return on Equity. (Ado, et al., 2020; Haddad, et al., 2021; Ugwu, et al., 2020). In this study, the main criterion for assessing financial performance was ROA.

Risk Management Committee

The risk management committee, a separate board committee, is in charge of establishing the organization's risk management policies for all of its operations as well as supervising the implementation of the organization's international risk management system (Fali et al., 2020). When it comes to the corporation's risk tolerance, the process for managing and enforcing that risk,

and the governance architecture that supports those activities, the committee provides support to the board members as it fulfills its regulatory obligations.

Risk Management Committee Size

The total number of board members of a risk committee is referred to as the committee's size. Success of a committee is frequently dependent on its size, or resources (Omotoye et al., 2021). A larger risk management committee with more diverse knowledge, in accordance with agency theory, may be able to better monitor management behavior with regard to risk management and ensure that investments are in line with strategic goals, assisting in the prevention of financial crises by reducing risk and adverse selection that could negatively affect performance (Elamer & Benyazid, 2018). Numerous studies conducted previously on the relationship between risk management committee size and financial performance. Several of these studies (Alduneibat, 2023; Elamer & benyazid, 2018; Omotoye, et al., 2021) found significant relationship on management committee size and financial performance, whereas others (Fali, et al., 2020; Chukwujekwu, et al., 2020) found no any form of relationship on risk management committee size and financial performance of firms. Based on this, the study formulated its first hypothesis as thus:

Risk Management Committee Independence

Oyedokun (2019) defines non-executive directors as external, independent directors. They are referred to as independent directors for the reason that they have no professional connections to the corporation. To put it another way, an individual who serves as an independent board member of risk management committee is one who is not personally connected to the company's executives. Since they are objective and have no selfish interest in the company, independent directors oversee managerial actions. Many individuals think that the risk management committee independence from management and governance is demonstrated by the involvement of a substantial number of non-executive directors (Lamidi et al., 2022). Several studies on the relationship between financial performance and the independence of risk management committees were recorded. While some of these research (Fali, et al., 2020; Abubakar, et al., 2018) did not found any relationship between risk management committee independence financial performance, others (Alduneibat, 2023; Malik, et al., 2020; Aldhamari, et al., 2020) found significant relationship between risk management committee independence and financial performance. The study states it second hypothesis as follows:

Risk Management Committee Meeting

The risk management committee frequency of meeting refers to how frequently the committee's members meet to discuss issues pertaining how organization's risk will be mitigated. Meetings are held to discuss a variety of organizational difficulties, and the frequency of meetings suggests that new policies and methods to improve the company's risk management practices may be developed and put into place (Lamidi et al., 2022). Regular meetings promote member engagement and participation, which enhances the committee's value. Several research scholars have studied the effect of risk management on business performance. Some of these scholars established a relationship between risk management committee meeting and firm performance (Oyedokun, et al., 2019; Lamidi, et al. in 2022). While Abubakar, et al., (2023) and Aliyu, et al., (2021) found no significant relationship between risk committee meetings and firm performance. Therefore, the study states it third hypothesis as follows:

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Theoretical Review

The research of risk committees and business performance has been supported by a variety of theories. However, agency theory was used to underpin this study.

Agency Theory

Jensen and Meckling (1976) who introduced agency theory and stated that an agency relationship exists when one individual, the principle, contracts with another individual, the agent, to perform certain tasks, including making decisions. In a corporate structure, principals represent the shareholders who own the company while assigning tasks or abdicating responsibility to a third party known as the agent (Abubakar et al., 2021). Agency costs could develop as a result of the disparate interests of the constituent parts of a corporation. In the event of aberrant activities, shareholders use monitoring mechanisms at their own expense to prevent future abnormally, while management have paid bonded costs to persuade the principals that there would be no harm emerge as a result of their actions and choices (Fali et al., 2020). According to Omotoye et al. (2021), in order to safeguard their interests and assure corporate performance, board committees like the risk management committee, are procedures set up by the owners of the firm.

