

INTERNATIONAL JOURNAL OF SUSTAINABILITY PRACTICES IN FINANCE, MANAGEMENT, AND ENTREPRENEURIAL STUDIES

Volume-2, Issue-1, April, 2025

ISSN (Online): 1595-6253

<https://ijois.com/index.php/ijspfmes/index>
A Peer Reviewed (Refereed) International Journal**Article Information**Received: 28th Feb, 2025Accepted: 28th March, 2025Published: 25th April, 2025

VALUE RELEVANCE OF FINANCIAL RISK MANAGEMENT

¹Monday Olade, IZEVBEKHAI (PhD, ACTI, CPA, FERIN) ²Isah MOHAMMED (PhD, ACTI)¹Department of Accountancy, School of Financial Studies, Auchi Polytechnic, Auchi²Department of Taxation, School of Financial Studies, Auchi Polytechnic, AuchiMondayizevbekhai75@gmail.com, isahm6918@gmail.com³

D.O.I: 10.5281/zenodo.17456697

ABSTRACT

This study evaluated value relevance of financial risk management of listed deposit money banks in Nigeria. The objective of the study was to investigate whether credit risk management has significant effect on share price of listed deposit money banks in Nigeria. The secondary source of data collection was adopted in the study where the purposive sampling technique was used to select a sample size of ten (10) listed firms for the study. Least Square regression analysis was used in this study and the findings revealed that credit risk management has no significant effect on share price of listed deposit money banks in Nigeria. It was concluded that risk management disclosure was a very important practice required of corporations in this ever- rapid changing business environment as it affects corporate achievements. Finally, it was recommended that the banks should manage their operations in a way that optimizes their earnings and profits in order to mitigate the credit risks of loss occasioned by exchange rate conditions in Nigeria's banking sector.

Keywords: Value relevance, financial risk management, credit risk management, operational risk, liquidity risk, market risk.

INTRODUCTION

Given how risk management disclosure affects corporate accomplishments, it is a crucial practice that businesses in this dynamic business environment are expected to implement. The rise in risk management is primarily attributable to the variety and intensity of risks that corporations encounter as a result of the business world's increased complexity (Martins, Umar & Taiwo, 2022). Risk is practically necessary for business to function, implying that risk will always exist in any corporate environment. A company's management can be categorized as either risk-lovers, risk-averse, or risk-neutral based on how much risk they are willing to take. Risks primarily originate from the internal or external business environments and risks associated with financial matters, such as fluctuations in interest rates, exchange rates, and commodity prices, naturally increase risk. Risks include interest rate risk, operational risk, credit risk, foreign exchange risk, and liquidity risk, among others. As a result, risk plays a crucial role in businesses' strategic choices, which may be the cause of organizational uncertainty or ingrained in their operations. Therefore, it is in the best interests of the stakeholders for a firm to disclose risk management promptly (Ibrahim, Okika, Yunusa & Janada, 2020).

The disclosure of risk management is crucial to investors and other stakeholders due to the highly risky nature of the banking sector. To help them make informed investment decisions, investors, in particular, require information about a company's exposure to risk and the risk management techniques being used (Elamer & Benyazid, 2018). There has been contention that banks' omission of pertinent information, particularly with regard to risk management, can have a number of unforeseen repercussions, such as information asymmetry and the moral hazard issue.

Investors' ability to monitor and regulate management's risk-taking behaviour could be hampered by banks' inadequate or nonexistent disclosure of risk management information, which could have an impact on market stability (Bushman, 2016). However, by offering a report that discloses the bank exposure in a transparent manner, information asymmetry could be minimized (Bushman, 2016; Giner & Mora, 2019). In a similar vein, Pierce and Goldstein (2018) contended that nations with regulated and transparent disclosure practices have a lower incidence of banking crises. It follows that financial information transparency may be essential to the market's effectiveness. Others believe that disclosure of bank failure to investors lowers their confidence in the system as a whole, so even though the potential for risk management disclosure to drive efficiency has been argued, such disclosure may result in inefficiencies in the banking sector and reputational contagion (Umar & Taiwo, 2022).

Evidence suggested that risks that are not adequately managed can force a business into irreversible losses or even liquidation (Bravo, 2017). This suggests that the firm's value may be greatly impacted by the prompt disclosure of risk management. In keeping with that idea, a number of corporate scandals have been linked to the companies' inadequate disclosure of risk management (Bravo, 2017). These corporate scandals include the Enron, WorldCom, and Parmalat scandals as well as the Cadbury Plc. scandal in Nigeria, which in 2006 reported an operating loss of N4.665 billion, significantly less than the profitability of roughly N2.7 billion the year before. These scandals affected corporate integrity and investors' confidence in the capital markets globally. Consequently, because risk management has the ability to boost corporate output and shareholders' value, it has grown in importance for professionals, academics, and other stakeholders in the business world (Bravo, 2017).

