

THE EFFECTS OF RISK MANAGEMENT PRACTICES ON SHAREHOLDERS' VALUE OF MICRO FINANCIAL INSTITUTIONS (MFIS) IN OWERRI, IMO STATE, NIGERIA.

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Abstract

This study examined the effects of risk management practices on shareholders' value of Micro Financial Institutions (MFIs) in Owerri, Imo State, Nigeria. The study used the survey design approach and convenience sampling technique was used in sampling 90 respondents. A structured questionnaire was used to collect data. Data analyses was conducted using simple regression analyses. The hypotheses that guided the study were tested at 5% level of significance via SPSS. In determining the effect of risk management practices on shareholders' value of MFIs, the findings indicated that risk identification has significantly improved shareholders' value of the studied firms. Findings further revealed that embarking on risk assessment has significantly and positively influenced the shareholders' value of the studied firms. It was also found that the adoption of risk mitigation, has improved shareholders' value. The study recommended that MFIs need to educate their employees about the importance of risk management. To ensure efficient and effective risk management, since the risk management process is performed by employees, highly qualified personnel serve as the first line of defense to protect the organization and reduce risk.

Keywords: Risk management practices, risk identification, risk assessment, risk mitigation, shareholders value.

Introduction

Background of the Study

Market risk, operational risk, economic risk, strategic risk, regulatory/compliance risk, business risk, political risk, technology risk, and competition risk are only a few of the risks to which organizations are exposed (Simkins & Fraser, 2010). The only way to recognize, navigate, manage, and reduce these risks is by creating a solid risk framework or model that is firm- or industry-specific. A firm can decide clearly which risks to own, transfer, or mitigate with the help of a strategic and all-encompassing approach to risk, build a more resilient organization and processes that support the firm's proactive risk mitigation efforts, and establish a true risk culture (Silvio et al., 2011). Business decisions are intimately related to unexpected events that could

happen during operations and cause losses, claim Shapkin & Ahapkin (2014). This loss, however, is the result of ongoing business decisions that are made as a result of incomplete knowledge and may incur expenses or result in lost benefits. One word can encompass everything said here: danger.

According to Kaplan & Garrick (1981), who were quoted by Gabriel & Emma (2012), the term "risk" can be interpreted in a variety of ways. They therefore defined risk as uncertainty plus harm or loss. A risk is defined as "the potential for realization of unwanted, adverse consequences to human life, health, property, or the environment" by the Society for Risk Analysis (SRA) (2012). According to the definition given above, risk is a state that is undesirable and can have a detrimental effect on an enterprise's performance. However, risk should be regarded holistically because there is a high potential of gain for every occurrence with a high possibility of loss. In actuality, risk and opportunity are two aspects of the same coin. As a result, businesses that want to succeed in the market must be willing to take calculated risks. Risks can result in both short- and long-term profitability by presenting significant opportunities and possibilities for organizational innovation and new competitive advantage.

In order to strengthen an organization's capacity to avoid or lessen the impact of risk processes, risk management is a proactive system that examines potential risks and defines procedures and actions. The process through which an organization can define risks, assess them, and devise strategies for reducing or maintaining those risks is known as risk management (Berg, 2010). As businesses become more global and competitive, risk management as a management activity becomes more crucial. A sequence of steps in the risk management process create the context, define, evaluate, assess, process, control, communicate, and constantly improve decision making. Organizations can lessen unforeseen problems that cost money and use resources more effectively by incorporating risk.

Problem Statement

Businesses operating in Nigeria, particularly those in the banking sector (MFBIs included), must contend with a wide range of difficulties, including those relating to regulatory compliance, harsh economic policy (exchange and interest rates), political and security issues, the impact of technology, fierce competition, and others. The bottom line profit of these companies has suffered as a result of these difficulties. For MFBIs to be able to identify, analyze, and evaluate various risks that could have an impact on their competitiveness, they will need to create their own unique enterprise risk management (ERM) framework. Having a weak risk culture and framework for following rules, managing value protection in the area of minimizing the impact of unforeseen risks, and enhancing value are a few of the problems the researcher identified harming the competitiveness of the majority of enterprises in Nigeria.

The scarcity of research and inconsistent findings in the risk management literature served as the impetus for this investigation. Numerous authors have made this claim; one in particular is Ernst & Young (2012), who claimed that risk management practices do improve businesses' financial performance. Contrary to what was stated above, Hunjra et al. (2010) discovered in their research that risk management practices have a small but beneficial impact on organizational performance in Pakistan. There is a dearth of research on how company risk management might increase shareholder value in the Nigerian setting because the empirical evidence indicated that these studies are international in nature. Based on the foregoing, this

study examined how risk management practices affect shareholder value. Therefore, the issue with the study is the economic, political, technological, and regulatory risks that MFBIs in Nigeria face, which lead to financial loss as a result of inadequate risk assessment and incorrect risk identification.

Objective of the Study

The general aim of this study is to investigate the effect of risk management practices on shareholders' value of MFBIs operating in the South East Nigeria. Specifically, the study is to

- i. assess the extent to which risk identification improves shareholders' value
- ii. investigate the extent to which risk assessment has improved shareholders' value.
- iii. examine the effect of risk mitigation on shareholders' value.

Research Questions

The following research questions were raised and will guide the study.

1. What is the effect of risk identification on shareholders' value?
2. How does risk assessment improves shareholders' value?
3. What is the effect of risk mitigation on shareholders' value?

Statement of Hypotheses

The following null hypothesis were formulated based on the research objectives

Ho₁: Risk identification has no significant effect shareholders' value

Ho₂: Risk assessment has not significantly improved shareholders' value

Ho₃: Risk mitigation has no significant effect on shareholders' value

Scope of the Study

The study was delimited to the impact of risk management practices on the value of micro financial institutions (MFIs) operational in southeast Nigeria. Risk management practices were measured using risk identification, assessment, and mitigation. The unit scope for the study comprises all operational heads of MFIs within Imo State.