3. Methodology

Ex post factor research design was employed in the study. With secondary data gathered from the audited annual reports of the thirteen (13) listed DMBs for the years 2018 to 2022, the study used the census sampling approach. Ordinary Least Square regression analysis was utilized for the study to analyze the data that was gathered and test the research's hypotheses.

Variable Measurement

The variables used in this study along with their respective measurements are presented in Table 1 as thus:

Table 1

Variable Measurement

Variable	Acronym	Measurement	Sources
Financial Performance	ROA	Financial performance was measured as the proportion of profit before tax and total assets of the banks	Oyedokun, (2019); Abubakar, et al., (2023)
Risk Management committee Size	RMCS	Measured as the total number of members on the risk management committee	Omotoye, et al., (2021)
Risk management committee independence	RMCIN	Measured as the proportion of independent members to total number of the committee members.	Lamidi, et al., (2022)
Risk management committee meetings	RMCM	Measured as total number of times the committee held it meeting per year.	Aliyu, et al., (2021)
Firm size	FSIZE	Log of total assets of banks	Abdullahi,et al.,(2023)

Source: Researcher's Compilation from the Literatures Reviewed (2023).

Model Specification

The model specification for this study is presented below as follows:

$FPerf = f(\text{Risk management committee})$.

$FPerf_{it} = \beta_0 + \beta_1 RMCS_{it} + \beta_2 RMCIN_{it} + \beta_3 RMCM_{it} + \beta_4 FSIZE_{it} + \varepsilon_{it} \dots \dots \dots (Eq1)$

Where: FPerf is Financial Performance; RMCS is Risk Management Committee Size; RMCIN is Risk Management Committee Independence; RMCM is Risk Management Committee Meetings; FSIZE is Firm Size; β_0 is Constant; $\beta_1 - \beta_4$ is coefficient of the variables of interest and the control variable; it = panel indicator.

4. Result Presentation and Discussion

The findings from the data that were extracted and analyzed are covered in this section of the study. The section starts with descriptive statistics followed by correlation matrix, variance inflation factor (VIF), and regression result. To select the appropriate model for the study carried out a number of test which include the multi-collinearity test using the VIF to find out if there is multi-collinearity among the variables, hausman specification test to choose between fixed effect and random effect model which was no significant as shown in the result presented in the Appendice, hence the study further carried out Lagrange Multiplier test to choose between random effect and Ordinary Least Square (OLS) which favoured the OLS as shown in the result presented in the appendice. Thus, the study reported the OLS robust regression result.

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Descriptive Statistics

The variables employed in this study are explained by the descriptive statistics. Starting with the number of observations, mean, standard deviation, minimum and maximum.

Table 2

Descriptive Statistics

Variable	Obs	Mean	Std.Dev	Min	Max
ROA	65	0.0635	0.1687	0.0019	0.8166
RMCS	65	6.8923	1.9931	3	11
RMCIN	65	0.2562	0.1605	0	0.6667
RBCM	65	4.9692	1.9282	2	11
FSIZE	65	9.3648	0.5474	8.0332	10.1138

Source: Stata Output, (2023)

From Table 1 financial performance which is proxied by ROA has a mean and a standard deviation value of 0.0635 and 0.1687 respectively. This means that on average the performance of the listed deposit money banks in Nigeria stood at 6.35% with a fluctuation of 16.66% which signifies high deviation from the mean of ROA. The minimum and maximum value of 0.0019 and 0.8166 respectively which shows that minimum return on assets of the banks within the period of the study stood at 0.19% and a maximum return of 81.66%.

