International Journal of Innovative Finance and Economics Research 11(4):99-112, Oct.-Dec., 2023
© SEAHI PUBLICATIONS, 2023 www.seahipublications.org ISSN: 2360-896X

Risk Committee Attributes And Financial Performance Of Selected Deposit Money Banks In Nigeria

[1]Okechukwu, Eucharia Azuka & [2]Okeke, Vivian Onyedika
azukaokechukwu@yahoo.com; okekevivian2015@gmail.com

ABSTRACT
The evolving nature of risk associated with banking business, uncertainty in the industry, failure of the audit committee necessitated the urgent need for a specialized risk management committee to ensure risk are adequately identified, mitigated, supervised and managed. This study examined the effect of risk committee attributes on financial performance of selected deposit money banks in Nigeria using panel data from 2012 to 2021. The study specifically sought to ascertain the effect of risk committee size, risk committee independence, risk committee expertise and risk committee overlap on financial performance proxied by return on assets. The study was anchored on agency theory. Ex post facto research design was employed and data were sourced from annual reports and statement of accounts of the selected banks. Five banks namely Fidelity Bank Plc, Zenith Bank Plc, First Bank of Nigeria Plc, United Bank for Africa Plc and Union Bank of Nigeria Plc were selected for the study. Descriptive statistics, correlation analysis and Hausman test were used to analyze the data. The study found that risk committee size, risk committee independence and risk committee expertise had significant positive effect on financial performance while risk committee overlap had insignificant negative effect on financial performance. The study concludes that risk committee attributes had significant effect on financial performance of selected deposit money banks in Nigeria. The study recommends amongst others that the risk committee independence and expertise should be strengthened since it was found to have significant effect on the financial performance. This can be done by increasing the number of non-executive directors in the committee for effective monitoring.
Keywords: Risk Committee Size, Risk Committee Independence, Risk Committee, Expertise and Risk Committee Overlap, Return on Assets

INTRODUCTION
The unprecedented failure of corporate giants like WorldCom, Enron and Lehman Brothers has changed stakeholder's viewpoint on the relevance of mitigating risk within a corporate entity (Rimin, Bujang, Wong & Said, 2021). Policymakers are finding ways to improve governance rules to safeguard stakeholders' interests as the starting point to minimize principal risk. One of such ways is the establishment of risk committee (RC) to oversee the firm's risk management framework and policies. Risk management involves identifying, analyzing, and control of all related risks which may likely threaten a firm's resources, assets, or its earnings capacity (Mohammed, Basariah & Sitraselvi, 2018). As such, risk management is regarded as one of the major phases of corporate governance particularly in the case of financial institutions (Kakanda, Salim & Chandren, 2017).
Conventionally, risk management practices were part of audit committee responsibilities. However, it was recommended to split risk management responsibilities and establish independent committee due to major

regulatory reforms, complex risk environment, claimed multiple roles and major scandals (Ng, Chong & Ismail, 2012). The establishment of separate RMC enables the firms to perform better and reduce agency problems as compared to the entire board (Moore & Brauneis, 2008). This is why separate risk management committee are helpful for organizations that have complex structures, high agency costs, high leverage, size, or risk structure (Deloitte, 2011). Therefore, financial institutions particularly banks establish risk management committees to cover responsibilities such as, suggest risk appetite and risk limits, limit breaks and mitigation procedures, review risk profile and risk monitoring, receive and review risk issues reports, stress test scenarios, and review, update and accept risk policies change (Elamer, Ntim & Abdou, 2017).

As a result, the relevance of a risk management committee in corporate governance has been largely neglected in the banking literature (Ellul & Yerramilli, 2013). Members of the risk management committee are required to have the necessary knowledge, experience, and skills to effectively oversee firm-wide risks. A risk management committee will also encourage procedures like risk identification, risk reporting, and risk monitoring, as well as give a push to enhance risk management's overall quality (Tonello, 2012). In this regard, the creation of a distinct risk management committee inside the board is intended to improve board risk management and performance by enhancing board level monitoring.