REVIEW OF RELATED LITERATURE

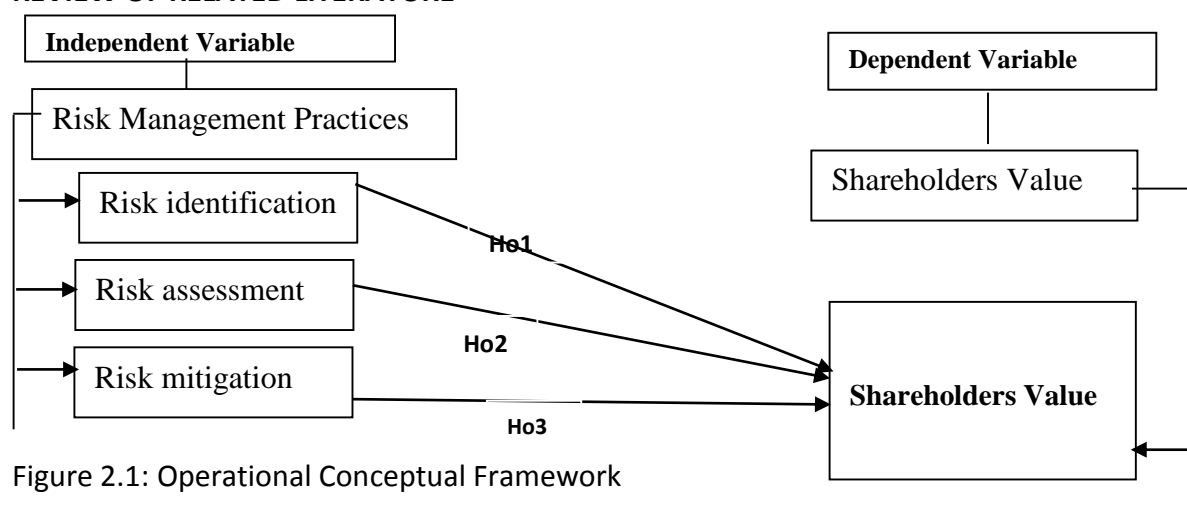


Figure 2.1: Operational Conceptual Framework

The Concept of Risk Management

Risk management is getting a lot of attention since it's considered as a way to make new product development projects more efficient in terms of cost, time, and technical performance (Aven, 2016). One of the most significant risk factors in projects is uncertainty, which may be thought of as a chance occurrence or an event whose likelihood is genuinely unknown. This indicates that the uncertainty arises from the possibility of an uncommon event, except that it is possible. (Bazin, 2017). It is important to stress that risk management is a technique that helps to raise the likelihood of success rather than a tool that guarantees success. As a result, risk management should be viewed as proactive rather than reactive (Ahmadi et al., 2017).

There are many definitions in the literature; for instance, Bahamid & Doh (2017) provide the following summary of the idea: According to Bahamid and Doh (2017), the risk management process entails the systematic application of management rules, processes, and procedures for contextual tasks, identification, analysis, evaluation, treatment, monitoring, and risk communication. The Risk Management Process (RMP), as stated by Bazin (2017), is a key principle of risk assessment and risk management in the project. The following crucial steps are included in it: identification, evaluation, analysis, and response. For the procedure to be properly implemented in the project, all phases of the risk management plan should be considered. Although there are many RMP variations in the literature, the following steps are the most frequently used frames. Most sources classify the new phase that some models add as monitoring or risk management.

Business Risk and Types

Risk is characterized as an undesirable or bad event that has the potential to negatively impact a company. Risk definitions and analyses can be divided into two categories at their core. People who follow the first school of thought tend to focus more on the dangers and drawbacks of risk. According to this viewpoint, risk is described as the ignorance about future occurrences that may negatively affect a company (Kerzner, 2009). Risk, according to Fotr and Hnilica (2014), is the possibility of negatively deviating from the objectives specified by an organization. In the same way, Smejkal and Rais (2013) define risk as a circumstance in which there is a chance of unfavorable departures from the outcome that an organization hopes for or anticipates. Risk, according to Vochozka and Mula (2012), is the anxiety associated with the thought of the tangible and intangible effects of the uncertain environment on accomplishing organizational goals. According to the second school of thought, which is based on a broader notion of risk, probable departures from the anticipated organizational outcome may also go in a good direction (Renáta and Veronika, 2015). The concept of business risk is more complex than the combination of likelihood and effect; it comprises some issues considered by the cognitive analysis relating to the organization, including (NSOs, 2017):

Risk Profile: set of risks that may affect all or part of an organization;

- i. **Risk Appetite:** total amount and type of risks that an organization decides to pursue, maintain or adopt.
- ii. **Risk Perception,** which describes how people perceive risks according to their values and interests in the organization

- iii. **Risk Attitude:** (Existing Risk Profile). If an organization is particularly effective in managing certain types of risks, it may be willing to take on more risk in that category, conversely, it may not have any appetite in that area.
- iv. **Risk Acceptance**, which refers to the maximum potential impact of a risk event that an organization could withstand. Often, appetite will be well below acceptance.
- v. **Risk Capacity**, which is the maximum level of risk that an organization can assume without violating the regulatory burden;
- vi. **Risk Retention**, which considers stakeholders' conservative return expectations and a very low appetite for risk-taking.
- vii. **Risk Tolerance**, which is the level of variation that the entity is willing to accept around specific objectives.
- viii. Business risk refers to a variety of threats to a company's ability to achieve its financial objectives. A prospective future occurrence that can prevent a corporation from achieving its goals is referred to as a business risk. A typical corporation faces a variety of risks, some of which it can control, like the firm's strategy, and others which it cannot, like the state of the world economy. Regardless of the industry, businesses frequently face the following sorts of risks (Dario 2017).
 - A. **Economic Risk:** Economic risk is the possibility that alterations in macroeconomic circumstances will harm a business or investment. For instance, political turmoil or changing exchange rates could have an effect on profits or losses. The risks of investing in growing overseas markets, especially those with a history of political turmoil or government incompetence, are generally indicated by the term "economic risk" in practice (Sarah & Rachel, 2021). The chance that macroeconomic conditions, or the state of the overall economy, will have an effect on an investment or the local or global prospects of a company, is another definition of economic risk. Possible economic dangers include changes in exchange rates, a change in governmental legislation or policy, political unrest, or the application of economic sanctions.
 - B. **Compliance Risk:** This is the likelihood of an organization breaking laws or regulations. So many a times, an organization may intend to uphold the law but ends up violating regulations due to oversights or errors. In a typical business environment, firms are faced with abundance of laws and regulations with which they need to comply. Common laws that expect compliance from business include; data protection and payment processing compliance, Occupational Safety and Health laws, Environmental Protection laws among others. Non-compliance of these laws may result in significant fines and penalties. Thus, constant monitoring of these laws are strategic for business survival.
 - C. **Operational Risk:** the potential for daily operational failures in a company, such a customer service procedure. Operational risk, according to certain definitions, is brought on by inadequate or failing processes. Operational risk is a category of risk that arises from internal business processes or systems. The risks that an entity faces as a result of its structure, systems, people, goods, or processes are known as operational hazards. As a result, there is the possibility of suffering a loss as a result of inadequate or unsuccessful internal systems,