Furthermore, table1 shows that, the RMCS has a mean of 6.8923 with a standard deviation of 1.9931. This suggest that on average the RMCS of the listed deposit money banks is approximately 7 members, with a deviation of approximately 2 members which further means that there is a low variation from the mean value of RMCS of the DMBs within that period. Also, minimum and maximum values of RMCS stood at 3 and 11 respectively which shows that the least size of the risk management committee of the DMBs in Nigeria stood at 3 members while the maximum members is 11.

Similarly, the descriptive statistics shows that RMCIN has a mean and standard deviation value of 0.2562 and 0.1605 respectively. Which shows that on the average 25.65% of the risk management committee members the DMBs in Nigeria are independent members, and a deviation of 16,05% which shows a low deviation from the mean value of the mean. The minimum value of 0 and maximum values 66.67%.

Finally, the mean value in respect to risk committee meetings stood at 4.9692 while the standard deviation of 1.9282. This shows that the average number of meetings held by the risk management committee of the listed DMBs in Nigeria within the period of the study was approximately 5 meetings in a year, with a deviation of approximately 2 meetings. The minimum value of 2 and maximum value of 11 means the least number of times the risk management committee of the listed DMBs held meetings within the period of the study stood at 2 times and with a maximum of 11 times.

Correlation Matrix

The relationship between the variables, as well as the relationship that exist between independent variables themselves, is explained by the correlation matrix

Table 3*Correlation Matrix*

Variable	ROA	RMCS	RMCIN	RMCM	FSIZE
ROA	1.0000				
RMCS	0.1325	1.0000			
RMCIN	-0.1533	-0.1477	1.0000		
RMCM	0.0593	-0.0456	-0.1182	1.0000	
FSIZE	0.6153	-0.0033	-0.5785	0.0002	1.0000

Source: Stata Output, (2023)

According to the correlation table, the RMCS and frequency of meetings are positively correlated with ROA, whereas the independent management of the risk management committee is negatively correlated with the ROA of the listed DMBs in Nigeria. It is clear from this that both RMCS and RMCM are moving in the same direction with the dependent variable. Furthermore, the correlation matrix indicates that none of the study's variables are multi-collinear because all of their coefficients are below the threshold of 80% (Gujarati, 2004). VIF was also carried out to further dictate if there is presence of multicollinearity among the variables.

Multi-collinearity

Multi-collinearity was used to dictate if there is a presence of multi-collinearity among the independent variables for this study.

Table 4*Variance Inflation Factor*

Variable	VIF	1/VIF
RMCS	1.04	0.9610
RMCIN	1.59	0.6273
RMCM	1.03	0.9736
FSIZE	1.53	0.6517
Mean VIF	1.30	

Source: Stata Output, (2023)

From Table 4 the tolerance and VIF were used to confirm the possibility of the presence of multi-collinearity among the variables, it was shown there is no multi-collinearity with the tolerance value and VIF concurrently below 1 and 10 respectively which signifies no presence of multi-collinearity among the variables (Gujarati, 2004).

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Presentation of Result

The summary of the OLS robust regression result is presented in the Table below as follows:

Table 5

Summary of OLS Robust Result

Variable	Coef	Std Error	t-value	p>value
RMCS	0.0165	0.0067	2.50	0.015**
RMCIN	0.0636	0.1874	3.39	0.001***
RMCM	0.0098	0.0059	1.65	0.105
FSIZE	0.2555	0.0678	3.77	0.000***
Cons	2.5146	0.6647	3.78	0.000***
Prob > value	0.0094		Obs	65
R-Square	0.4860		F(4, 60)	3.69

Sources: Stata Output, (2023)

