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Effect of Risk Management Committee Structure on Financial Performance of Listed Financial Institutions in Nigeria

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Abstract

This study was prompted by the observed decline in the performance of listed financial institutions in Nigeria. Its primary objective was to investigate how the risk management committee structure affects the financial performance of these institutions listed on the Nigerian Exchange Group (NGX). The research employed ex-post facto and panel data research designs, using data extracted from the audited financial statements of listed financial institutions over a ten-year period from 2012 to 2021. The study focused on a population of thirty-four listed financial institutions, including nineteen deposit money banks and fifteen insurance companies on the NGX. A purposive sampling technique was applied, investigating twenty of these firms due to the availability of complete data. The descriptive statistic and panel regression analysis were adopted. The findings presented significant evidence supporting the notion that the risk management committee (RMC) has a measurable and statistically significant impact on the financial performance of the listed financial institutions in Nigeria. The nature and effectiveness of the RMC within these institutions have a meaningful relationship with various financial metrics or indicators, demonstrating its role in shaping the financial performance of these listed entities. These findings suggest that understanding and optimizing the structure and functions of the risk management committee within financial institutions can significantly impact financial performance. Financial institutions may need to consider these aspects while establishing or restructuring their RMC to enhance their financial performance.

Keywords: *Risk Management, Risk Management Committee Structure, Financial Performance, and Financial Institutions, Nigerian Exchange Group.*

1. Introduction

Globally, the performance of financial institutions is of paramount significance to investors and stakeholders, particularly due to the spectrum of risks they face, including interest rate fluctuations, credit uncertainties, liquidity challenges, market volatilities, foreign exchange exposures, currency fluctuations, commodity uncertainties, and operational instabilities (Odubuasi et al., 2020). The declining financial performance of

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Nigerian financial institutions has raised significant concerns. Ineffective risk management can cause corporate downfall, whereas effective risk management can notably enhance financial performance. In today's dynamic global financial sector, the role of risk management has gained increased attention as a crucial factor in shaping the performance and sustainability of financial institutions. Within this context, the structure of Risk Management Committees (RMCs) has emerged as a pivotal element in managing and mitigating the diverse risks faced by financial institutions (Sie & Azlan, 2019).

As the Nigerian financial market undergoes evolution and expansion, the effectiveness and efficiency of RMCs in handling risks have assumed paramount importance. Financial institutions in Nigeria contend with various risks, and their ability to manage these risks adeptly is crucial for their resilience (Alasin & Briggs, 2018). These risks directly impact the performance of financial institutions as they encapsulate the likelihood that actual gains from investments, loan provisions, and dividends will deviate from anticipated outcomes (Kipto et al., 2021). Listed financial institutions in Nigeria operate within a multifaceted environment characterized by regulatory changes, economic volatility, and the imperative to maintain competitive positions in the global market. To thrive and successfully navigate these challenges, robust risk management frameworks and practices are imperative. At the core of these frameworks lie the establishment and operational effectiveness of RMCs, which hold the crucial responsibility of overseeing and guiding the risk management process (Gacheru, 2021; Maccarthy et al., 2020).

Financial institutions in Nigeria have grappled with financial distress and risk-related challenges leading to bankruptcy, mergers, and acquisitions (Adebayo et al., 2020; Adegoke & Oyedeko, 2018; Hamdan, 2020; Gacheru, 2021; Tapang et al., 2022). Despite guidelines for managing risks and enhancing performance, challenges such as bank collapses have led to job loss, decreased economic development, and increased poverty rates in Nigeria. Maintaining adequate liquidity is imperative to avert financial distress, irrespective of a company's profitability or capital base (Apochi et al., 2020). Past studies on the relationship between risk management committees and financial performance in Nigeria (Abdullah, 2016; Ahmed et al., 2018; Elamer & Benyazid, 2018; Gacheru, 2022; Kakanda et al., 2018) have presented conflicting findings, some indicating a positive relationship between risk management committees and performance, while others indicating a negative relationship. This article proposes the need for further research.

This study aims to explore the intricate link between the composition, independence, meetings, and gender diversity of RMCs and the financial performance of listed financial institutions. It seeks to answer pivotal questions: What are the existing structures of RMCs within listed financial institutions in Nigeria? How do these structures impact institutions' ability to manage risks effectively? To what extent do RMCs contribute to financial performance and shareholder value? This research is propelled by the understanding that, as financial institutions confront an increasingly complex risk landscape, RMCs must adapt and evolve. Hence, understanding the influence of RMC structure on financial performance is crucial for both the institutions and the regulatory bodies overseeing them.

The forthcoming sections of this article will review pertinent literature, detail the research methodology, present findings, and contribute insights to the growing knowledge base on risk management and financial performance within Nigeria's financial sector. This study endeavors to provide actionable insights for financial institutions, regulators, and policymakers to facilitate informed decisions that can enhance risk management practices and bolster the financial stability and growth of Nigeria's financial industry.

2. Literature Review

2.1 Conceptual Review

The study provides clarifications on the key concepts of the study in this section

2.1.1 Risk management committee structure

The Risk Management Committee (RMC), as indicated by Abdullah (2016), functions as an independent body tasked with formulating risk-related policies and their enforcement within the company. The establishment of this committee was a necessity due to the overloaded responsibilities of the audit subcommittee, which included risk management, internal governance, and financial reporting, rendering it inadequate in addressing emerging risks effectively. According to Odubasi et al. (2020), the RMC is entrusted with overseeing the organization's risk management system and ensuring the establishment of an effective mechanism. Its role includes aiding the board of directors in fulfilling regulatory duties, encompassing the determination of the organization's risk tolerance and control procedures. Furthermore, the RMC guides the board on risk management governance, playing a supervisory role in formulating, executing, and monitoring risk management policies on the board's behalf. The committee periodically updates the board on the entity's operational and financial practices, as highlighted by Tapang (2022).