processes, and people as well as outside events (CIMA, 2008). Suppose a company's machine breaks down in the middle of production, but the desired output is still not achieved.

- D. Competitive Risk:** the chance that a company's rival will outperform it and prevent it from achieving its objectives. As an illustration, consider an industry with a low entry barrier where new businesses are coming with low-cost, high-quality items, which may cause brand switching (loss of customers). Enterprise risk management is the continual assessment of a company's performance, the development of its strategy, and the upkeep of solid, interactive relationships with its audience and customers. Additionally, it's essential to monitor the competitors by looking into how frequently they make use of online and social media platforms (Grinsven, 2010).
- E. Political Risk:** This is the likelihood that a commercial organization will be negatively impacted by the policies of a country. Political risk is typically understood to be the danger that arises from political instability or political change to corporate interests. Political risk exists in every nation on the planet and varies in intensity and nature from one nation to the next. Government policy adjustments to manage exchange rates and interest rates may create political concerns (Barlett et al., 2004). Additionally, lawful government acts like limitations on pricing, outputs, activities, and currency and remittance restrictions might result in political risk. Events that are not beyond the authority of the government, such as war, revolution, terrorism, labor strikes, and extortion, can also cause political risk (Press Book, 2017). For example, categorizes risk based on economic; exchange transfer; strike, riot, or civil commotion; war; terrorism; sovereign non-payment; legal and regulatory; political interference; and supply chain vulnerability.
- F. Financial Risk:** This risk relates to financial loss a company may have as a result of market volatility and losses brought on by changes in stock prices, foreign exchange rates, interest rates, and other factors. Market, credit, and legal concerns make up financial risk (Eshna, 2021). Because market instruments like stock prices and interest rates fluctuate, there is a risk of the market. When one party to a contract doesn't fulfill their debt commitment, there is a credit risk. Customers who purchased things on credit frequently fail to fulfill their obligations.

Principles of Business Risk Management

The main principle of risk management is that it delivers value to the organization. In other words, business risk management activities are designed to achieve the best possible outcome and reduce volatility or uncertainty of outcomes (Paul, 2017). However, risk management operates on a broader set of principles, and there have been several attempts to define these principles. ISO 31000 includes a detailed list of the suggested principles of business risk management. Business risk management principles are presented in Table 2.1.

Table 2.1: Principles of Business Risk Management

Principles	Description
Proportionate	Risk management activities must be proportionate to the level of risk faced by the organization.

Aligned	ERM activities need to be aligned with the other activities in the organization.
Comprehensive	In order to be fully effective, the risk management approach must be comprehensive.
Embedded	Risk management activities need to be embedded within the organization.
Dynamic	Risk management activities must be dynamic and responsive to emerging and changing risks.

Source: Paul, H. (2017). *Fundamentals of Risk Management: Understating, Evaluating, Implementing Effective Risk Management*. 4th Ed. Croydon, Kogan Page Limited.

If organizations are to get maximum benefit out of their risk management activities, the above principles should be implemented when the risk management initiative is planned and the risk management framework is developed. In many ways, the starting point for all risk management activities is to decide what the organization is seeking to achieve (Paul, 2017). Table 2.2 sets out the possible purpose or motivation for a risk management initiative as mandatory, assurance, decision making and effective and efficient core processes (MADE2).

The objectives for risk management provide the acronym MADE2 and this confirms that outputs from risk management will lead to less disruption to normal efficient operations, a reduction of uncertainty in relation to tactics and improved decisions in relation to evaluation and selection of alternative strategies (Paul, 2017). In other words, a key part of risk management is improved organizational decision making. The resources available for managing risk are finite and so the aim is to achieve an optimum response to risk, prioritized in accordance with an evaluation of the risks. Risk is unavoidable and every organization needs to take action to manage it in a way that it can justify to a level that is acceptable. The appropriate range of responses will depend on the nature, size and complexity of the organization and the risks it faces.

Table 2.2 Business Risk management Objectives

Objectives	Description
Mandatory	The basic objective for any risk management initiative is to ensure conformity with applicable rules, regulations and mandatory obligations
Assurance	The board and audit committee of an organization will require assurance that risk management and internal control activities comply with PACED
Decision making Risk	Risk management activities should ensure that appropriate risk-based information is available to support decision making

Effective and efficient core processes	Risk management considerations will assist with achieving effective and efficient strategy, tactics, operations and compliance to ensure the best outcome with reduced volatility of results.
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Source: Paul, H. (2017). *Fundamentals of Risk Management: Understating, Evaluating, Implementing Effective Risk Management*. 4th Ed. Croydon, Kogan Page Limited.

Theoretical Review

The following models are used in explain risk management practice across industries.

Business Risk Management and Models

The process of discovering, evaluating, and controlling risks to an organization's resources and profits is known as risk management. These dangers or risks may come from a range of things, such as monetary instability, legal responsibilities, poor strategic management, mishaps, and natural calamities (Studymaterial, 2015). Determining (defining) specific areas of risk, creating a thorough plan, incorporating the plan, and carrying out continuing evaluation are all key parts of risk management. The process of monitoring or analyzing risk and then creating plans to manage it is known as risk management (Studymaterial, 2015). Understanding and controlling the risks that a company will surely face as it works to accomplish its corporate goals is the practice of risk management. Risks are typically broken down into areas including operational, financial, legal compliance, information, and personnel for management purposes. Enterprise risk management is one illustration of an integrated risk management approach (AMCG, 2016). Below are business risk models that can be adopted by firms in managing their risk appetite.

