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Risks Management and Corporate Performance of Business Enterprises in Jalingo Local Government, Taraba State

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Abstract

This study evaluated the relationship between risk management and corporate performance of Twenty (20) organization register with CAC in Jalingo Taraba state because Risk Management is an integrated framework and monitoring tool for managing uncertainties surrounding the business objectives. To achieve that, this objective was formulated. To provide empirical evidence of the extent to which RM framework has impacted performance in the business sector in Jalingo. The independent variables used were existence of risk management committee, the existence of financial expertise, the existence of audit committee, existence of Chief risk officer, and board size. The study data were sourced from annual reports and accounts of the selected enterprises. The collated data were analyzed using descriptive statistics and correlation matrix. The results reveal that risk management committee, financial expertise, audit committee, and board size have significant positive effect on performance. The result also shows that the existence of chief risk officer has a significant negative effect on performance. The study, therefore, recommended that the regulatory authorities and other relevant institutions are enjoined to reassess their supervisory role with the view to strengthen the RM process and taking the issue of risk management seriously at every level of organizations to provide reasonable assurance.

Keywords: Risk Management, Corporate Performance, Jalingo, and Taraba State

1.Introduction

1.1 Background of the study

The global economic conditions are continuously changing due to innovations, changing nature of the business environment, and risk drivers. This illustrates the realities that organizations are facing risks that threaten reputation and brand as the scope of uncertainties broadened. The risks have become the most important factors that influence the goal of an enterprise (Liu, 2012). The goal of an enterprise is to improve performance; performance is the ability of the firm to generate earnings given the risky environment that the enterprise operates. Therefore, how to deal with risks and how to understand their nature has become companies' first priority. As it is widely acknowledged, companies are set up to create maximum value for their stakeholders, and all activities relating to wealth creation are exposed to risks, therefore, companies are constantly facing

uncertainties, risk are uncertainties which affect company ability to achieve its objective and may result in many interdependent outcomes either negative or positive.

Some risks are necessarily encountered in order to take advantage of strategic opportunities and also, risks that threaten success must be mitigated. Antonius (2015) posits that increased attention is being placed on the subject of risk (Connair, 2013). The Nigeria business environment is examined to be unfriendly with reference to uncertainties in political regimes, cybersecurity risks, the demographic structure, the economic situation, falling oil prices, and geopolitical conflicts. In view of this, the management of companies cannot afford to manage risks casually, especially in this era of constantly changing innovation and technological developments.

Management is responsible for the implementation and monitoring of the risk management process and incorporating it into day to day activities of the company. This requirement on the best practices of the code is recommended by Nigeria code of corporate governance for all listed companies to disclose their risk appetite, risk exposure and disclosure of establishment of risk management thecommittee in their annual reports. In addition, the Committee of Sponsoring Organizations of the Treadway Commission (COSO, 2004) emphasized that the implementation of RM by companies largely depend on corporate governance, enabling laws, regulations, and listing requirements. According to Ishaya and Siti (2015), the implementation of ERM is influenced by the existence of corporate internal audit effectiveness, the existence of risk management committee, the existence of chief legal officer, chief risk officer, and firm size. While investors and shareholders need to be protected through regulation, it is also important for the issuers of securities they invest in, to adhere to effective risk management (OECD, 2011).

Accordingly, based on the data acquired from the annual reports and accounts of industry, it indicated that many of the companies have Risk Management Committee (RMC), Audit Committee, Chief Risk Officer (CRO), executive directors with financial expertise and acceptable board of directors which are variables that will implement RM framework. Therefore, the primary purpose of this study is to determine the type of relationship that exists between RM and firm performance of the business enterprise in Jalingo, Taraba state.

1.2 statement of the problem

The greatest problem of enterprise is in their inability to understand risks and to venture into it, management of risk is an aptitude task to enterprise hence, there corporate performance cannot be measured in a better light, therefore the absence of corporate performance is linked directly or indirectly to risk management. This study investigates the link between Risk Management corporate performances in business enterprise in Jalingo Taraba State.

1.3 Objective of the study

The objective of the study is to provide empirical evidence of the extent to which RM framework has impacted performance in the business sector in Jalingo.

1.4 Research question

The research question that emanates from the objective is; To what extent does risk management impact performance of business enterprises in Jalingo?

1.5 Significant of the study

Despite the benefits of risk management, not many business enterprises maintain RM in Taraba. Moreover, there is a dearth of study on risk management in business enterprises in Nigeria. The available studies on risk management in Nigeria focused mainly on the Nigerian banking industry (Garuba, 2010; Adeyemi, 2011; Njogo, 2012; Ugoani, 2012). Thus, there is limited literature on risk management in business enterprises in Nigeria. The study fills the gap and contributes to knowledge by broadening the scope of literature on risk management and

corporate performance of business enterprises in Nigeria most especially Jalingo, Taraba state. Consequently, the study is imperative in order to increase knowledge on risk management, its importance, and the need to minimize risk in business enterprises in Jalingo, thereby improving enterprises performance and the nation's economy.

