

RISK MANAGEMENT AND CORPORATE GOVERNANCE PRACTICE AMONG NIGERIAN BANKS:A REVIEW

S.O. Uremadu*, Ph.D

AND

A. M. Azeez, M.Sc

Abstract

In this paper the concept of risk management and its applicability to business operations in Nigeria with a view to raising the banking firm's performance was brought into sharp focus. We employed three research methodology approaches: descriptive, industry and economic analysis models in the study to investigate the applicability or otherwise of risk management techniques and corporate governance principles that affect banking sector's performance in Nigeria. Findings showed that (1) Nigerian banks indulged in excessive risk taking and never cared to apply risk management techniques over the years thereby leading to total collapse of majority of them (2) Causes of bank failures arising from poor risk management are giving loans without proper appraisal and documentations, giving loans to public (political) office holders with their positions (status) as collaterals, poor internal control system, insider abuses, poor corporate governance practice, financing illicit contracts, etc and (3) Banks carry various kinds of risks in their normal business of banking such as lending and borrowing and other financial services activities. We therefore recommend that if full application of risk management techniques and concepts like risk identification, evaluation, control, elimination, minimization and transfer, embedded in the basic principles of corporate governance and revival of culture of trust in

our society and among bankers and their customers are brought to bear (applied) in the business of banking in Nigeria, the banking sector's performance will greatly improve thereby raising the economic growth of Nigeria in the years ahead. If our recommendations in the paper are applied to the letter they will reduce, to the barest minimum, corruption and lack of application of risk management techniques and corporate governance in the Nigerian business environment, so to speak.

1. Introduction

Profit maximization or rather maximization of shareholder wealth has been regarded as the main driving force of any business organization (Philippatos, 1974). A firm with good management will certainly make continuous efforts to ensure that it chooses the right combination of investments, financing as well as dividend policy decisions that will maximize its value to its shareholders (Azeez, 2010). This drive affects its expected risk-return characteristic. Given the fact that the return to stakeholders is not known with certainty, risk is always imminent.

Van Horne (2001) views risk as the possibility that actual return will deviate from that which was expected. Expectations are continually revised on the basis of new information about investment, financing and dividend decisions of the firm. In other words, on the basis of

information about these three decisions, investors formulate expectations as to the return and risk involved in holding a particular stock.

Rational investors have the habit of seeking to know what the compensation for an investment is likely to be before they put their capital in that investment. The expected return is termed as return. Risk arises from the uncertainty of the actual return which may not be the same as the expected return.

A lot of factors contribute to this deviation from expected returns which include change in government or fiscal policies that can result to interest rate going high or low, increase in taxes, advances in technology, threats of competitors, terrorism threats and so forth. As a result of these challenges, business firms face one form of risk or the other in their operations (Azeez, 2010).

However, where these risks are not properly managed, there is every possibility of the investors' income or capital being lost or even in some cases both are completely eroded. To cover or tackle this uncertain there is need for investors to devise risk management techniques in order to effectively manage the risks that they face in the day to day operations of their businesses. As once said by Carter (1995) in Azeez (2010) "*we bankers must develop cultures that foster and reward the management of risk. We must continually update our risk management policies to ensure that they reflect changing industry dynamics*".

According to Dickson (1991), the concept of risk management requires the identification, evaluation and economic control of those risks, which threaten the assets or earnings capabilities of a firm. The adoption of risk management techniques (or models) makes it possible for the exposure of the business to different risks to be managed properly. This means that given certain promised return, a less risky investment will be favoured over the more risky investment. In this dynamic and

unstable global business environment of today, investors may not be advised to put risk management techniques in place (more especially in most developing economies of the world like Nigeria where not many companies have risk management techniques in place) to ensure the survival of their investment and returns.

1.1 Statement of the Problem.

All kinds of businesses whether banking, finance, retail, construction, oil and gas, name it, are surrounded by one form of risk or the other. In other words, business firms cannot exist without some form of risk surrounding them. Not all businesses in Nigeria put risk management techniques and practices in place not minding the volume of risks they are surrounded with in the business environment, necessitating our embarking on this study. The investors or business managers are not proactive enough in their practices, in other words, they do not plan against these risks. They just wait for the eventualities to occur then they start to contemplate on how to overcome these eventualities. This is fire-fighting kind of management style as put forward in (Hicks and Gullett, 1981).