2.1.1.1 Risk committee size

The dimensions of the risk management committee can correlate with the dimensions of the board of directors. A larger board size allows for a more extensive pool to select directors with the necessary skills to lead a sub-team focusing on risk management, as noted by Subramaniam et al. (2019). The count of members within the risk management committee serves as an indicator of an organization's commitment to investing capital aimed at bolstering shareholder wealth. The committee's size significantly affects its functionality and activities. According to Gacheru (2021), boards of directors in the financial sector play a pivotal role in supervising risk controls to prevent misconduct in financial institutions. However, studies have presented contrasting findings concerning the correlation between the risk committee's size and organizational performance. While the risk committee is required to have a minimum of three members, the agency theory posits that a larger committee, enriched with diverse knowledge and expertise, would enhance the oversight of managers' conduct concerning risk management, ultimately ensuring optimal performance, according to Sie & Azlan (2019).

2.1.1.2 Risk committee independence

Kakanda et al. (2018) suggested that a board's ability to oversee management is enhanced by its independence from managerial control, often achieved through the inclusion of numerous non-executive directors on the board. Non-executive directors are more inclined to demand robust governance and regulate management's conduct concerning risk-related activities compared to executive directors. Companies with a higher count of non-executive directors typically exhibit stronger governance and encounter fewer allegations of fraudulent behavior (Adegoke & Oyedeko, 2018). Nevertheless, the independence of members within the risk committee is also capable of curtailing internal risks and potential losses, as per Alasin and Briggs (2018). In Nigeria, the 2014 CBN corporate governance code mandates the risk management committee to comprise at least two non-executive directors and an executive director handling risk management, with a non-executive director presiding over the committee. The autonomy of the risk management committee is theorized to significantly impact the financial performance of Deposit Money Banks (DMBs) in Nigeria, according to Odubuasi et al. (2022).

2.1.1.3 Risk committee meeting/diligence

Elamer and Benyazid (2018) suggested that the frequency of meetings serves as a fundamental factor influencing a company's financial performance by providing a

platform for discussions on various company concerns. Meetings are viewed as pivotal occasions for members of the risk management committee (RMC) to openly exchange ideas and discuss strategies that can enhance the company's risk control. Additionally, a higher frequency of meetings signifies increased involvement of committee members in the company's affairs and highlights the commitment of board members in fulfilling their responsibilities (Ahmed et al., 2018). The conscientiousness of the RMC is measured by the number of meetings conducted by the committee within a fiscal year and plays a significant role in curbing potential risks within the firm. Studies also indicate that having independent non-executive directors on the RMC fosters unbiased communication with the company's managers and individuals responsible for risk management activities. Moreover, there is a shared agreement among researchers that RMC directors possessing expertise in accounting and finance can contribute to the prevention, detection, and mitigation of risks, ultimately enhancing the overall performance of risk management (Kakanda et al., 2017).

2.1.1.4 Risk committee gender diversity

The constitution of the risk committee is an additional factor that can affect a company's prosperity, particularly concerning gender diversity. Gender diversity refers to the representation of male or female members within the committee (Odubasi et al., 2022). Research has associated gender diversity among executives with various company traits, including financial reporting accuracy, firm value, and growth. Some studies suggest that having female board members on the risk committee leads to more efficient oversight, but conflicting perspectives exist. Financial performance indicators (FPIs) gauge a company's financial health within a specific period (Lamidi et al., 2022). In general, women are often perceived as more risk-averse and capable of managing risk at an acceptable level compared to men (Bensiad et al., 2021). Consequently, due to their adeptness in risk management, women are more frequently appointed to risk management committees (Kipto et al., 2021). The presence of women on a risk management committee contributes to balancing the committee's composition and facilitating quality decision-making, ultimately enhancing overall performance. Therefore, gender diversity in the RMC significantly influences the financial performance of deposit money banks and insurance companies in Nigeria (Odubuasi et al., 2020).

2.1.2 Financial performance

Financial performance represents the assessment of a business entity's financial well-being, particularly in terms of its capacity to effectively allocate available resources to generate profits (Dagunduro et al., 2022). It is important to note that the long-term viability and value of a firm depend on its capacity to maintain a favorable level of profitability through its operational activities. As highlighted by Hamdan (2020), financial performance serves as a reflection of the executive leadership's effectiveness within a company. Adamu et al. (2015) further emphasize that financial performance can be evaluated through factors such as profitability growth, revenue generation expansion, the efficient allocation of available capital, and judicious usage of financial resources.

According to Kolawole et al. (2023), a performance system refers to a collection of metrics, indicators, or standards utilized to evaluate the efficiency and effectiveness of actions. Therefore, the term "Financial Performance" can be subjectively understood as a measure of the extent to which a company can generate revenue by leveraging its primary operational assets. It has been observed that financial performance is considered a key indicator when assessing an organization's exposure to risks (Adedayo et al., 2020). Various criteria are used to measure financial performance. For instance, Apochi et al. (2020) highlights profitability and issues of shares as measures of financial performance for a given year. On the other hand, Dada et al. (2023) and Dagunduro et al. (2022) state that indicators such as ROA, ROE, and TQ can be used to gauge improvements in

operating business performance for a particular period. Therefore, this study utilized ROA, ROE, and TQ as assessment metrics to evaluate financial outcomes.

2.1.2.1 Return on assets (ROA)

The definition of return on assets, as provided by Adebayo et al. (2020), is a metric that compares the assets of a company to its turnover during a specific period. If a company has a higher return on assets, it suggests that the company is performing well financially, and can be an attractive incentive for potential and existing shareholders to postpone consumption (Kolawole et al., 2023).

2.1.2.2 Return on equity (ROE)

According to Elamer and Benyazid (2021), return on equity (ROE) is an indicator of a company's profitability and its ability to generate profits efficiently. A company that has a higher ROE is considered better at converting its equity financing into profits. Meanwhile, return on equity (ROE) is a measurement of a company's profit after tax, divided by its total equity (Kolawole et al., 2023).