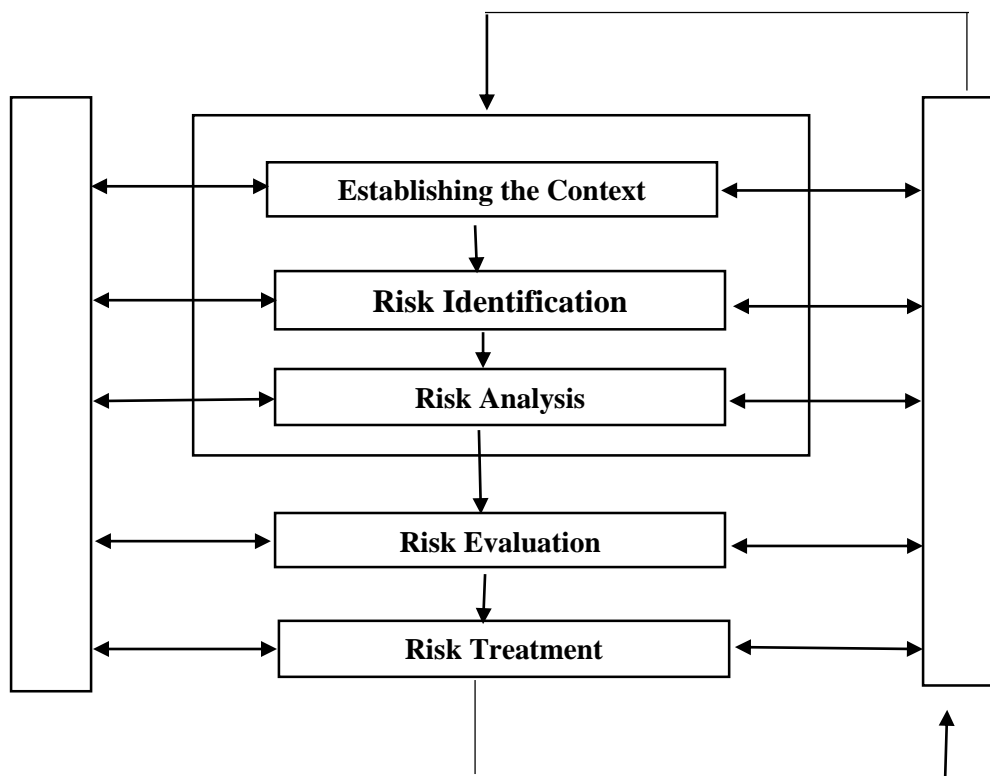
A. ISO’s Risk Management Framework

ISO’s **31000:2018 Risk Management-Guidelines** is a widely embraced framework for implementing Enterprise Risk Management (ERM) in any type of organization. Issued by the International Organization for Standardization (ISO), ISO 31000:2018 provides guidelines on managing risks to help business leaders create and protect entity value through the management of risks in the context of decision making. Originally issued by ISO in 2009, the framework was revised in 2018. The Framework bases the management of risks on principles, a framework, and process (ISO 3100, 2018):

ISO 31000:2018’s framework consists of eight principles that provide guidance on the characteristics of effective and efficient risk management and they provide the foundation for management risks. The principles highlight that risk management is to be (ISO 3100, 2018):

- a. Integrated across the entity;
- b. Structured and comprehensive to ensure consistency of processes;
- c. Customized to the organization;
- d. Inclusive of knowledge, views and perceptions of key stakeholders;
- e. Dynamic in managing risks that change continually over time;
- f. Based on the best available information to provide timely, clear information to stakeholders;
- g. Developed in light of human and cultural factors that influence the management of risks; and
- h. A continual improvement of the risk management process.

ISO 31000:2018 framework consists of the following risk management processes:



ISO 31000:2018 Business Risk Management framework.

Source: ISO 3100 (2018). *Popular Standard: Risk Management*. Available from <https://www.iso.org/iso-31000-risk-management.html>. [Accessed 23rd Nov 2021].

- a) **Communication and Consultation:** Emphasizes the importance of promoting awareness and understanding of risk across key internal and external stakeholders.
- b) **Establishing the Scope, Context and Criteria:** Highlights the importance of customizing the risk management process to the organization. By establishing the context, the firm articulates its objective, defines the external and internal parameters to be taken into account when managing risk, and sets the scope and risk criteria for the remaining process (PECB, 2015).

- c) **Risk Assessment:** Describes that the risk assessment consists of risk identification, risk analysis, and risk evaluation. Through applying risk identification tools and techniques, the organization identifies risk sources, areas of impacts, events and causes, and their potential consequences. The risk analysis involves the development of understanding of the risk, consideration of the causes and risk sources, their positive and negative consequences, the likelihood that those consequences can occur, provides an input to risk evaluation and decision whether risks need to be treated, and on the most appropriate risk treatment strategies and methods. The purpose of risk evaluation is to assist in decision making about which risks need treatment and priority for treatment implementation (PECB, 2015).
- d) **Risk Treatment:** In risk treatment, managers make decision based on the outcome of the risk assessment, the expected cost for implementing and benefiting from these options.
- e) **Monitoring and Review:** Emphasizes the importance of improving the effectiveness of the risk management process. However, monitoring and review can be periodic or ad hoc, and should be a planned part of the risk management process.
- f) **Recording and Reporting:** Highlights the importance of effective communication of risk information for decision-making.

Empirical Review

Marzena (2010) carried out a conceptual study on the models of risk Management in organizations. The study argued that it is dangerous for an organization to run its operations without taking risks as it is likely to affect its development, increasing profits and maintaining a strategic position in the market or industry of operation. The study's focus was on the Enterprise Risk Management (ERM) Framework and how it can help a firm prepare for catastrophic occurrences that firms face on their day to day operations. The study of Marzena (2010) however, did not test empirically the adaptation and efficacy of this risk model by firms and how it has help them in improving decisions.