We therefore state that Risk management is relevant to business operations in Nigeria like the banking firms. The reason is that not all business firms understand risk management to be one of the most important functions or objectives to be pursued in the course of piloting the affairs of their companies, even the big players in the Nigerian economy like banks and telecommunication companies are in this category. It is due to this fact that the Central Bank of Nigeria has put practice of risk management and corporate governance to be a must but not all practitioners have been abiding by it. Yet they have not been complying with the regulation in some cases take, for instance, the credit risk issue in which the government had to bail out eight commercial banks such as Oceanic Bank of Nigeria Plc, Intercontinental Bank Plc, and others in 2009 during the most recent global financial crisis. And just recently three of the

former eight troubled banks again had to be rescued from total failure through an abridged bank model arranged by the Central Bank of Nigeria (CBN), to redeem them, to be specific.

1.2 Research question.

Three questions will therefore need to be answered by this study.

1. Has risk management and corporate governance any relevance in managing banking firms in Nigeria?
2. Why do business firms need to devise risk management techniques usually encapsulated in the principles of corporate governance in managing banking firms?
3. Can risk management practices be incorporated into corporate governance principles in the process of managing Nigerian firms (including the banks) and how?

By the time these questions raised in this study are critically analyzed and tackled, answers to them would have led to discover as to how to tackle the issue of relevance of risk management in the Nigerian business operations in general, and in the banking sector, in particular.

1.3 Objectives of the Study

The major objectives articulated for this study aim to achieve are:

1. to identify the relevance of risk management in Nigerian banking firms by identifying the various classes of risks likely to be faced by Nigerian banks, their consequences on income and capital if not managed and then make recommendations on the application of risk management concept or model if found useful. This will also be based on enshrining principles of corporate governance in all our banking operations and practice.

2. Methodology Adopted for the Paper

In this paper, we adopted three approaches

employed by Uremadu (2005)'s work: the descriptive, industry and economic analysis models to discuss meaning, nature, scope and features of risk management (embedded in corporate governance principles) as applicable to the business of banking in Nigeria, in particular and globally, in general. Study also utilized Azeez (2010)'s data to pursue a comprehensive analysis of the work in hand especially, from the explorative angle of the discourse. This is because his work is very novel and data relevant to the study in hand. Specifically, the paper gave a basic definition and meaning of risk management and as it applies to the practice of banking in the financial services sector of the Nigerian economy, reviewed relevant body of literature on the concept of risk management in the banking industry as well as different methods of risk management in commercial banks to obtain an effective and efficient operations that will lead to an increased banking performance depicted in high expected returns and or higher profitability. It also centered discussions around core risks surrounding the financial institutions, established findings from the study and proffered solutions that will lead to an improved banking system in the Nigerian economy via proper application of risk management principles to the increased growth of the domestic economy via better performance of Nigerian banks in the 21st century world of our time.

3. Literature Review

Here we explanatively and analytically review a body of literature relevant to the study.

3.1 General Descriptive, Economic and Industry Analysis of Risk Management in Commercial Banks: A Review

In all human endeavours not only business, one thing that is constant is risk for there is no

certainty of success in that endeavour. As a matter of fact, different views/definitions of what risk is exist. In other words, we have no one single definition for risk. According to the Concise Oxford Dictionary as contained in Azeez (2010), risk is "the chance or possibility of damage, loss, injury or other adverse consequences". According to Sanusi (2007), risk can be defined as the probability that outcomes vary from our expectations. He further argued that it is the threat or possibility that an action or event will adversely or beneficially affect firm's ability to achieve its objectives. Risk is exposure to uncertainty of outcome (Cade, 1999).

In general, risk entails two essential components, which are exposure and uncertainty. Risk then is exposure to a proposition of which one is uncertain. In the case of a business firm, the presence of risk brings about the uncertainty of profit and or success in every investment. On the other hand, uncertainty as argued by Cade (1999) can also be reflected in the volatility of potential outcomes plotted on a probability distribution curve, for which the normal measure of dispersion could be either the variance or the standard deviation. In this case, the wider the standard deviation, the greater the volatility.

Uncertainty based on a common usage is a state of not knowing whether a proposition is true or false. In this case, probability is often used as a metric of uncertainty. Still, according to Cade (1999), outcome is the consequence of a particular course of action.