2.1.2.3 Tobin's Q (TQ)

Tobin's Q, also known as the Q ratio, is a measure of market valuation relative to the replacement cost of a company's assets. The Q ratio is calculated by dividing a company's market capitalization by its total assets (Dada et al., 2023). The Q ratio compares the market value of a company to the cost of replacing its assets (Kaldor, 1966). If the Q ratio is less than one, it suggests that the market value of the company is lower than its replacement cost, while a Q ratio greater than one suggests that the market value is higher than the replacement cost. Tobin's Q was introduced in 1966 by Nicholas Kaldor and popularized by Nobel Laureate James Tobin. It is a tool for estimating whether a business or market is overvalued or undervalued (Abdullah, 2016; Dada et al., 2023).

2.2 Theoretical Framework

The research is rooted in the Agency Theory, initially developed by Michael C. Jensen and William H. Meckling in 1976. This theory examines the dynamic between principals (like shareholders) and agents (such as managers) and outlines the anticipation that agents act in the best interests of the principals. It emphasizes the transfer of decision-making authority from the principal to the agent and acknowledges potential discrepancies due to unequal information among management, debt holders, and shareholders (Jensen & Meckling, 1976). The theory underscores the significance of effectively supervising the risk management committee in governance and argues that agency issues can impact attitudes towards risk-taking and investment hedging. It has implications for organizational structure, governance, and risk behavior and can significantly shape risk management decisions to enhance overall financial performance. However, the theory assumes that principals possess complete information about the actions of agents, which may not always be the case in practice, resulting in misaligned incentives and conflicts. Eisenhardt (1989) indicates that agency theory is most pertinent in settings with a clear division between principals and agents, such as publicly traded corporations, and may have less relevance in other contexts like partnerships or nonprofit organizations.

2.3 Empirical Review

Several studies have investigated the interplay between Risk Management Committee (RMC) characteristics and financial performance within the context of different industries and countries. For instance, Akpan and Akai (2022) delved into the impact of RMC attributes on the financial performance of deposit money banks in Nigeria. They employed an ex-post facto research design utilizing secondary data sources, revealing that the diligence of the RMC had a notable positive effect on financial performance, while the size and independence of the committee had a negative and inconsequential impact. In contrast, Odubuasi et al. (2020) reported that RMC size and composition had an

inconsequential negative impact on financial performance, while the gender diversity of the committee showed a noteworthy positive effect.

Similarly, Ibrahim et al. (2020) assessed the influence of RMC attributes on the financial performance of listed banks in Nigeria spanning from 2009 to 2018. Employing an ex-post facto research design and panel data from the banks' annual audited reports, they concluded that RMC size and independence exhibited trivial negative effects on financial performance, while the committee's expertise had an inverse and significant influence. Moreover, Fali et al. (2020) aimed to investigate the effect of RMC size, independence, and expertise on the financial performance of publicly listed insurance companies in Nigeria between 2012 and 2018. They selected a sample of 24 insurance companies from a population of 27 firms and employed secondary data from the companies' annual reports. Their employment of a Random Effect regression model uncovered that expertise within the RMC held a considerable negative impact on Return on Assets (ROA), while the committee's size and independence did not influence ROA.

Abdullah (2019) focused on twenty-four insurance firms listed on the NGX, analyzing the impact of RC size, RC independence, and expertise on financial performance. Their analysis, spanning from 2012 to 2018, revealed that RC size and independence had an insignificant, negative effect on Return on Assets (ROA), whereas RC expertise exhibited a significant, inverse effect on the ROA of the listed insurance firms in Nigeria. Sie and Azlan (2019) explored the relationship between board diversity and financial performance, considering the moderating role of the Risk Management Committee (RMC). They studied the top 100 Public Limited Companies (PLCs), concluding that director experience, board size, foreigner diversity, and gender diversity significantly correlated with financial achievement, while an independent board did not. Interestingly, the RMC was found to have no relationship with corporate governance characteristics in terms of superior financial returns.

Subramanian et al. (2019) evaluated the connection between enterprise risk management and the financial performance of consumer goods companies, finding that risk committee independence significantly impacted financial performance. Kakanda et al. (2018) investigated the association between RMC characteristics and market performance of financial service firms in Nigeria. Their study suggested that RMC composition and meetings positively influenced firm performance, whereas RMC size had a negative effect. Elamer and Benyazid (2018) concentrated on publicly listed financial institutions from the FTSE-100 index in the United Kingdom. Their analysis using an ordinary least squares (OLS) regression model indicated a negative correlation between various aspects of the risk committee (such as its presence, size, frequency of meetings, and independence) and financial performance. Ahmed et al. (2018) delved into the relationship between RMC attributes and board financial knowledge on the financial performance of listed banks in Nigeria. Their findings revealed that RMC size had a positive, albeit insignificant, effect on ROA. Conversely, RMC independence and board financial knowledge were associated with a negative effect on ROA.