Using the case study approach, Irina, Mikhail, Anatoly, Vladimir, and Mikhail (2018) investigated risk management of Russia Public Joint Stock Company Mobile TeleSystem (PJSC 'MTS'). This study aimed at identifying the key patterns that determine the specifics of risk assessment in business as the main element contributing to achieving the economic security of the organization. Generalization and systematization were made by the study via utilizing the cognition, retrospective and documentary analysis approaches.

Specifically, in examining the risk of bankruptcy of the company, the study used the E. Altman model; R. Lis model, and the Belikova-Davydova model for the purpose of this purpose. Findings from the E. Altman bankruptcy model revealed that PJSC "MTS" was in the "red zone" indicating that the risk of the firm bankruptcy is from 80% to 100%. Using the R. Lis model, findings also revealed that PJSC "MTS" has a similar negative tendency of increasing the bankruptcy risk. The study concluded that the firm has high bankruptcy risk based on the foreign models and a strong dependence on the external environment. It was however recommended that the firm should find the most efficient way of reducing risk in the context of economic and political instability in Russia through diversification, i.e. distribution of risks between several business participants.

Using the theoretical approach, Ignacio (2013) examined risk management theory and its application in the Public Sector of Holland. Specifically, the study provided a description of risk, its history, types, and applications among public enterprises. The study further provided a framework of assessing and monitoring risks which include the Enterprise Risk Management (ERM), Organizational Risk Management (ORM) or Corporate Risk Management among other distinctions. The study concluded that firms should ensure adequate resources are made available for the implementation of risk management in an organization.

Olajide (2013) carried out a conceptual study on risk management and risk management failure: lessons for business enterprises in Nigeria. Using the literature approach, the study highlighted that knowledge of risk management is imperative in any business setup. The study described risk and risk management; explored the importance and benefits of effective risk management (ERM) to business organizations and highlights reasons why business organizations should manage risks. The study further examined failure of risk management, its causes, and how it can be minimized. The study concluded that risk management failures can be categorized into two broad areas namely: operational failure and operators' failure and that the practice of risk management suggest that it should be an integral part of the decision-making process and ERM can improve business performance, thereby minimizing possibilities of business failures in Nigeria.

Research Methodology

Research Design

A survey design was adopted in investigating the research questions. The survey research design is mostly used in situations where the researcher's primary interest is describing and making interpretations about the research phenomenon.

Population of the Study

The study targeted four MIFs. The table below gives a summary of the targeted population and the targeted number of staff per institution. Hence, the study targeted 90 respondents.

Table 3.1: Summary of the Targeted Population

MFIs Category	Name	Address	Total
STATE MFB	ALL WORKERS MFB	30, MBARI STREET, IKENEGBU LAYOUT, OWERRI, IMO STATE	19
TIER 1 UNI	ALVANA MFB	ALVAN IKOKU COLLEGE OF EDUCATION, ORLU ROAD, OWERRI, IMO STATE	18
TIER 2 UNIT	AMAZU MFB	ORLU MGBIDI ROAD, AMAZU EBENATOR ORSU, IMO STATE	15
TIER 2 UNIT	AMUCHA MFB	BANK HOUSE, AMUCHA, VIA ORLU NJABA, IMO STATE	17

TIER 1 UNIT	BRIDGEHOUSE MFB	JINA PLAZA, RELIEF MARKET, OWERRI, IMO STATE	21
Total			90

Sample Size Determination

The researcher used Taro Yamane’s formula in determining the sample size. The formula is stated as follows:

$$n = \frac{N}{1+N(e)^2}$$

Where:

n = sample size and is the number of the item in the population.

e= sample error or level of significance which is 5%

N= Population of the study

Therefore, n can be determined thus:

$$n = \frac{90}{1 + 90(0.05)^2}$$

$$n = \frac{106}{1 + 90(0.0025)}$$

n90

1.225

n = 74

Sampling Procedure, Sources of Data, and Research Instrument

The study utilised the convenience sampling technique. Also, both the primary and secondary sources were utilized. Mainly, the primary data were sourced through the administration of a questionnaire, which was the main research instrument. The answer to each question was by Likert scale representing strongly agree, agree, strongly disagree and disagree.

Reliability of the Research Instrument

Cronbach’s alpha was used to confirm the reliability of data; according to Sekaran (2003), if Cronbach’s alpha is greater than 0.60, reliability is confirmed. Table 3.1 shows that Cronbach’s alpha for independent variables ranges from 0.743 to 0.950, and for the dependent variable, it is 0.738, which indicates that reliability is accepted.

Table 1: The Result of Reliability (Cronbach Alpha)

No	Domain	Alpha	Item No
1	Risk Identification	0.952	6
2	Risk Assessment	0.743	6
3	Risk Mitigation	0.950	6

4	Shareholders' Value	0.738	6
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Methods of Data Analysis

The data collected was analysed using descriptive statistics such as frequencies, percentages, means, and standard deviations. Descriptive statistical tools such as SPSS and MS Excel were used. Also, the study equally used the regression analysis statistical technique via SPSS in assessing the effect of the risk management practises on the shareholders' value of MFIs.

Data Analysis, Results and Discussion of Findings

Response Rate

The target respondents in the study were operational heads of MFIs within Imo State. A total of 74 questionnaires were administered; 71 were filled out and returned, representing a 95.9% response.

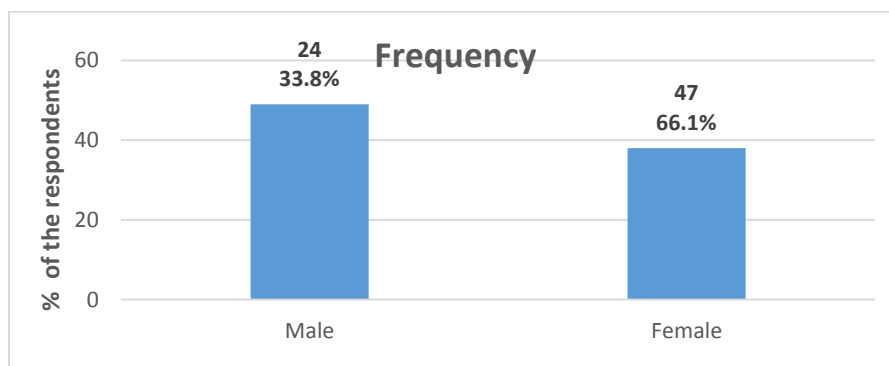
Respondents' Demography

The respondents' demographic information includes gender, age bracket, number of years in service, and management level.