For a business to succeed or survive products must be sold and debts must be collected natural hazards such as floods, earthquakes, etc. are there to be confronted, so also corporate governance issues, corruption, terrorism acts, systems failures, etc are to be considered too. On television and radios, one frequently hears these kinds of events happening almost on a daily basis more especially in places such as Nigeria where there are weak laws and regulations. It is also common to see headlines carrying about news

of robberies, oil spillage, kidnapping of foreign workers in the Niger-Delta region of Nigeria, and so many other similar incidents of like fashion. Therefore, It has become imminent for organizations more especially in the banking industry that is by nature very debt massive in its capital structure (Uremadu, 2009) to prepare for such events which if (they) happen to occur could hinder the normal operations of the business. This can only be achieved by putting in place contingency plans such as devising risk management techniques in every operation of the banking business. As has already been mentioned elsewhere in this study, risk is not always bad. It was Suzanne Labarge in Azeez (2010) who argues that risk is mismanaged, misunderstood, mispriced or unintended. Whereas, Cade (2007) emphasized that risk is to be respected not shunned. He went further to argue that enterprises can achieve anything without engaging in risk and the business of banking is characterized by the way in which it underpins the financial risks of the community too often it must be admitted, at an adequate rate of return. The globalization and for the fact that the banks' capital structure is debt massive and so forth (Uremadu, 2009 and Azeez, 2010). These kinds of risks include, credit risk, liquidity risk, political risk, market risk, operational risk, interest rate risk, amongst others. These components of risk variables will be considered, in detail, on a future study that will involve determining factors influencing corporate management and risk management among the Nigerian banks. Previous works cited in Azeez(2010) generally identify between three and ten basic risk categories, depending on which they consider being primary and which they consider to be secondary which they are similar but the emphases often differ (Azeez, 2010).

First, Angelopoulos and Mourdoukoutas (2001) in Azeez (2010), the risks that surround the financial institutions can be categorized into two, which are; traditional and non-traditional categories.

i. **Traditional financial risks** are risks arising from the basic function of banks and their intermediaries, that is, as borrowers, lenders and inventors funds. They went further to argue that traditional banking risks can be classified into four categories, namely: liquidity risk, credit risk, political and legal risk and operational risk. (ii) **Non-traditional financial risks** on the other hand, are risks associated with the liberalization of foreign exchange and domestic financial markets, the domestic and overseas expansion of banks and their venturing to other segments of the financial service sector. Non-traditional banking risks include market risks, interest rate risk, liquidity risk, price risk and others.

On the other hand, Cade (1999) views solvency risk, liquidity risk, credit risk, interest rate risk, price risk and operating risk as the most important types of banking risks. This is because these types of risks arise from the business of banking (Uremadu, 2000).

From the foregoing, one will be wondering where are the other types of risks such as systemic risk, market risk, legal risk, and so forth. But, in his (Cade's) argument all fit into the six risks broad types. For instance, he argued that "the umbrella termed 'market/position risk', which bridges some of the interest rate and price risks mentioned above, has found favour in dealing and regulatory circles as a 'territorial patch' and conceptual counterpoint to credit risk (e.g. in the dialogue on capital adequacy on emanating from Brussel and Basel). One is therefore attempted to adopt it as the lingua franca the objection is that it is simply too sweeping as title, that it oversimplifies and is likely to be misinterpreted by the general reader as embracing many things that it does not entail (Cade, 1999).

Whereas, Robinson (2009) argues that it is generally accepted that there are three main categories of risk in the financial services industry. These three main categories include: credit risk, market risk and liquidity risk. It could be inferred that he summarized these

risks around well known shades of financial risks.

According to Pyle (1999) risk, in this context, may be defined as "reductions in the firm value due to changes in the business environment". He went further to argue that the major sources of value loss are identified as market risk, credit risk, operational risk and performance risk.

3.3 Risk and Reward

From what we have seen previously in this study, it is now apparent that banks and other major operators in the financial services industry like merchant banks, finance houses, insurance companies, mutual funds, etc., operate in a high-risk business. In other words, financial institutions are highly geared financial risk takers. Also taking these risks responsibly can be said to be the business of the management of the banks.

Financial institutions that run on the principle of avoiding all risks will be stagnant and will not adequately service the legitimate credit needs of the society (Sanusi, 2007). A banker or an institution doing a banking business cannot just avoid taking risks. This is because the business of banking involves a trust level and the trust is very relative as it differs and cannot be fully guaranteed. Besides, it involves human elements whose hearts are prone to or rather filled with several devices to outwit one another in a competitive world (Uremadu, 2000). The Holy Bible established that "The heart of man is deceitful and desperately wicked: who can know (trust) it? Jeremiah 17:9 in King James (2007) version, the answer to this question is: 'Nobody'.