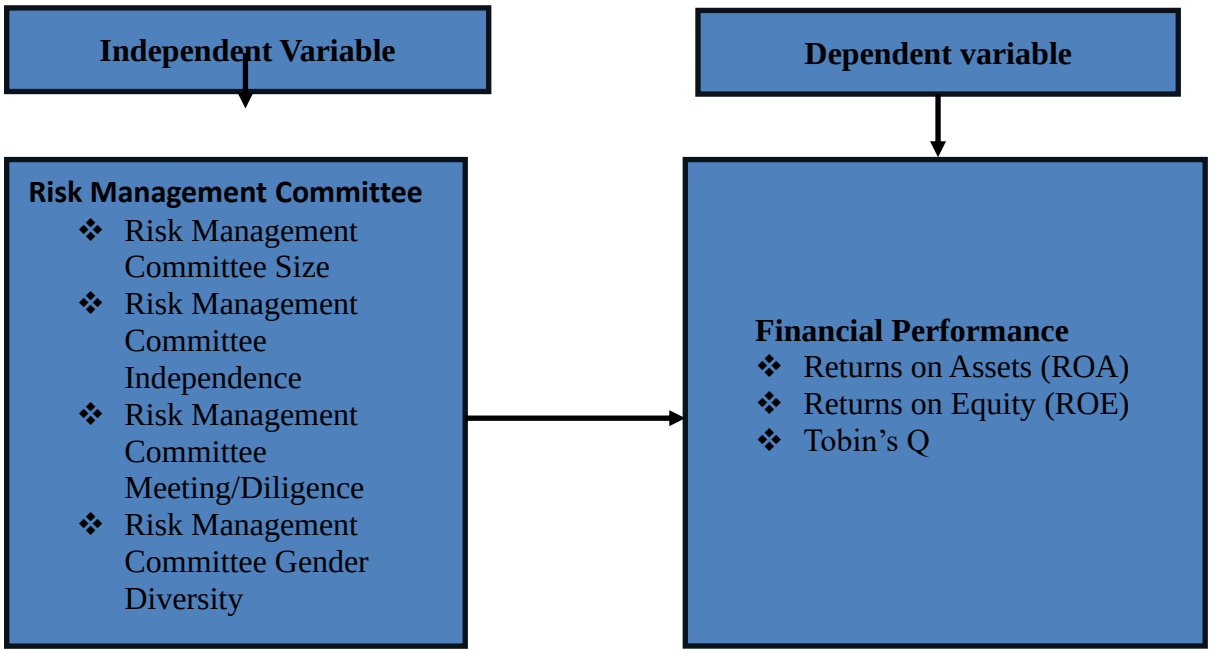
Past studies on the relationship between risk management committees and financial performance in Nigeria (Abdullah, 2019; Ahmed et al., 2018; Akpan & Akai, 2022; Elamer & Benyazid, 2018; Ibrahim et al., 2020; Kakanda et al., 2018) have presented conflicting findings, some indicating a positive relationship between risk management committees and performance, while others indicating a negative relationship. Hence, these contradicting results call for further study and review. Furthermore, majority of the studies carried out in Nigeria focused mainly on banks making it hard to draw inferences and henceforth the need for the current study that focused on financial institutions (deposit money banks and insurance companies) that were listed at the Nigeria Exchange Group (NGX). Based on such glaring gaps, the current study sought to add knowledge on the study area so as to provide an explanation to the stated research questions. The hypothesis of the study was stated as follows:

H_o: Risk management committee has no significant effect on the financial performance of listed financial institutions in Nigeria

2.5 Conceptual Framework

This study seeks to elaborate on how the risk management committee affected the financial performance of financial institutions quoted on the Nigerian Exchange Group. The independent variable is risk management committee. Financial performance is used as the dependent variable. The diagram below depicts the nexus between the variables of the study.

Figure 2.1 Conceptual Framework to show the interaction between Risk Management and Financial Performance of listed financial institutions on the Nigerian Exchange Group.



Source: Author's Concepts (2023)

3. Data and Methods

This study used ex-post facto and panel data research designs with descriptive and inferential statistics. The essence was to search for data that were recorded over a period of time, and which existed in the administrative records and accounts of financial institutions quoted by the Nigerian Exchange Group (NGX) as of 31st December 2021. The records were considered adequate, representative, and acceptable in the process of carrying out this study. The data used for the study is secondary and was sourced from the annual published reports of listed financial institutions in Nigeria. The population of the study was thirty-four (34) financial institutions, which comprises nineteen (19) deposit money banks and fifteen (15) insurance companies listed on the Nigerian Exchange Group profile as of 31st December 2021. The choice of selection of this sector was based on the fact that most of the researchers did not consider the financial institutions in the previous studies conducted in Nigeria. The study selected all the quoted financial institutions in Nigeria using a purposive sampling technique due to the availability of complete data, twenty (20) firms were investigated, comprising ten (10) deposit money banks and ten (10) insurance companies listed on the Nigerian Exchange Group (NGX). The panel data collected for this study were analyzed using both descriptive and inferential statistics.

3.1 Model Specification

The econometric model for this study was specified in line with the previous study by Ahmed (2019) to analyze the relationship that exists between the independent and dependent variables, and stated as follows:

$FP = \alpha 0 + \beta 1RMCS + \beta 2RCID + \beta 3RMCM + \beta 4RCGD + \varepsilon it$

Where:

FP = Financial Performance

RCMC = Risk Management Committee Size

RCID = Risk Management Committee independence

RMCM = Risk Management Committee Meeting/Diligence

RCGD = Risk Committee Gender Diversity

$\alpha 0$ = Constant

Σ = Stochastic Error Term

$\beta 0$ = Intercept

$\beta 1, \beta 2, \beta 3, \beta 4$ = The Coefficients of the independent variable

The a-priori expectation = $\beta 1, \beta 2, \beta 3, > 0$, the implication of this is that a positive relationship is expected between the explanatory variables and the explained variable.