Gender of the Respondents

Figure 4.1 explains the gender characteristics of the participants. From the Figure, 47(66.1%) of the respondents are female while 24 representing (33.8%) were male. The result reveals a diverse work force across sectors of which women occupied top managerial position based on competency.

Figure 4.1: Gender of Respondents

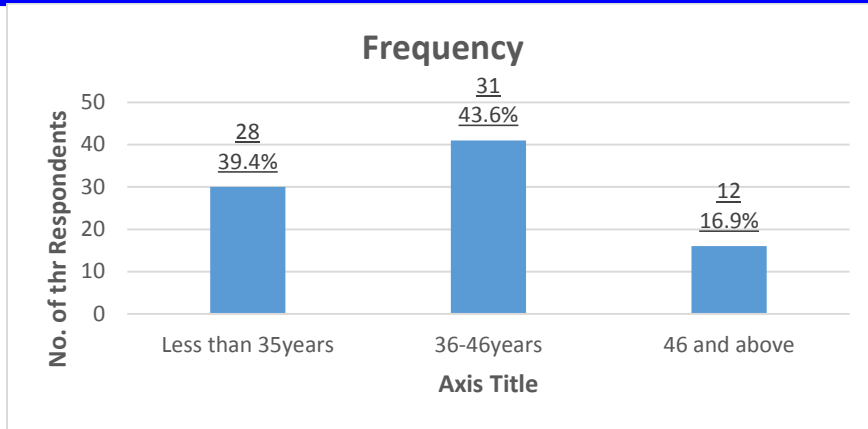


Source: Field Survey Result, 2023

Respondents Age

Figure 4.2 reveals the age brackets of the target respondents. The figure reveals that 43.6% of the managers were between 36 and 46 years old, followed by about 39.4% who were between the ages of 25 and 35 (less than 35 years old). A few respondents (16.9%) were above the age of 46. The above implies that the surveyed industry has young managers who are creating value for their respective firms.

Figure 4.2: Age of Respondents

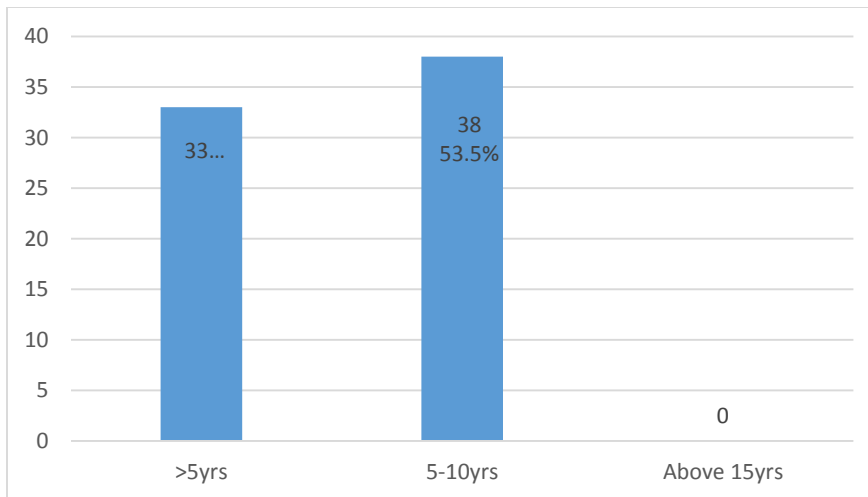


Source: Field Survey Result, 2023

Work Experience of the Managers

The above Figure 4.3 reveals the working experience of the operational managers in their organizations. The result indicates that 38 (46.4%) have worked in their respective organisations for fewer years, while 38 (53.5%) have worked for 5–10 years. The implication is that, with the wealth of experience of the managers, they can attest to the efficacy of the various risk models and strategies the organisations have adopted in remaining afloat in the industry.

Figure 4.3: The Work Experience of the Managers



Source: Field Survey Result, 2023

Descriptive Statistics:

The descriptive analysis is used to answer the first and second questions. The descriptive analysis includes the mean, standard deviation rank, and implementation. Implementation level was based on the following criteria:

- Less than 2.33 is low. From 2.34 to 3.66 is medium. More than 3.67 is high.

Risks peculiar to organisations and their level of impact on the organisations

The views of the respondents were sought on the various risks that are peculiar to their organisations and their level of impact on those organizations.

Table 4.4: Risk Peculiar to Organizations and their impact

No	Items	Mean	S.D.	Rank	Agree
1	Information & Cyber Security Risk	4.25	0.59	6	High
2	Compliance/Legal Risk	4.28	0.55	5	High
3	Operational Risk	4.87	0.34	3	High
4	Economic/Market Risk	4.92	0.28	2	High
5	Financial/Credit Risk	4.94	.23	1	High
6	Strategic Risk	4.86	0.61	4	High
7	Health and Safety Risk	3.40	0.49	10	medium
Average		4.01	0.44	-	High

Field Survey, 2023

Table 4.4 reveals the types of risks to which the firms are exposed. According to the findings, the impact of these risks on the organisations differs. The least impacted risks are health and safety (mean = 3.40), followed by information and cyber security risk (mean = 4.25), compliance and legal risk (mean = 4.28), and strategic risk (mean = 4.86). However, operational risk (mean = 4.87), financial/credit risk (mean = 4.94), and economic/market risk (mean = 4.92) have the highest risk impact.

Risk Management Practices:

Table (4.5) shows that the means of the risk management practices sub-variables range from 4.02 to 4.35, and the standard deviation ranges from 0.29 to 0.58. This indicates that respondents agree on the high level of implementation of risk management practices. Moreover, the average mean is 4.20 with a standard deviation of 0.45, which assures high implementation.