Again, according to Azceez (2010) banks make money by taking risks and lose money by not managing risks effectively. He argued that for banks to produce superior shareholder returns in current markets, they must take on higher levels of risks than in the past. Sharpe and Alexander(1990), Okafor(1983) and Uremadu(2000), collaborated this view.

Sanusi (2007), on the other hand, says with proper risk management can lead to a bank running into murky waters. This is evident from so many bank's losses and in some cases even bankruptcy. Typical example of these issues can be traced back to 1980s. Merrill Lynch lost \$377million in 1987 through trading mortgage-backed securities in an innovative form; Midland Bank also lost a reported £116million by guessing on wrong interest rates movements. In 1991, Bank of New England made a huge bad debt provisions, suffered a run on deposits and had to be supported by the government to the tune of \$2billion. In 1992, Barclays Bank provided for bad debt of £2.5billion, which made it to declare its first loss in the history of its operations. Barving Bank, London's oldest merchant bank collapsed as a result of losses of \$830million on speculative proprietary position in Nikkei 225 stock index futures, the collapse of Lehman Brothers and the subsequent issues that led to the most recent banking crisis of 2007/2008-2009, which is still yet to fully recover from that singular scenario.

Banks over the past few years have taken excessive risks in their business activities in order to compete, more especially the Nigeria banks have also over indulged in this uncontrolled act leading to collapse of many of them as earlier cited elsewhere in this paper. He further argues that these issues ranged from giving loans to public office holders with their positions as collaterals, poor management styles, poor internal controls, insiders abuses, corporate governance issues, financing illicit contracts among others (Azeez, 2010).

In the process of the provision of their service, that is, the day-to-day activities of the business, the banks assume various kinds of risks as seen earlier in this paper. It is also important to note that the risks that surround the bankers' principal activities i.e. those involving its balance sheet items and other basic business of banking are not all borne by banks. Banks should therefore endeavour to

always adequately diversify the risks they carry in the normal business of banking.

3.4 Concept of Risk Management

At this juncture it is important that we introduce the concept of risk management proper in this discourse. Over the last decades we have seen a marked development in what has become known as risk management. Techniques and methods have been developed and redefined which allow for risks to be identified, their effects evaluated and the most efficient means of control discovered.

According to Jobst (2007), risk management takes a broad view of the problems posed by risk. He went further to argue that it starts by asking basic question such as what risks is the organization exposed to. It moves down from there to evaluate the likely impact on the firm by looking at the severity and frequency of occurrence of the risk. Having identified the risk, and evaluated it, risk management techniques are then applied to decide how the risks that have been identified can be mitigated. This is the long and short of a risk management concept or framework that business organizations like the banking firm should adopt in its operations to shore up its performance.

From the foregoing, we can establish that the concept of risk management is embedded in the following process:

(a) **Risk Identification** risk management takes the view that the firm is exposed to risk in a variety of ways and any one such way may cause financial loss (Dickson, 1999). Several steps are therefore taken using established risk management techniques to highlight all areas where the company is likely to suffer.

(b) **Risk Evaluation** this is the second stage in this management process of evaluating the impact of risk on the firm. Dickson (1993) states that often this evaluation is made in a quantitative manner, that is, without the use of quantitative analysis. In this case, a risk manager could, for example, study a flowchart (which is a statistical instrument anyway) and make certain quantitative

evaluations as to the effects which specific events may have. This kind of qualitative risk evaluation is something which benefits from experience and those involved in risk management invariably falls back on their own experience of similar events or situations in measuring potential impact of risk.

- (c) **Risk Control** Dickson (1991) identifies risk control to be the final stage of the risk management process, in which he describes it to be in two forms, which are physical and financial. At the end, it is the economic control of risk that is the main objective of the risk management department. After identifying and evaluating the risks faced by the firm, the final stage is the most important where all the information received will be used in order to mitigate (or control) as Dickson (1991) calls it the risks faced by the business. The techniques highlighted are on three tiers.
- i. **Elimination:** which simply refers to not undertaken the project that is associated with the risk, for instance, to include another factory into the project. Which could be eliminated by not undertaken the project.
 - ii. **Minimization:** this is, in most cases, when the risk cannot be eliminated; we are therefore left with the option of minimizing its impact. Dickson (1991) further states that less prevention is primarily concerned with minimizing risk, or uncertainty of loss.
 - iii. **Transfer:** this is another risk measure also identified as seen in (Azeez, 2010). This is a way of transferring the risk of loss to another party. A typical example is the insurance in which insurance premiums are paid to insurance companies to cover a particular thing say a building against fire, which in the event of fire the insurance company will cover all the expenses incurred on the building or repairing that particular building depending on the contract.