3.2 Operationalization and Description of Research Variables

SN	Variable	Acronym	Role	Measurement	Source
1	Financial Performance	FP	Dependent		
1a	Return on Assets	ROA	Dependent	Measured as earnings after tax divided by the total asset (%)	Elamer & Benyazid, 2018
1b	Returns on Equity	ROE	Dependent	Measured as earnings after tax divided by total equity (%)	Elamer & Benyazid, 2018
1c	Tobin's Q	TQ	Dependent	Measured as market capitalization divided by total asset	Kaldor, 1966;
2	Risk Management Committee	RMC	Independent		
2a	Risk Committee Size	RMCS	Independent	Measured as the total members (directors and non-directors) in the risk committee.	Odubuasi et al., 2022
2b	Risk Committee Independence	RCID	Independent	Expressed as the ratio of non-	Kakanda, et al., 2018

				directors and non-executive directors within the risk committee divided by the total size of the risk committee (as a percentage).	
2c	Risk Committee Meeting/Diligence	RMCM	Independent	Quantified as the total count of gatherings convened by the risk committee members within a single year.	Kakanda, et al., 2018
2d	Risk Committee Gender Diversity	RCGD	Independent	Quantified as the proportion of female members in the risk committee in relation to the overall size of the risk committee (expressed as a percentage).	Odubuasi et al., 2022

Source: Researcher's compilation (2023)

4. Data Analysis and Discussion of Findings

4.1. Descriptive Statistics

Table 1 presents descriptive statistics for variables used in the study. The mean size of the risk management committee is 5.693, with a median of 5 members, and a relatively large standard deviation of 2.195. The distribution is slightly right-skewed but not significantly different from normal. The mean return on assets is 2.417, with a median of 2.055, and a large standard deviation of 4.178. The distribution is moderately left-skewed and significantly different from normal. The variables RCGD and RCID have means of 15.236 and 63.885, respectively, with positive and negative skewness values, indicating non-normal distributions. The variable RMCM has a mean of 3.919, with a positive skewness value, indicating a highly peaked distribution that is also significantly different from normal. The mean Tobin's Q score is 0.7442, with a median of 0.765, and a range from 0.02 to 2.55, indicating that, on average, firms have a market value 74.42% higher than their book value.

Table 1: Descriptive Statistics

	Mean	Median	Max	Min	Std. Dev.	Skewness	Kurtosis	Jarque-Bera	Prob	Obs
RCGD	15.236	13.395	80	0	16.182	0.940	3.530804	31.85756	0.0000	200

RCID	63.885	62.5	100	0	23.443	-0.447	3.667101	10.37549	0.0055	200
RMCM	3.919	4	11	0	1.655	0.690	6.633391	125.2838	0.0000	199
RMCS	5.693	5	12	0	2.195	0.195	3.28513	1.940208	0.3790	199
ROA	2.417	2.055	20.76	-17.59	4.178	-1.034	9.740224	414.2796	0.0000	200
ROE	14.192	11.145	1222.87	-394.2	93.283	10.474	144.3454	170145.1	0.0000	200
TQ	0.7442	0.765	2.55	0.02	0.296	1.581	11.86035	737.5341	0.0000	200

Source: Researcher's Computation (2023)

4.1.2 Panel unit root test

Table 2 presents panel unit root test results indicating that all variables in the panel dataset are stationary and do not follow a random walk process. The tests were conducted using two different statistics: Levin, Lin & Chu t statistics and Im, Pesaran, and Shin's W-statistics, both with very low p-values (0.0000). The remarks indicate that all variables are "Integrated at level," meaning they have a constant mean and finite variance and do not exhibit trend behavior over time. These results suggest that the variables are stationary and suitable for econometric analysis that assumes stationarity.

Table 2: Panel Unit Root Test

	Levin, Lin & Chu t statistics		Im, Pesaran and Shin W-statistics		
	Levin, Lin & Chu t statistics	p-value	Im, Pesaran and Shin W-statistics	p-value	Remarks
RCGD	-8.7362	0.0000	-6.29439	0.0000	Integrated at level
RCID	-6.62238	0.0000	-7.54291	0.0000	Integrated at level
RMCM	-11.20235	0.0000	-4.38361	0.0000	Integrated at level
RMCS	-9.70787	0.0000	-7.83972	0.0000	Integrated at level
ROA	-11.43103	0.0000	-8.5375	0.0000	Integrated at level
ROE	-11.74591	0.0000	-7.85409	0.0000	Integrated at level
TQ	-7.65036	0.0000	-6.8973	0.0000	Integrated at level

Source: Researcher's Computation (2023)

4.2 The effect of risk management committee on the financial performance of listed financial institutions on the Nigerian Exchange Group

4.2.1 Correlation analysis

The correlation matrix in Table 3 reports the correlations among the independent variables RCGD, RCID, RMCM, and RMCS. The analysis shows a weak positive correlation between RMCS and RMCM, a weakly negative correlation between RMCS and RCID, and almost no relationship between RMCS and RCGD. The correlation between RMCM and RCID is moderately positive, and the correlation between RMCM and RCGD is weakly positive. Additionally, the correlation between RCID and RCGD is weakly positive. The study concludes that there are generally weak or moderate relationships between the variables, with only one moderately positive correlation between RMCM and RCID. This degree of correlation is not significant enough to cause severe collinearity problems

Table 3: Correlation Analysis

Correlation

Probability	RMCS	RMCM	RCID	RCGD
RMCS	1.0000			

RMCM	0.1390	1.0000		
	0.0501	-----		
RCID	-0.0744	0.4367	1.0000	
	0.2962	0.0000	-----	
RCGD	0.0072	0.2369	0.1638	1.0000
	0.9191	0.0008	0.0208	-----

Source: Researcher's Computation (2023)

4.2.2 Variance inflation factors

The study conducted a variance inflation factor (VIF) test to measure the degree of multicollinearity in the panel variables. The result as presented in Table 4 showed that the VIF values for all predictor variables were relatively low, indicating that there is no significant multicollinearity in the model and the coefficients are likely to be stable and reliable. The highest VIF value was for the RMCM variable at 1.33, which is still well below the threshold of 10. This suggests that there is no significant multicollinearity in the model and that the coefficients are likely to be stable and reliable. This confirmed the outcome of the correlation analysis.