2. Literature Review

2.1 Variables of the Study

2.1.1 Theoretical Framework

There are several theories used in the literature on risk management research; such as stewardship theory, agency theory, and rational choice theory. For the purpose of this study, agency theory serves as the theoretical foundation. Agency theory stresses the need for resolution of conflict of interest between the principal (shareholders) and the agents by enhancing monitoring mechanisms such as Enterprise Risk Management (ERM), corporate governance and effective internal control system (Nocco & Stulz, 2006; Jensen, 1993). This theory underscores the need for the firm to reach its goal of improving financial performance, thereby increasing shareholders value by implementing Enterprise Risk Management (ERM) practices. Agency theory serves as the interplay between the principal and the agent in ensuring that organization achieves its corporate objective.

2.2 The Concept of Risk and Risk Management (RM)

Every step taken in life involves risk; Life itself is a risk. Risk occurs in the everyday life of humans, as well as companies. Consequently, it is imperative to detect and manage risks in order to lessen their threats and improve their potential (Reuvid, 2012). Risk is the likelihood of gaining or losing something important. It is the implication of action taken in the face of possibility or threat of damage that is caused by external or internal weaknesses which may be avoided through pre-emptive action. Sobel and Reding (2004) view risks as that unknown or unforeseen circumstances that may stand in the way to success. Risk are uncertainty that can affect a company's ability to attain its objective and can lead to many interdependent results, so business risk is related to business objective; therefore, risk-taking is a necessity for success; there is no reward devoid of risk.

The awareness of RM was very low not until when Committee of Sponsoring Organization of Treadway Commission (COSO) initiated CRM Framework in 2001 by engaging PriceWaterhousecoopers (Pwc) to develop a comprehensive CRM framework for management and to improve organization risk management. COSO is a joint initiative to combat corporate fraud established by five private organizations in the United States. Their objective is to guide executive management and governance entities on important aspects of corporate governance, internal control, CRM, and fraud. Hoyt and Liebenberg (2008) affirmed that, the result of Pwc effort was formally announced in 2004. Gates, Nicolas, and Walker (2012) asserted that COSOC ERM framework components help companies to cope with risk and provide objective setting, event identification, risk assessment, risk response, control activities, information communication, and monitoring. CRM provides a framework for the Board of directors and management to deal effectively with uncertainties, the risk, and opportunities associated with firm objectives. RM builds on internal control and provides a more vigorous and all-encompassing focus on risk management.

RM is a strategic issue for businesses and the academia, which is now broader in scope and have been included in corporate philosophy (Kleffner, Lee, & McGannon 2003). In Carrying out ERM, COSO emphasizes the existence of ERM frameworks such as Objective setting, risk identification, Risk assessment, Risk response,

internal control environment, the involvement of management, divisions, and all line of directors within an organization (Arif, 2011). In addition, (COSO, 2004) emphasized that the implementation of RM by companies largely depend on corporate governance, enabling laws, regulations, and listing standards. Therefore, the implementation of RM framework is usually effected by the existence of audit committee, risk management committee, chief legal officer, chief risk officer, regulations like laws and other regulatory compliance and the size of the firm (Ishaya & Siti, 2015).

2.3 Risk Management and Performance

Shima, Mahmood, Happy, and Akbar (2013) examined the relationship between enterprise risk management and firm performance using 175 listed non-financial public companies in Malaysia. Data were sourced from annual report and accounts of the listed companies using the existence of risk management committee, finance experts, the board size, Audit committee and separation of the audit committee and risk management as independent variables while Return on Assets is proxy for performance. Their study used multiple regressions to test the relationship and the findings show that there exists a significant relationship between ERM and firm performance. Kallamu (2015) also examined the impact of risk management committee attributes and firm performance of 37 Malaysian finance companies covering period of five years from 2007 financial year to 2011 using finance expertise, presence of none executive directors, existence of risk management committee as independent variables and return on assets as dependent variable. The result indicated a significant positive relationship between risk management committee and firm performance.

Kacem and ZemZem (2014) studied the relationship between risk management, corporate governance, and performance in 17 Tunisian lending institutions over a period of 10 years using OLS regression. Their findings revealed that board size has a significant effect on performance, while the existence of a risk committee within the institution has a significant negative effect on performance. Arif (2011) investigated the effect of ERM on performance after its implementation using 18 non-banks listed public company's in Indonesia. The study uses the existence of chief risk officer and the existence of risk management committee as independent variables while earnings per share and return on assets were used as dependent variables. The result of statistical test after implementing ERM indicate that financial performance only significant below 5% and the t value is greater than t table. This explained that after ERM implementation, it gives the significant difference to income volatility. In a similar study, Ugwuanyi and Ibe (2012) examine ERM and firm performance of Nigerian Brewery industry using cross-section survey design. The questionnaires were distributed to top and middle management staff of 3 major brewing firms in Nigeria. The results of the statistical test indicate that ERM enhances the performance of firms in the Brewery industry in Nigeria.