3.4 Risk Management in the Banking Industry

Risk management is the process by which managers satisfy those needs by identifying key risks, obtaining consistent, understandable, operational risk measures, choosing which risks to reduce and which to increase and by what means and establishing procedures to monitor the resulting risk position (see Pyle, 1999). The foregoing treatise could be termed concept of risk management in a nutshell. Risk management has become a hot topic in the financial sector world for some time now. However, the recent banking crises of late 2007 and early 2008 till date have made both regulators and institutions to rush into major efforts to upgrade their risk management systems, and focus the management attention towards appropriate process for due consideration of the trade-off between risk and return in financial management decisions or issues (Okafor, 1983 and Uremadu, 2000).

To explain the techniques used by the financial institutions, one must begin by explaining the risks within the banking industry and those that the institutions have chosen to manage. At this point, it is important to mention that not all risks that surround the industry are being managed. According to Santomero (1999) in Azeez (2010), have recognized that they should not engage in business in a manner that unnecessarily imposes risk upon them; nor should they absorb risks that can be efficiently transferred to other participants. In this case, he argues that banks should accept only the risks that are uniquely a part of bank's array of unique value-added services.

According to Azeez (2010), it has been argued that risks facing all financial institutions can be segmented into three (3) separable types from a management perspective. These include:-

- i. Risks that can be eliminated or avoided by simple business practices.
- ii. Risks that can be transferred to other participants, and

- iii. Risks that must be actively managed at the firm level.

In the first case, the practice of risk avoidance involves actions to reduce the chances of losses from banking activities by eliminating risks that are superfluous to the institutions business purpose. These risk avoidance practices comprise of three types of actions. These actions include the standardization of processes and procedures to prevent inefficient or incorrect financial decisions. The second is the construction of portfolios that benefit from diversification across borrowers and that reduce the effects of anyone loss experience is another. Lastly, the implementation of contracts with management that require employees to be held accountable.

In the second case, it is the technique of risk transfer or reduce highly the inherent risks in their positions. Different markets exist for many of the risks borne by banks. A typical example of this can be easily transferred by rate sensitive products such as swaps and other derivatives (Azeez, 2010). It is now left to the Nigerian banking firms to take advantages and opportunities offered by these markets in a bid to utilize and or apply better risk management methods embedded in the prescriptions of corporate governance principles. It is high time the Nigerian banker re-orders his properties aright in the business of banking practice in the 21st century world.

3.5 Corporate Governance and Risk Management Agenda

This agenda sets out the corporate governance and risk management principles and aims which inform and guide the work of ACCA's Corporate Governance and Risk Management Committee (Chambers, 2008). The Agenda is designed to be applicable internationally so as to reflect the global reach of ACCA. It aims to provide the policy framework to be used by the Committee, and ACCA more generally in: in developing its specific policies on corporate governance and risk management for different sectors and regions enabling it to

respond coherently on corporate governance and risk management issues as they arise.

The Agenda is in three parts but we are concerned here with Parts A & B as follows: Part A sets out ACCA's views of the purpose of corporate governance while Part B contains 10 principles which ACCA considers fundamental to all systems of corporate governance and risk management.

According to Chambers(2008), "we see this document as being a statement of intent that will be refined and developed over time as knowledge and understanding improve generally. To this end, further research providing empirical evidence of best practice in corporate governance and risk management is needed. There is no evidence to support many of the generally accepted tenets of corporate governance. These tenets should be questioned in an open and constructive manner and evidence sought to justify, improve or refute them."

The main body responsible for corporate governance within an organization, can be known by a number of different labels: eg board, supervisory board, management board, council, authority, and committee. Similarly, the members of these bodies are also known by different labels: eg director, trustee, senior manager, member, governor, and officer. For consistency and simplicity, this Agenda refers to the bodies with responsibility for directing and controlling the organization as 'boards' and members of these bodies as 'directors'.