Table 4: Variance Inflation Factors

Variance Inflation Factors

	Coefficient	Centered
Variable	Variance	VIF
RMCS	0.018667	1.044037
RMCM	0.041771	1.328644

RCID	0.000206	1.270321
RCGD	0.000350	1.064861
C	1.490992	NA

Source: Researcher's Computation (2023)

4.2.3 The Effect of the Risk Management Committee on the ROA of Listed Financial Institutions on the Nigerian Exchange Group

To study how risk committee management affects the financial performance of listed financial institutions in the Nigerian exchange group, three dependent variables were used: ROA, ROE, and Tobin's Q. This section specifically focuses on the effect of risk committee management on the ROA of listed financial institutions in the Nigerian exchange group. Three regression models, namely pooled OLS, random effect, and fixed effect were obtained and evaluated using model specification tests such as the Hausman and Lagrange multiplier tests, which are reported in Table 5. The Hausman test was used to choose between fixed effects and random effects models, and the result showed that the random effect model was more appropriate than the fixed effect model. The Lagrange Multiplier test was used to compare the random effect and pooled OLS models, and the result showed that the random effect was more robust than the pooled OLS. The study then conducted post-estimation tests to assess the robustness of the residual, including the Panel Wooldridge heteroskedasticity test, which indicated that there was no significant heteroskedasticity in the model. Finally, the Arellano-Bond Serial Correlation test showed that there was no serial correlation in the model, with a p-value of 0.9600, which is not significant.

The R-squared and adjusted R-squared values were used to evaluate the model's explanatory power, indicating that the model explains 31.64% of the variation in the dependent variable of ROA. This means that a significant amount of variability is still unexplained by the model, but the adjusted R-squared value of 24.38 takes into account the number of variables in the model and adjusts for overfitting. The F-statistic is 5.8096 with a p-value of 0.0003, indicating that the model is statistically significant. This means that the risk committee has a significant effect on the return on assets of the sampled firms. With this knowledge, the study proceeded to investigate the individual impact of the risk committee management measure. The findings reveal that the regression coefficient for RMCS (size of the risk management committee) is -0.2543, indicating that a one-unit increase in RMCS would result in a decrease of 0.2543 percent in ROA. The t-value is -2.3370, and the p-value is 0.0305, which suggests that the coefficient is statistically significant at a 5% level. This implies that RMCS has a negative impact on ROA. The outcome suggests that a larger committee size could raise the cost of risk management due to the need to pay more members, which would decrease the firm's profits and reduce its ROA.

Additionally, a bigger committee could make decision-making more challenging, leading to delays and suboptimal decisions. Moreover, coordination and communication could be more difficult, resulting in misunderstandings, confusion, and mistakes that could negatively affect a firm's performance. The results indicate that the risk management committee meeting has a positive effect on the ROA. The coefficient of 0.0588 means that a one-unit increase in RMCM will lead to an increase in ROA by 0.0588 percent. The t-value of 2.3202 and p-value of 0.0313 indicate that the relationship is statistically significant at the 5% level. The findings suggest that increasing the frequency of risk management committee meetings can enhance risk identification and management, promote accountability and transparency in decision-making, and ultimately improve financial performance.

On the other hand, the variables of RCID and RCGD, which measure the independence and gender diversity of the risk management committee, respectively, did not show a statistically significant effect on the ROA at a 5% level of significance. The coefficients for these variables were -0.0089 and -0.0120, with p-values of 0.4221 and 0.5302, respectively. This means that changes in these variables are not associated with significant changes in ROA, indicating that having an independent or gender-diverse risk management committee does not necessarily lead to better financial performance.

Table 5: Regression Estimate of Effect of the Risk Management Committee on the ROA

Dependent Var: ROA									
	Pooled OLS			Random Effect Model			Fixed Effect Model		
	Coeff.	t-value	p-value	Coeff.	t-value	p-value	Coeff.	t-value	p-value
RMCS	-0.3238	-2.3706	0.0187	-0.2543	-2.3370	0.0305	-0.1310	-1.1314	0.2719
RMCM	-0.1414	-0.6922	0.4896	0.0588	2.3202	0.0313	0.1581	0.6525	0.5218
RCID	0.0072	0.5033	0.6153	-0.0089	-0.8205	0.4221	-0.0210	-1.8642	0.0778
RCGD	-0.0144	-0.7731	0.4404	-0.0120	-0.6394	0.5302	-0.0068	-0.3493	0.7307
C	4.5999	3.7671	0.0002	4.4001	3.1436	0.0053	4.0269	2.9884	0.0076
R-squared	0.0395			0.3164			0.3112		
Adjusted R-squared	0.0197			0.2438			0.2207		
F-statistic	1.9976			5.8096			3.4390		
Prob(F-statistic)	0.0964			0.0003			0.0000		
Hausman test	5.6527(p=0.2266)								
Panel Wooldridge heteroskedasticity test	59.3371(p=0.0901)								
Lagrange Multiplier Tests for Random Effects	27.13439 (p=0.0000)								
Arellano-Bond Serial Correlation Test	0.050134, (p=0.9600)								

Source: Researcher's Computation (2023)

4.2.4: The Effect of Risk Management Committee on the ROE of Listed Financial Institutions on the Nigerian Exchange Group

In this section, the impact of risk committee management on the return on equity (ROE) of listed financial institutions on the Nigerian exchange group is examined as reported in Table 6. The study conducted regression analysis using three models, and the Hausman test was used to choose between the fixed effects model and the random effects model. The results indicate that the random effects model is preferred. Also, the Lagrange Multiplier test was used to compare the random effect and pooled OLS models, and the

result favored the random effect model. The study also tested heteroskedasticity and serial correlation in panel data models and found no evidence of both. The r-squared value suggests that 40.63% of the variation in the return on equity is explained by the independent variables, and the f-value indicates that the model is statistically significant.

The coefficient of the risk management committee size (RMCS) and independence RCID) variables indicate significant effects on the ROE of the firm. A one-unit increase in the size of the risk management committee decreases the return on equity by 2.9347 percent, while a one-unit increase in the independence of the risk management committee increases the return on equity by 0.2179 percent. These coefficients are statistically significant at a 5% significance level. However, the study finds no statistically significant relationship between risk management committee meetings (RMCM) and risk management gender diversity (RCGD) with the ROE of the financial institution at a 5% level of significance.