Stakeholders particularly shareholders and investors are after a better performance of a company because it is the essential requirement for an organizational survival and growth (Kakanda, Salim & Chandren, 2016). Similarly, Kakanda, Bello, and Abba (2016) stressed that performance is a key to determine the perpetuity of a business set up. It is regarded as the foremost objective of profit-oriented organizations. A well-performing business is often one that is effective and efficient in securing its long-term success. Managers of corporate entities are much concerned about high performance, as it has a long-term effect on their corporations ranging from an adequate utilization of resources and investors' wealth maximization.

The accounting fraud witnessed in major corporations arises as a result of poor risk assessment and management. Perhaps one of the greatest shocks from the financial crisis has been the widespread failure of risk management. In many cases risk was not managed on an enterprise basis and not adjusted to corporate strategy. Risk managers were often separated from management and not regarded as an essential part of implementing the company's strategy. Most important of all, boards were in a number of cases ignorant of the risk facing the company. Odubuasi, Ofor and Ilechukwu (2022) noted that risk management committee specifically control the complex risks nature of the enterprise, and set the limit and risk appetite for the firm. It is not clear in literature whether the creation of the standalone risk management committee has helped to minimize the risks associated with banking business which will invariably improve the financial performance of companies. Based on the foregoing, the study investigated the effect of risk committee attributes on financial performance of selected deposit money banks in Nigeria. Hence this study examined whether the risk committee attributes (like expertise, independence, overlap, and size) of the risk committee can effectively manage the risk elements inherent in banking business and enhance the financial performance (proxied by return on assets) of deposit money banks.

REVIEW OF RELATED LITERATURE

Risk Committee

Risk Committee (RC) is an autonomous board of director committee which, as its primary and exclusive role, is responsible for the risk management policies of the global operations of the company, and oversees the implementation of the global risk management system of the organization. The committee helps the board of directors in carrying out its regulatory duties regarding the corporation's risk tolerance and the risk control and enforcement process and the governance system that governs it. Risk tolerance is the amount and type of risk that a company is capable of and ready to bear in its risks and market practices, despite its corporate priorities and stakeholder responsibilities (Ibrahim, Okika, Yunusa & Janada, 2020).

Onipe and Ogwiji (2021) noted that risk committee is one of the committees established by board to minimize adversaries encountered by organizations. Others are remuneration, nomination and audit committees. It is about governance often also refers to enterprise risk management initiative or framework, designed to assist in designing, developing and operating a top-level risk. Such efforts are designed to look at establishing the committee, evaluating its effectiveness and addressing members of the committee. It is an attempt to mitigate organizational hazards and maximize wealth of shareholders. Risk committee is designed to improve performance, ensure compliance with international standards, champion transparency and responsibility and ensure that the insurance establishes a balance between risk and reward. It is necessary to mention that risk committee comprises of board members and differentiate it from role of the board. Risk committee is wholly made up of non-executive directors, considered to be independent and advise the board governance and overall risk management (Onipe & Ogwiji, 2021). The risk committee attributes covered in this study are discussed below.

Risk Committee Size

The board is considered to be an important corporate governance mechanism because decisions reached by the board are implemented by the management. These decisions affect not only the performance of the entity, but also have significant effect on the survival of the business. The board of directors set up monitoring committees that mitigate the cost related with larger boards thus, larger boards has been associated with both improved performance, and greater risk taking (Upadhyay, Bhargava & Faircloth, 2014). The crux of the matter is the size of this important corporate governance mechanism (board) and its effect on financial performance of an entity (Kajola, Onaolapo & Adelowotan, 2017).

Risk committee existence may be related with board size. Board size emphasizes the number of members appointed to serve on the risk committee. It is believed that large number of board members will be a veritable instrument for formulation of strategic policies of the enterprise including conformity to risk disclosure requirement (Jensen, 1993). The presence of board size provides more opportunities for managers with the necessary skills to coordinate and be in charge of a sub-committee on risk management (Abubakar, Ado, Mohamed, & Mustapha, 2018) In another loss, the size of the Risk Committee is used as a measure of the willingness of a corporation to expend board money to improve the prestige of clients and the strength of committee. Bédard, Chtourou and Courteau (2004) note that not only does a board committee have power but the resulting plurality of opinions within a committee makes it more successful in solving possible problems (Ng, Chong & Ismail, 2013).