3.5.1 The purpose of corporate governance.

Fundamental to this Agenda is ACCA's view of the purpose of corporate governance. According to Chambers(2008), "Our research suggests there is a divergence of view: some see corporate governance as improving effectiveness, some see it as protecting stakeholders while, unfortunately, a number regard corporate governance as a compliance exercise with little intrinsic value."

ACCA's view is that there are three complementary purposes of corporate

governance. This paper will adopt them as also operationally in the banking and finance profession.

1. To ensure the board, as representatives of the organization's owners, protects resources and allocates them to make planned progress towards the organization's defined purpose.
2. To ensure those governing and managing an organization account appropriately to its stakeholders.
3. To ensure shareholders and, where appropriate, other stakeholders can and do hold boards to account.

Although none of the above purposes refer explicitly to it, we regard effective risk management as fundamental to good corporate governance.

3.5.2 ACCA's General corporate governance and risk management principles.

The principles set out below are matters that ACCA believes are fundamental to all systems of corporate governance that aspire to being the benchmark of good governance. They are intended to be relevant to all sectors globally, and to any organization having a significant degree of separation between ownership and control. Many of these principles are also relevant to organizations where ownership and control lie with the same people (ACCA, 2008). These principles are summarized as follows below:

1. **Boards, shareholders and stakeholders share a common understanding of the purpose and scope of corporate governance.** There should be a clear understanding of what corporate governance is for.
2. **Boards lead by example.** Boards should set the right tone and behave accordingly, paying particular attention to ensuring the continuing ethical health of their organizations. Directors should regard

one of their responsibilities as being guardians of corporate conscience: non-executive directors should have a particular role in this respect. Boards should ensure they have appropriate procedures for monitoring their organization's 'ethical health'.

3. Boards appropriately empower executive management and committees. Boards should set clear goals, accountabilities, appropriate structures and committees, and delegated authorities and policies. Boards should provide sufficient resources to enable executive management to achieve the goals of the organization through effective management of day-day operations, and monitor management's progress towards the achievement of these goals.
4. **Boards ensure their strategy actively considers both risk and reward over time.** All organizations face risk: success in achieving their strategic objectives will usually require understanding 'accepting, managing and taking risks. Consideration of risk should therefore be a key part of strategy formulation. Risk management should be embedded within organizations so that risk is considered as part of decision making at all levels in the organization. To avoid creating a risk averse culture, risk should be about both threats and opportunities. Boards need to understand the risks faced by the organization, satisfy themselves that the level of risk is acceptable and challenge executive management when appropriate.
5. **Boards are balanced. Boards should include both outside non-executive and executive members in governance of organizations.** Outside members should challenge the executives but in a supportive way. No single individual should be able to dominate decision making. It follows that the board should work as a team with outside members contributing to strategy rather than simply having a monitoring or policing role. Boards need to comprise of members who possess skills and experience appropriate

for the organization. All board members should endeavour to acquire a level of understanding of financial matters that will enable them to participate in decisions regarding the financial direction and control of the organization.

6. **Executive remuneration promotes organizational performance and is transparent.** Remuneration arrangements should be aligned with individual performance in such a way as to promote organizational performance. Inappropriate arrangements should, however, can promote perverse incentives that do not properly serve the organization's shareholders or other principal stakeholders.

Disclosures of director and senior executive pay must be sufficiently transparent to enable shareholders or the principal stakeholders to be assured that arrangements are appropriate. It should be noted here that failure to apply this aspect of principles of corporate governance in most Nigerian banks led to failure of a good number of them between 2005 and 2011 (Ewulu, 2007).

7. **The organization's risk management and control is objectively challenged, independently of line management.** Internal and external audit are potentially important sources of objective assessment and assurance. Internal and external audit should be able to operate independently and objectively, free from management influence. Neither internal nor external audits should subordinate their judgment on professional matters to that of anyone else.

Internal audit should be able to report to the board and should be properly resourced with staff of suitable calibre to work effectively at all levels of the organization including the board.

8. **Boards account to shareholders and, where appropriate, other stakeholders for their stewardship.** In acting as good stewards, boards should work for the organization's success. Boards should also appropriately prioritize and balance

the interests of the organization's different stakeholders. In a shareholder owned company, shareholder interests are paramount but their long term interests will be best served by considering the wide interests of society, the environment, employees and other stakeholders as well.