Table 6: Regression Estimate of the Effect of the Risk Management Committee on the ROE

Dependent Var: ROE

	Pooled OLS			Random Effect Model			Fixed Effect Model		
	Coeff.	t-value	p-value	Coeff.	t-value	p-value	Coeff.	t-value	p-value
RMCS	-2.9347	-0.9424	0.3471	-2.9347	-2.2283	0.0270	-2.9583	-1.4049	0.1762
RMCM	1.0562	0.2267	0.8209	1.0562	0.4976	0.6244	-1.4568	-0.2973	0.7694
RCID	-0.2179	-0.6663	0.5060	0.2179	2.7971	0.0056	0.3051	0.6461	0.5259
RCGD	0.1073	0.2516	0.8016	0.1073	0.8741	0.3930	-0.2485	-0.7921	0.4380
C	39.2761	1.4112	0.1598	39.2761	1.5166	0.1458	21.1244	3.5118	0.0023
R-squared	0.0063			0.4063			0.0903		
Adjusted R-squared	-0.0141			0.3541			-0.0292		
F-statistic	0.3106			10.3067			0.7556		
Prob(F-statistic)	0.8706			0.0000			0.7816		
Hausman test	5.9377 (p=0.2038)								
Panel Wooldridge heteroskedasticity test	10.2619(p=0.9631)								
Lagrange Multiplier Tests for	21.1472(p=0.0000)								

Random Effects	
Arellano-Bond Serial Correlation Test	-0.74013, (p=0.4592)

Source: Researcher's Computation (2023)

4.2.5: The Effect of Risk Management Committee on the TQ of Listed Financial Institutions on the Nigerian Exchange Group

The section describes a study on the relationship between risk committee management and Tobin's Q of listed financial institutions in the Nigerian exchange group as reported in Table 7. The study used panel data analysis and conducted several tests to determine the best model specification. The results showed that a random effects model was appropriate for the data. The study also tested for heteroskedasticity and serial correlation and found that the errors were not correlated, and the variance was constant across all groups in the panel. The explanatory variables accounted for approximately 59.31% of the variation in Tobin's Q, and the F-statistic showed a statistically significant relationship between risk committee management and Tobin's Q. The study then interprets the coefficients of the variables of risk committee management and their impact on Tobin's Q. The results indicate that RMCS and RMCM were positively associated with Tobin's Q, while RCID was negatively associated. RCGD did not appear to be significant.

Table 7: Regression Estimate of the effect of the Risk Management Committee on the TQ

Dependent Var: TQ

	Pooled OLS			Random Effect Model			Fixed Effect Model		
	Coeff.	t-value	p-value	Coeff.	t-value	p-value	Coeff.	t-value	p-value
RMCS	0.0270	2.8845	0.0044	0.0270	5.3015	0.0005	0.0268	2.8210	0.0053
RMCM	0.0352	2.5129	0.0128	0.0352	2.8257	0.0199	0.0396	2.7507	0.0065
RCID	-0.0020	-2.0686	0.0399	-0.0020	-2.7247	0.0234	-0.0021	-2.1013	0.0370
RCGD	-0.00025	-0.2017	0.8403	-0.00025	-0.2851	0.7820	0.00018	0.1423	0.8869
C	0.5843	6.9666	0.0000	0.584331	8.3158	0.0000	0.5659	6.5510	0.0000
R-squared	0.1100			0.5931			0.1266		
Adjusted R-squared	0.0795			0.4744			0.0652		
F-statistic	4.8352			14.9994			2.0630		
Prob(F-statistic)	0.0007			0.000765			0.0182		
Hausman test	3.4175(p=0.4905)								
Panel	44.3614(p=0.2013)								

Wooldridge heteroskedasticity test	
Lagrange Multiplier Tests for Random Effects	234.2110 (p=0.0000)
Arellano-Bond Serial Correlation Test	-0.8855, (p=0.3759)

Source: Researcher's Computation (2023)

4.3 Discussion of Findings

The study explored the influence of risk management factors on the financial performance of financial institutions listed on the Nigeria Exchange Group (NGX), examining the impact of risk management committee size (RMCS), independence (RCID), meeting diligence (RMCM), and gender diversity (RCGD) on key financial performance metrics - return on assets (ROA), return on equity (ROE), and Tobin's Q (TQ). The study revealed that an increase in risk management committee size (RMCS) exhibited varied effects: a negative significant impact on return on assets (ROA), indicating potential reductions in asset efficiency or profitability; a positive significant effect on return on equity (ROE), suggesting improved profitability in relation to shareholders' investments; and a positive significant impact on Tobin's Q (TQ), indicating increased market value relative to the book value, signifying a more favorable market perception regarding the company's future growth prospects. These results imply that while a larger Risk Management Committee size might negatively influence asset efficiency, it could positively affect profitability and market value. The study's conclusions aligned with similar findings by Elamer and Benyazid (2018) and Kakanda et al. (2018) but contradicted the conclusions of other studies such as Akpan and Akai (2022) and Odubuasi et al. (2020).

The study delved into the effects of the frequency of risk management committee meetings (RMCM) on key financial performance metrics: return on assets (ROA), return on equity (ROE), and Tobin's Q (TQ). The findings unveiled that an increased number of risk management committee meetings had a positive significant effect on all three metrics. A higher frequency of RMCM was linked to increased ROA, signifying enhanced profitability regarding the company's asset earnings. Furthermore, a positive effect on ROE was observed, highlighting the increased return generated from shareholders' equity due to more RMCM, which suggests an improved level of profitability for shareholders' investments. Additionally, a higher frequency of RMCM positively affected Tobin's Q, indicating a more favorable market perception and valuation of the company's future growth prospects and assets. In essence, the results indicated that more frequent Risk Management Committee meetings positively influenced the financial performance of the company, demonstrating improved profitability and a more favorable market evaluation, as indicated by higher ROA, ROE, and TQ. This conclusion aligned with the findings of Akpan and Akai (2022) and Kalanda (2018) while contrasting the results of Elamer and Benyazid (2018).