Risk Committee Independence

Board independence from management is important for a board's monitoring ability. The presence of large number of non-executive directors sitting on the board is recognized as a good pointer of the independence of the board from management. According to Abubakar, Ado, Mohamed and Mustapha (2018) RC independence means the number of independent non-executive directors' members sitting on the RC. Boards with higher number of non-executive directors are able vigorously investigate about risks, and they see the setting up of a risk management committee as a vital means of support to assist them achieve their risk management oversight function compare to those with a small number of non-executive director. Tao and Hutchinson (2012) explains, when a committee comprises of independent directors they will be able to monitor and control management risk taking activities and ensure all the strategies are working.

In the risk management committee, Protiviti (2011) stresses that having independent / non-executive directors is a prerequisite for establishing constructive coordination with the administrators and officers in charge of risk management operations of an organization. Ng et al. (2013) also believes that a timely objective evaluation of main risk areas could mitigate the vulnerability to major risks. In addition, the Walker study (2009) stresses the flexibility of the risk management function by making an independent CRO working under the oversight of the risk exposure and risk appetite control committee (Walker, 2009). This analysis recognizes the flexibility of the risk management committee and the non-executive directors independently, as indicated by Nicholson and Kiel (2007) in that the two concepts should not be deemed equivalent. The independent risk committee was calculated as the number of independent /

nonexecutive directors of the risk committee to the overall number of the risk committee, and the details is gathered from the financial reports portion of corporate governance.

Risk Committee Overlap

Directors often serve on multiple committees of the same board (Zheng & Cullinan, 2010). This is defined as overlapping membership or overlap. Overlapping board members presumably have a prominent and possibly more influential position within the board, compared to members with only one or no committee membership (Zheng & Cullinan, 2010). Risk committee overlapping refers to the proportion of the risk management committee members who have at least two functions on different board committees such as the remunerations committee or audit committee.

Like the remuneration and audit committee, members of the risk management committee may also work effectively when they sit on the audit committee. In such scenarios, members of the risk management committee could be more aware of the nature of the contemporary risks that the company is facing and experiencing (Yatim, 2010). Knowing these risks, they can develop strategies to control them, such as enhancing and improving the control mechanisms of the company (Spira & Bender, 2004). By taking the necessary action, the risk management committee would be able to eliminate or reduce the level of these risks. In addition, when there is an overlap between the members of the audit committee and risk management committee the financial reporting quality of the companies is high compared to those companies that do not have such an overlap (Chandar et al., 2012).

Risk Committee Expertise

The competence of a director is also a significant factor in ensuring that the board and its sub-committees work effectively. Board expertise refers to the members of the board of directors that have acquired special or additional skill and advanced academic knowledge like Accounting or financial skills. Accounting or financial skills are attributes / qualifications or knowledge that an individual has gained before becoming a member of a firm's board. Zango, Kamardin and Ishak (2016) maintain that board members with expert knowledge can strategically monitor and review work of the management to ensure that both financial and non-financial risk disclosure necessary are made.

Given the resource dependency theory, directors with higher experiences, and more skills can help in constraining earnings management practices (Samaila, 2014). One of the indicators of the competence of the director is his qualifications and experiences. In addition, the investors tend to invest in businesses that have a large number of trained and qualified board members. In the case of RMCs, members equipped with the appropriate qualifications and experiences are capable of identifying and addressing the corporation’s problems and challenges. Board members' financial expertise has gained considerable coverage in the literature on corporate governance. This work adopts the idea of a financial expert to determine the financial competency of the risk management committee, as established by the FRC for audit committees. The advice from the FRC (2012) notes that financial consultants should have formal credentials (in accounting or finance or actuarial) and usually need to have ample expertise in corporate financial matters.

Financial Performance

Financial performance is the general measure of how well a firm uses its resources to generate profits. It was measured using accounting measures of profitability. A company should earn profits in order to survive and grow over a long period of time (Pandey, 2005). Profits are essential but it would be wrong to assume that every action initiated by a corporation should aim at profit maximization to the detriment of environment, employees and society (Pandey, 2005)**.**

According to Naz, Ijaz and Naqvi (2016), financial performance (FP) is a degree to which an organization’s financial stability is measured over a period of time. In other words, it is a financial activity used to produce the enhanced profits, productivity and interest of a corporate entity for its owners by controlling its existing and non-current cash, borrowing, equity, revenues and expenditure. Its key aim is to provide the owners and stakeholders with full knowledge up to the stage in order to enable them to take decisions..