The type of organization, its ownership structure and the culture within which it operates will determine how boards should account to their owners and/or significant stakeholders. No single model of accountability will be appropriate for all organizations in all regions. Universal requirement, however, is to disclose sufficient, appropriate, clear, balanced, reliable and timely financial and other information to those to whom boards should be accountable. Such information should cover the organization's objectives, performance, prospects, risks, risk management strategy, internal control and governance practices.

9. **Shareholders and other significant stakeholders hold boards to account.** Owners and, in some cases, other significant stakeholders need to take an interest in the organization and hold the board to account for its performance, behavior and financial results. This paper recognizes that in many societies, the owners of organizations will have to take other stakeholder interests into account.

10. **Corporate governance evolves and improves over time.** Organisations in different sectors and across the world operate in diverse environments in terms of culture, regulation, legislation and enforcement. What is appropriate, in terms of governance, for one type of organization will not be appropriate to all organizations.

To assist innovation and improvement in corporate governance and in risk management, there should be flexibility in practices and structures. Corporate governance and risk management will never be fully evolved and may always be improved upon. It is important, therefore,

that requirements do not create a straightjacket which prevents in the ways organizations conduct themselves. The banking firms in Nigeria is not different (Chambers, 2008 and ACCA, 2008).

4. Summary of Findings and Recommendations for Policy

Here we are going to summary our findings and discoveries from the paper and simultaneously state recommendations alongside them for policy action.. These are as follows:

1. We discovered from the study that banks and other operators in the financial services industry engaged in high-risk businesses, that is, they are risk-takers. Consequently, it is here and recommended that they should try to moderate their risk taking positions, and always apply the three main techniques of risk performance and profitability.
2. We found that three main categories of risks inherent in the financial services industry or sector are (i) credit risk (ii) market risk and (iii) liquidity risk. It is therefore advisable that Nigerian bankers be mindful of these risk categories, identify, diversify, manage or avoid them where possible to raise performance and profitability in the economy.
3. Evidence from the study also reveals that financial institutions do not completely avoid risks rather they manage risks towards growing returns and or profitability. This is encouraging as well as instructive to all operators in the industry that what is important is positively managing or avoiding risks but not completely avoiding them.
4. That Nigerian banks indulged (engaged in excessive risk-taking and never cared to apply risk management techniques over the years thereby leading to total collapse of majority of them. It is therefore recommended that banks should henceforth take moderate position their risk management posture in business of banking in Nigeria to enable them avoid

constant bank failure.

5. Study established causes of bank failure arising from poor risk management are: giving loans without proper appraisal and documentations, giving loans to public office holders with their positions as collaterals, poor management styles, poor internal control systems, insider abuses, corporate governance issues, financing illicit contracts and so forth.

In this we make quick to recommend that banks should avoid or abstain from all improper activities during lending that often lead to credit defaults and or non performing loans, such as improper documentation/appraisals, poor management style, poor internal controls, insider abuses, "spinning", illicit trade/contracts and avoid round tripping. Above all, they should instill practice of good corporate governance in themselves.

6. Risk management techniques, concepts and principles have been discovered over the years for proper bank management practices.

It is therefore recommended that risk management technique should be properly employed in the business of banking to achieve direct results and or returns.

7. Banks carry various kinds of risks in their normal business of banking such as lending and borrowing and other financial services activities.

It is therefore expected that banks should always adequately diversify the risks they carry in the normal business banking.

8. Finally, paper established that risk control process involves (a) risk elimination (b) risk minimization and (c) risk transfer.

We recommend application of a mix of the three processes of risk management techniques by bankers and other operators in the financial services sector or financial institution in a bid to eliminate, minimize and transfer risks in lending and borrowing activities to raise their

performance and growth of the national economy, in general.

5. Conclusion

In this paper, we have discussed the concept of risk management techniques and corporate governance and their applicability to business operations in Nigeria with a view to raising bank's performance in particular and national productivity, in general. Using descriptive industry and economic analytical methods we investigated and established that Nigerian banks engaged in excessive risk-taking; bank failures are caused by lack of application of risk management techniques by bankers and that banks carry various kinds of risks in their normal business of banking. We therefore conclude that if Nigerian banks fully apply risk management techniques and concepts embedded in the basic principles of corporate governance, banking sector performance will significantly improve thereby leading to growth of the domestic economy in the 21st century emerging economy to which Nigeria belongs.

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