*** $p > 0.01$ and ** $p > 0.05$

From Table 5 it shows that R-Square reflect a value of 0.4860 otherwise 48.60% (0.4860*100) this means the independent variables incorporated in the model of the study explain the changes in the financial performance of listed DMBs in Nigeria by 48.60% while the remaining 51.40% is explain by other factors that were not included in the model of the study. More so, F-statistic of 3.69 with a p> value of 0.0094 means less than 0.5, shows that the model specified is fit for the study. Therefore, the model is restated as:

$$FPerf = 2.5146 + 0.0165RMCS + 0.0636RMCIN + 0.0098RMCM + 0.2555FSIZE$$

The result of the regression show that RMCS has a coefficient of 0.0165, and a t value of 2.50 and a p-value of 0.015 which is significant at 5%. This means that there is adequate prove that RMCS has effect on financial performance of listed DMBs in Nigeria. Hence if RMCS is increase by one additional member it will increase the performance of the DMBs by ₦0.02 everything being equal. And the findings support the prediction of the agency theory. Hence, the study rejects the first hypothesis that states RMCS has no significant effect on financial performance of listed DMBs in Nigeria. The result supports the findings of Alduneibat, (2023); Elamer and benyazid, (2018) and Omotoye, et al., (2021) who found the relationship between risk management committee size and financial performance to be significant, while it contradicts the findings Fali, et al., (2020) and Chukwujekwu, et al., (2020) who found no significant effect between RMCS and financial performance.

Similarly, the regression result revealed that RMCIN has a coefficient of 0.0636, a t-value of 3.39 and p-value of 0.001 which happened to be significant at 1%. It further shows that RMCIN has effect on the financial performance of the listed DMBs in Nigeria, one additional independent member it will result to an increase in the financial performance of the DMBs by ₦0.06 every other thing being constant. Thus, the study rejects the second hypothesis that states risk management committee independence has no significant effect financial performance of listed DMBs in Nigeria. And it supports the agency theory. The findings is in line with the studies of Alduneibat, (2023); Malik, et al., (2020) and Aldhamari, et al., (2020) who found significant

relationship between RMCIN and financial performance., while the findings of this study contradicts those of Fali, et al., (2020) and Abubakar, et al., (2018) who found that there is no any relationship between RMCIN and financial performance.

Table 5 indicates that risk management committee meetings have a coefficient of 0.0098, a t-value of 1.65, and a p-value of 0.105, which is not statistically significant. This suggests that RCMCM do not have a meaningful impact on the financial performance of listed Deposit Money Banks (DMBs) in Nigeria. A possible explanation for this outcome is that these meetings may not adequately address critical risk-related issues that could enhance financial performance, or that no actionable consensus is reached during such discussions. Consequently, the study fails to reject the third hypothesis, which posits that RCMCM have no significant effect on the financial performance of listed DMBs in Nigeria. This finding aligns with the studies of Abubakar et al. (2023) and Aliyu et al. (2021), who also reported no significant relationship between RCMCM and financial performance. However, it contradicts the findings of Oyedokun (2019), Oziegbe and Cy (2021), and Lamidi et al. (2022), who reported a significant association between board committee meetings and firm performance.

5. Conclusion and Recommendations

From the findings of the regression result the study draw a conclusion that RMCS is a major determinant of financial performance of the listed DMBs in Nigeria. This is due to the significance of the RMCS as shown by the regression result to have a p-value of 0.015. Also, from the result of the regression, the study concludes that risk management independence is a major determinant of financial performance of the listed deposit money banks in Nigeria within the period of the study. This was as a result of the significance level of this variable with a p-value of 0.001. however, the study concluded that RCMCM is not a determinant of financial performance of listed DMBs in Nigeria as the variable turned out not to be significant.

From the study's conclusion, it is recommended that management of the listed DMBs in Nigeria should increase the number of their risk management committee as this will make the committee to have more diverse in terms of knowledge and skills which will help the come up with the best risk control measures which cut down the level of the banks risk and therefore improve their performance.

Similarly, the management of the listed DMBs should increase the number of the risk management committee independence as this will enable the committee have a reason number of directors who are independent of the managements and carry out policies and judgment without fear and this will enhance the committee integrating towards risk control which will increase the performance of the banks by preventing or cutting down unnecessary risk of the banks.

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