In another research on ERM and firm performance, Ping and Muthuveloo (2015) studied the effect of implementing ERM on firm performance using both primary and secondary data. Their results revealed that the implementation of ERM has a significant influence on firm performance. Silva and Chan (2014) carried out research on ERM adoption and firm performance in 30 companies listed on Brazilian stock exchange for a period of 9 years. The findings show a positive and significant relationship between ERM and firm performance. Odonkor, Osei, Abor and Adjasi (2011) examined 18 Ghanaian banks, and they discovered that high involvement of boards in the risks management process has a significant impact on the efficient risk management system, and this customarily leads to considerably higher ERM practices in the banks. In the same vein, Njogo (2012) conducted research in risk management practices in the Nigerian banking sector and opines that a high level of leverage is related to high risk. Thus, the banks need to implement a more rigorous and Effective ERM.

In identifying whether the company implement RM or not, there are several variables that can be found in annual reports and accounts of listed companies. Therefore, based on review of related literature, five independent variables were selected which are relevant to the study such as Existence of Risk Management Committee, the Existence of Financial Expertise, the existence of Chief Risk Officer (CRO), Existence of Audit Committee and Board Size. The study of Kacem and Zemzem (2014) revealed that the existence of a risk management committee in the institution has a significant negative effect on performance. Fadun (2013)

maintained that the risk management committee has a significant influence on performance. Ahmed and Mohammed (2010) investigated the adoption level of ERM in Malaysia, and their study discovers that a positive relationship between the presence of CRO and firm value. The findings of a study conducted by Daud, Yazid, and Hussein (2010) on the effect of Chief Risk Officer in Enterprise Risk Management Practices indicated that CRO and ERM were significant and CRO is an important factor in risk management.

The professional experience of board members has become very significant and germane to the performance of an organization (Rose & Rose, 2008). Xie, Davidson, and DaDalt (2003) affirmed that if directors do not have ample knowledge of accounting, then it will diminish their ability to create informed decisions and may lead to higher cost of an agency. However, Van Ness, Miesing, and Kang (2010) examined the board of directors' composition and corporate performance and discovered a negative relationship between board expertise and firm performance. Existence of audit committee plays a role in ERM because it ensures oversight of internal processes and enhances continuous improvement in the organization (Badara & Saidin, 2014). Hasnah and Adejoh (2015) affirm that there is a significant relationship between the audit committee and firm performance. There are different views on whether board size has an impact on firm performance. Kyereboah-Colemon (2007) indicated that large boards enhance shareholders wealth more positively than smaller ones.

2.4 Research gap identified

Business enterprises are fast growing in Nigeria; however, volatility in oil prices and the changes in business models coupled with global economic crisis and consumer preferences have exposed products and retail companies to business risk. In addition, the unpredictable business environment and globalization have also increased risks facing firms and consequently leading to dwindling performance of companies in the Nigerian economy. Despite the aforementioned factors, little attention is given to Risk management, coupled with weak and ineffective risk management. Therefore, in order to avoid earnings volatility and return Nigeria to the path of long-term economic growth, stimulating the business sector through the use of enterprise risk management model that mitigate impending risk in the sector is emphasized.

3. Methodology

3.1 Study design

Due to the nature of the research, descriptive statistics, correlation design were used. Correlation method examines the extent of the relationship between the independent variable (Risk Management (RM)) and the dependent variable (corporate performance). The data were analyzed through the use of the SPSS statistical package.

3.2 Population and Sample Size

To ascertain the numbers of entire enterprises in Jalingo, is very difficult due time and resources at the time of the study however, convenient sampling was adopted. Where the sample size was selected to be 20 enterprises

3.3 Instrument of analysis

The data on the study variables were collected from the annual reports sourced from the population for the study is Twenty (20) Companies, register with CAC. The data for this study are secondary data sourced from annual reports and accounts of the Twenty (20) sampled companies covering a period of 6 years, starting from 2013 to 2018.