Table 4.5: Means and Standard Deviation for all Variables

No	Domain	Mean	S.D.	Rank	Agree.
1	Risk Identification	4.24	0.58	2	High
2	Risk Assessment	4.02	0.29	3	High
3	Risk Mitigation	4.35	0.48	1	High

Average Means	4.20	0.45	-	High
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Field Survey, 2023

Risk Identification

Table 4.6 shows that the means for risk identification items range between 4.26 and 4.40, with a standard deviation range of 0.49; this indicates that the respondent agrees on the high implementation of risk identification items. The average mean of the risk identification items is 4.35 with a standard deviation of 0.068, which assures high implementation.

Table 4.6: Means and standard deviation for “Risk Identification” items.

No	Items	Mean	S.D.	Rank	Agree
1	The company checks the environment for risk	4.41	0.49	1	High
2	The company sets roles and responsibilities for risk identification	4.34	0.65	4	High
3	The company uses financial statement for risk identification analysis	4.26	0.60	6	High
4	The company sets clear standards to improve risk identification	4.34	0.48	4	High
5	The company uses risk rating to classify the risks	4.38	0.49	2	High
6	The company develops a risk management framework.	4.38	0.49	2	High
Total Means		4.35	0.09	-	High

FIELD SURVEY, 2023

Risk Assessment

Table 4.7 shows that the means for risk assessment items range between 4.35 and 3.09, with a standard deviation of 0.12; this indicates that the respondent agrees with the high implementation of risk assessment items. The average mean of the risk assessment items is 4.01 with a standard deviation of 0.19, which assures the high implementation rate.

Table 4.7: Means and standard deviation for “Risk Assessment” items

No	Items	Mean	S.D.	Rank	Agree
1	The company assesses uncertainty of loss	4.02	0.13	5	High
2	The company uses quantitative and qualitative methods to assess risks	3.09	0.34	6	Medium
3	The company uses risk assessment for potential loss	4.08	0.28	4	High
4	The company reduces risks occurrence	4.35	0.67	1	High

5	The company assess every risk differently.	4.27	0.60	3	High
6	The company categorizes risks into levels for further analysis.	4.30	0.60	2	High
Total Means		4.01	0.19	-	High

FIELD SURVEY, 2023

Risk Mitigation

Table 4.8 shows that the means for risk mitigation items range between 4.40 and 4.25, with a standard deviation range of 0.47; this indicates that the respondent agrees on the high level of implementation of risk mitigation items. The average mean of risk mitigation items is 4.35, with a standard deviation of 0.0686, which assures high implementation.

Table 4.8: Means and standard deviation for “Risk Mitigation” items

No	Items	Mean	S.D.	Rank	Agree
1	The company ensures different types of risks	4.38	0.48	2	High
2	The company eliminates catastrophic risks.	4.38	0.48	2	High
3	The company estimates potential losses.	4.41	0.49	1	High
4	The company trains its employees on risk mitigation	4.34	0.65	4	High
5	The company reinsures its risks	4.26	0.60	6	High
6	The company develops technical regulations to cover claims.	4.34	0.48	4	High
Total Means		4.35	0.07	-	High

Field Survey, 2023

Shareholders’ Value

Table 4.9 shows that the means for shareholders’ value items range between 4.91 and 3.40, with a standard deviation of 0.00; this indicates that the respondent agrees on the high implementation of shareholders’ value items. The average mean of shareholders’ value items is 4.35 with a standard deviation of 0.19, which assures medium implementation.

Table 4.9: Means and standard deviation for “Organizational Performance” items

No	Items	Mean	S.D.	Rank	Agree
1	The company decreases risk to minimum levels	4.25	0.59	6	High
2	The company covers risk claims as required.	4.28	0.55	5	High
3	The company responds to market changes	4.87	0.34	3	High
4	The company practices improve the local rating	4.92	0.28	2	High
5	The company practices improve the profitability	4.94	.23	1	High
6	The company practices satisfy its customers.	4.86	0.61	4	High
7	The company gains customer loyalty.	3.40	0.49	10	medium
8	The company moves to identify and hedge new risks	3.95	0.21	9	High
9	The company improves its operational performance.	4.00	0.00	8	High
10	The company practices improve sales	4.05	0.21	7	High
Total Means		4.35	0.19	-	High

Field Survey, 2023

Test of Hypotheses

In testing the formulated hypothesis, inferential statistics of simple regression was performed via SPSS.

Ho₁: Risk identification will have no significant effect shareholders' value

To test the hypothesis, simple regression was used. Table 4.10 shows that the relationship between risk identification and shareholder value is strong, where r equals 0.498, and the variation in risk identification affects the variation in shareholder value, where $R^2 = 0.248$, $f = 38.967$, and Sig. Therefore, the null hypothesis is rejected and the alternative hypothesis is accepted, which states that risk identification has an effect on shareholder value at 0.05.

Table 4.10: Simple Regression on the effect of risk identification on shareholders' value

Model	r	R ²	Adjusted R ²	f	Sig.	
1	0.498a	0.248	0.242	38.967	0.000a	
		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.475	0.141		24.597	0.000
	Risk Identification	0.201	0.032	0.498	6.242	0.000

a. Dependent Variable: shareholders' value, T-Tabulated = 1.960

Ho₂: Risk assessment has not significantly improved shareholders' value

To test the hypothesis, simple regression was used. Table 11 shows that the relationship between risk assessment and shareholder value is strong, where r equals 0.456, and the variation in risk assessment affects the variation in shareholder value, where $R^2 = 0.208$, $f = 31.023$, and sig. = 0.000. Therefore, the null hypothesis is rejected and the alternative hypothesis is accepted, which states that risk assessment has a significant effect on shareholder value at 0.05.

Table 11: Simple Regression of Risk Assessment on shareholders' value

Model	r	R ²	Adjusted R ²	f	Sig.	
1	0.456a	0.208	0.201	31.023	0.000a	
		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.102	0.225		13.787	0.000
	Risk Assessment	0.311	0.056	0.456	5.570	0.000

a. Dependent Variable: shareholders' value, T-Tabulated = 1.960

Ho₃: Risk mitigation has no significant effect on shareholders' value

Table (12) shows that the relationship between risk mitigation and shareholder value is strong, where r equals 0.503, and the variation in risk mitigation affects the variation in shareholder value, where $R^2 = 0.253$, $f = 40.017$, and sig. = 0.000. Therefore, the null hypothesis is rejected and the alternative hypothesis is accepted, which states that risk mitigation has a significant effect on 0.05.