The study investigated the impact of risk committee independence (RCID) on key financial metrics: return on assets (ROA), return on equity (ROE), and Tobin's Q (TQ). The findings suggest that the independence of the risk committee did not significantly affect return on assets (ROA), indicating that the level of autonomy within the committee

did not notably influence the company's profitability concerning asset earnings. The positive but insignificant effect on return on equity (ROE) indicated that although there was a positive trend, changes in RCID did not lead to substantial alterations in ROE. However, the positive significant effect on Tobin's Q (TQ) highlighted that although committee independence might not significantly influence profitability (ROA) or shareholder return (ROE), it did notably impact the market's perception and valuation of the company. Greater independence within the risk committee positively influenced the market's view of the company's future growth prospects and asset base, as reflected by TQ. This outcome aligned with Subramanian et al. (2019) and opposed the findings of Akpan and Akai (2022) and Kakanda et al. (2018).

The study explored the influence of risk committee gender diversity (RCGD) on key financial measures: return on assets (ROA), return on equity (ROE), and Tobin's Q (TQ). The findings indicated that gender diversity within the risk committee did not notably affect return on assets (ROA). This suggests that having diverse gender representation in the committee did not significantly impact the company's profit generation from its assets. The positive but insignificant effect on return on equity (ROE) revealed that despite the presence of gender diversity in the committee, it did not substantially influence the return derived from shareholders' equity. Although a positive trend was observed, there was no statistically significant change in ROE due to gender diversity. Additionally, the absence of a significant effect on Tobin's Q (TQ) implied that gender diversity within the risk committee did not notably impact the market's valuation of the company. The representation of genders in the committee did not significantly affect the market's perception of the company's growth prospects or asset base, as reflected in TQ. These findings align with previous research by Kakanda et al. (2018) and Odubuasi et al. (2020) among others.

Overall, the research findings presented significant evidence supporting the notion that the risk management committee (RMC) has a measurable and statistically significant impact on the financial performance of the listed financial institutions in Nigeria. This suggests that the constitution, structure, or activities of the Risk Management Committee significantly influence and contribute to the financial outcomes of these institutions. The nature and effectiveness of the RMC within these institutions have a meaningful relationship with various financial metrics or indicators, demonstrating its role in shaping the financial performance of these listed entities. The null hypothesis that risk management committees had no significant effect on the financial performance of financial institutions listed in NGX was rejected at a 5% level of significance. The results were consistent with the a priori expectation stated in this study.

5. Summary, Conclusion, and Recommendations

The research examined the impact of various risk management committee factors on the financial performance of financial institutions listed on the Nigeria Exchange Group (NGX). This included analyzing the effects of risk management committee size (RMCS), meeting diligence (RMCM), independence (RCID), and gender diversity (RCGD) on key financial metrics: return on assets (ROA), return on equity (ROE), and Tobin's Q (TQ). The study found that RMCS had diverse effects: a negative significant effect on ROA, a positive significant effect on ROE, and a positive significant effect on TQ. Meanwhile, RMCM had positive significant effects on all three metrics. RCID exhibited an insignificant effect on ROA and ROE but had a positive significant effect on TQ. RCGD had an insignificant effect on all three metrics. Overall, the research concluded that the risk management committee significantly influenced the financial performance of the listed financial institutions in Nigeria. The findings consistently showed that the Risk Management Committee (RMC) had a significant influence on the financial performance of the listed financial institutions in Nigeria. While different factors had varying effects

on financial metrics, their collective influence was evident. This implies that the RMC's structure, activities, and constitution play a substantial role in shaping financial outcomes.

Practical Implications

These findings suggest that understanding and optimizing the structure and functions of the Risk Management Committee within financial institutions can significantly impact financial performance. Financial institutions may need to consider these aspects while establishing or restructuring their RMC to enhance their financial performance.

Recommendations

Based on the varied effects of RMC size, management of financial institutions should consider a balanced RMC structure, focusing on efficient size and diversity, to balance the trade-offs between profitability metrics. Secondly, they should encourage higher meeting frequency, as it positively influences financial performance. Regular meetings enhance asset profitability and shareholder returns while influencing the market's positive perception. Financial institutions should strengthen the autonomy of the RMC. Although independence insignificantly impacts ROA and ROE, it notably influences market valuation. Strengthening RMC autonomy can positively shape market perceptions and company valuation. Also, they should promote gender diversity. While gender diversity didn’t significantly impact financial metrics, inclusive RMC practices support diverse perspectives and might contribute positively to decision-making. Emphasize gender-diverse representation. Continuous assessment and adaptation of RMC attributes are crucial. Explore deeper interactions between various RMC characteristics to better understand their combined impact on financial performance. Encourage information exchange between financial institutions to adopt best practices and learning from varied study outcomes. Collaborative efforts can drive effective risk management practices. Finally, they should regularly assess the effectiveness of RMC attributes and adapt them based on the changing financial landscape and market needs. These recommendations aim to harness the potential of the RMC and adapt it effectively to positively influence the financial performance and market valuation of Nigerian-listed financial institutions.

Contributions to Knowledge

The study contributes valuable insights by elucidating the influential role of the Risk Management Committee on financial performance. It provides a clearer understanding of how different aspects of the committee influence financial metrics. By establishing the statistical significance of the RMC's impact on financial performance, this research enriches the body of knowledge concerning risk management and financial outcomes in the Nigerian financial sector.

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Disclosure Statement

The authors declare that there are no competing interests to declare.

Data Availability Statement

The data supporting the findings of this study are available from the corresponding author (Dagunduro, M. E.), upon reasonable request.

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