3.4 Result and discussion

Table 1. Descriptive Statistic

	*RMC	*FIN.EXP	*CRO	*AUD. COM	*BSIZE	*PERF
MEAN	0.95	0.4056	0.275	6	9.9	0.07845
MEDIAN	1	0.4	1	7	17	0.4
MAX.	1	0.4	1	7	9	0.08
MIN.	0	0.25	0	4	6	-0.24
STD.DEV.	0.219043	0.103947	0.451261	0.64345971	3.006726	0.1216902
Observations	120	120	120	120	120	120

Table 1 provides basic descriptive statistics of the variables. A mean value 95% of companies have a risk management committee, while 5% do not have a risk management committee? However, this might be due to the fact that risk management committee does not exist in some companies in the early years of the period under investigation. Adoption of this variable may serve as long term competitive advantage to companies. The presence of financial expertise, measured by the percentage of directors with an accounting/finance background or relevant professional qualification, shows a mean value of 40.5%. This is an indication that 59.5% of board members do not have a background in accounting/finance. The minimum percentage of directors with a background in accounting/finance is 25%, and the maximum is 75%. The table also shows that on the average 27% of the sample companies have chief risk officer while 73% do not have. The mean value for audit committee reflects 6. This implies that the audit committee of sample companies have significant members and comply with provisions of section 359 (4) of companies and allied matter acts that stipulates 3 shareholders and 3 directors, respectively. Thus, this may affect the effectiveness of audit committee and brings about greater board's attention and governance oversight, which in turn increase shareholders wealth. Board size of the sample companies have an average of 9.9, which can be approximated to 10, and this shows the level of compliance with the corporate affair code of corporate governance. The CAC code recommends for companies to have a minimum of 5 board members. It, therefore, means that the sample companies have an average of 10, which is more than the minimum requirement. Furthermore, the minimum number of board size is 6 with a maximum of 17 directors

Table 2. Correlation Matrix

	PERF	RMC	FINEXP	ECRO	AUDCOM	BSIZE
PERF	1					
RM C	0.2779	1				
FINEXP	0.3814	0.1691	1			
ECRO	0.0236	0.1413	-0.1031	1		
AUDCOM	0.1790	0.7211	0.0438	0.2841	1	
BSIZE	0.2658	0.0658	0.1941	0.0666	0.2011	1

Table 2 shows the degree of correlation between risk management committee and performance is 0.277 (positively low correlated) and significant, which implies that as risk management committee increases, return on asset increases and vice versa. The degree of correlation between board size and risk management committee is 0.06 (positively low), which implies that as board size increases risk management committee increases and vice versa. Existence of a chief risk officer is negatively associated with performance. The coefficient between audit committee the existence of chief risk officer is 0.28(positively correlated), which means they both move in the same direction. The coefficient of correlation between financial expertise and return on assets is 0.38 (positively correlated) that is, and they move in the same direction.

Conclusion and Recommendation

Management is responsible for executing and monitoring the process of risk management and incorporating it into the daily activities of the company. Therefore the significant correlation between RM and firm performance suggests that RM can leverage firm performance by ensuring that adequate resources are deployed to enhance risk management systems. The existence of risk management committee, financial expertise on the board, size of the audit committee, and board size have significant impact while the existence of chief risk officer exhibits insignificant impact on performance. The study shows that there exists a significant positive relationship between risk management committee and firm performance. This means that when an organization has a risk management committee in place, the organization can use it as a competitive advantage to transform risk management into a value-enhancing capability. This supports the findings of Hoyt and Liebenberg (2008), Shima et al. (2013) and Kallamu (2015). On the other hand, the finding is partially in accordance with the findings of Kacem and Zemzem (2014), whose findings indicate a negative but significant effect of the existence of risk management committee on performance. Board size has a positive significant impact on firm performance, and this finding is consistent with the findings of Kyereboah-Colemon (2007) and Kacem & ZemZem (2014). This means that large boards enhance shareholders wealth more positively than smaller ones and also implies that the CAC code recommendation for companies to have a minimum of 5 board members is in order.

The findings of the study also revealed that the existence of finance experts has a significant positive impact on firm performance. This will enhance firm performance and attainment of organization's objectives. However, the positive relationship is contrary to prior studies such as Kallamu (2015) and Shima et al. (2013) whose findings were negative.

The existence of the chief risk officer has an insignificant impact on the performance of consumer goods companies. This is contrary to the findings of Daud, Yazid, and Hussein (2010). The size of the audit committee has a significant negative impact on the performance of the consumer goods companies. However, these companies have complied with the provisions of section 359(4) of Companies and Allied Matter Acts (CAMA) that stipulated 3 shareholders and 3 directors. This implies that the requirements of CAMA is quite adequate. The existence of risk committee, chief risk officer, finance experts, audit committee, the acceptable board size, and development of policies on ERM and effective coordination of firms' activities will go a long way in building risk management capabilities. The study, therefore, recommended that the regulatory authorities and other relevant institutions are enjoined to reassess their supervisory role with the view to strengthen the RM process and taking the issue of risk management seriously at every level of organizations to provide reasonable assurance.

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