Table 12: Simple Regression of Risk Mitigation on shareholders' value

Model	r	R ²	Adjusted R ²	f	Sig.	
1	0.503a	0.253	0.247	40.017	0.000a	
		Unstandardized Coefficients		Standardized Coefficients	t	Sig.

		B	Std. Error	Beta		
1	(Constant)	3.463	0.141		24.494	0.000
	Risk Mitigation	0.204	0.032	0.503	6.326	0.000

a. Dependent Variable: shareholders' value, T-Tabulated = 1.960

Discussion of Findings

From the analysis, the following research findings were made;

Ho₁: Risk identification will have no significant effect shareholders' value

Hypothesis one seeks to determine if identification of risk will help in improving shareholders' value. Results in Table 4.10 indicated that the identification of potential risks to an organisation is the bedrock of creating value for its shareholders. Known risks are those that can be analyzed. By identifying who controls these risks and identifying risk performance, triggers, and contingency plans to mitigate or mitigate impacts, certain risks can be positively identified and must be managed. If the risk-reward is balanced with the possible consequences, managers can simply accept the risk. Unknown risks are those that have not yet been identified. Because unknown risks cannot be actively managed, they can often be addressed by assigning a general level of emergency response in general and managing a reasonable level of unknown risks. This can be another reason for mitigating risks before the risk identification process begins. The above result is consistent with the findings of Aladdin (2020), which investigated the impact of risk management practises on organisational performance and found that risk management practises have an impact on organisational performance. The study's findings also support the recommendation made by Songling, Muhammad, and Muhammad (2018) that well-implemented enterprise risk management practises can help a firm gain a competitive advantage and achieve superior performance.

HO₂: Risk Assessment has not Significantly Improved Shareholders' Value.

The second hypothesis of the study was to statistically test whether embarking on Risk Assessment will significantly improve shareholders' value. Findings in Table 4.11 revealed that embarking on risk assessment has positively and significantly influenced shareholders' value of the studied firm. The findings thus imply that for every unit change in risk assessment, there will be a 0.311 unit change in shareholder value. The above findings imply that in the studied firms, business risks are classified and categorized, and that previous occurrences that produced significant effects are well analysed in the organizations. This finding is in agreement with the report of Irina et al. (2018) that found risk management practices positive and significant of Russia Public Joint Stock Company.

HO₃: Risk Mitigation has no Significant Effect on Shareholders' Value.

In establishing the effect of risk mitigation on shareholders' value, the findings in Table 4.12 revealed a positive and significant effect of risk mitigation (Beta = 0.204 and P-value = 0.000 < 0.05) on shareholders' value. Risk mitigation measures to reduce or eliminate the impact of risks. This means that mitigation risks are taken very seriously among MFIs; they have a mechanism for estimating and calculating potential losses when granting loans and when investing. This is very important because they have the right measures to mitigate risks when estimating them. Mitigation strategies define measures that can mitigate or eliminate risks before they occur. The study's findings support the assertion by Renáta and Veronika (2015), who argued that risks can be minimised using appropriate procedures and measures like transferring risks to other firms and sharing information. The study's findings are also in line with the findings of Aladdin (2020), which found that risk mitigation strategies had a significant impact on organizational performance.

Conclusion and Recommendation

The purpose of this study is to examine the effect of the risk management practises of MFIs on their shareholders' value. Based on the findings, it is concluded that the studied firms have adopted different risk management practices, such as several types of risk identification, assessment, and mitigation, which have helped them be able to create value for shareholders.

The study came to the further conclusion that the most significant factor affecting the value of MFIs to shareholders is risk identification and mitigation. Since firms cannot handle unknown hazards, risk identification is a crucial first step in the risk management process. However, once the risks are known, they must be managed based on past and present studies to lessen their influence on the business. However, survey findings also demonstrate how crucial these three risk management techniques are for influencing the value of shareholders. The study comes to the conclusion that MFIs must implement a multifaceted strategy to deal with the impact. To maximize the positive impact of risk management techniques on shareholder value, risk management initiatives encompass all the practices that this study focuses on. Hence, the following are recommended:

1. The study found that identifying and mitigating the impact of risk has a significant effect on the value of MFIs to shareholders. Therefore, research shows that the management of the studied firms needs to take cost-effective measures to identify risks in a timely manner, effectively mitigate the risks, and not adversely affect their performance.
2. MFIs need to educate their employees about the importance of risk management. to ensure efficient and effective risk management since the risk management process is performed by employees. Highly qualified personnel serve as the first line of defense to protect the organization and reduce risk. No matter how many processes and procedures in the organization have been developed and enhanced, they will not protect the organization unless they are performed by qualified personnel.
3. The study also recommends that management of MFIs continually assess risk management practices to ensure that they are still viable in a changing business environment. Hence, they need to adjust their risk management models, such as ERM. Institutionalize the risk management process and integrate it into their organization's daily life. This will ensure that MFIs in Nigeria meet international standards and are globally competitive.
4. Administrators need to use information technology for risk management by performing more accurate risk assessments and measurements and installing information systems that can monitor and ensure the effectiveness of risk management procedures. This is recommended when training employees on business risk management policies and clearly defining risk management roles and responsibilities.

Contribution to Knowledge

The study filled the content gap identified in the study of Marzena (2010) which was conceptual in nature and as such, the effectiveness of the Enterprise Risk Management (ERM) framework was not tested empirically via development of hypotheses. Also, the study extended the findings of Renáta and Veronika (2015) that only used PESTLE and Porter's Competitive Forces. Geographical gaps were filled by extending the finding of Aladdin (2020) that used the ERM framework in the insurance industry of Jordan and of Irina, Mikhail, Anatoly, Vladimir, and Mikhail (2018) of in Russia.

Future Research Prospects

To complement and improve the MFIs in Nigeria, many areas and disciplines must be studied. Such as:

1. The role of human resources in the risk management process.

2. The role of information technology in the risk management process.

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