According to Olusi and Ibrahim (2021), companies in Nigeria are facing a decline in sales revenue as a result of inflation, a decline in the value of the naira, and low consumer income, which leads to liquidity issues and a decline in profits. Similar to this, Cole (2022) reports that cost pressures caused manufacturing firms in Nigeria to experience lower production output and decreased profitability. If stakeholders do nothing, the manufacturing industry will continue to face rising operational costs brought on by rising foreign exchange rates, illiquidity, inflation, low income, inadequate infrastructure, and other shipping-related issues. Therefore, it is crucial for business managers to guarantee that liquidity management is done effectively and efficiently without negatively affecting profitability. Additionally, the Manufacturers Association of Nigeria (MAN) has been advised by the Central Bank of Nigeria (CBN) to get in touch with development financing institutions, specifically the Development Bank of Nigeria and the Bank of Industry, regarding their funding needs in response to some of these issues (CBN, 2022). Therefore, the CBN's efforts would significantly reduce the liquidity problems faced by Nigerian companies.

Although a variety of factors have contributed to financial institutions' struggles over the years, the main causes of significant banking issues remain loose credit standards for counterparties and borrowers, inadequate risk portfolio management, or a failure to recognize shifts in the economy or other factors that may worsen a bank's counterparties' credit standing (Umar & Taiwo, 2022).

Credit risk failures were identified by Erin and Aribaba (2021) as: excessive concentration of risk exposure; managers' violations of credit approval limits; inadequate or nonexistent collateral; and underwriting standards, among other things. The worsening market indices reported by the banks

illustrate how the market views these deficiencies negatively. Both the board and management must establish policies and procedures that, at the very least, specify guidelines for the distribution and composition of the credit portfolio in order to effectively manage credit risk. By keeping credit risk exposure within reasonable bounds, credit risk management seeks to optimize a bank's risk-adjusted rate of return. In addition to managing the risk in individual credits or transactions, banks also need to manage the credit risk that is inherent in the entire portfolio (Adegbola, Damilola, Tony, Sainey, Kerry, & Jemima, 2021). The four essential components of risk management processes that banks need to implement are internal controls, policies, measurement, and management oversight. Additionally, a number of studies conducted in Nigeria have failed to establish the value relevance of financial risk management of listed deposit money banks in Nigeria; this study aims to close that gap.

2. Literature Review and Hypotheses Development

2.1 Share Price

The cost of a single share of a company's stock is known as the share price. On the other hand, supply and demand in the market typically determine the price of a publicly traded company's shares. Because share prices are based on the expectations of both buyers and sellers, they can be highly volatile. Stock price volatility is an indicator that is most frequently used to identify changes in market trends. Generally speaking, changes in investor reaction to new information cause volatility to increase or decrease. As a result, when new information is released into the market, volatility tends to rise. The degree to which this rise is determined by the relevance of the new information as well as how much it surprises investors (Ajao & Wemambu, 2019).

Increasing their bottom line is almost always their ultimate goal. Businesses most likely have unique wealth distribution policies, but if they don't grow their profits, they may find it difficult to raise the money they need to fund their operations. Consequently, raising the value of the company's stock to the shareholders and management is crucial. Any publicly traded company's share price can be used to determine its value. Nonetheless, the influence of both macro and microeconomic factors causes share prices to fluctuate. Accounting data is typically used by managers to gauge the company's performance, and prospective investors can use this data to choose the right stocks (Oye, 2020).

2.2 Value Relevance

Value relevance is used to demonstrate the relevance of accounting values in relation to the equity valuation of the company. The reporting of accounting data that is predictive of equity market values is known as value relevance. Because the amount presented in an accounting number is relevant if it reflects information relevant to a firm's assessment, the concept of value relevance is inextricably linked to the relevant criteria of the financial accounting standard (Oluwaremi & Oluoch, 2021).

Information that is related to the current issue is considered relevant. According to Standard Akuntansi Keuangan (SAK), information is considered relevant if it can assist users of financial statements in making economic decisions by assisting them in assessing past, present, or future events and confirming or amending the findings of previous evaluations. The theory of clean surplus, which holds that the accounting information in the financial statements reflects the company's value, is the source of the term "relevance value" in accounting information (Simamora & Oswari, 2019).

2.3 Credit Risk Management and Share Price

Risk is characterized as an event that could potentially affect the attainment of goals; it encompasses both opportunities and threats. Because of its nature, banking involves a high level of risk. It is particularly risky because it is the only company where the percentage of borrowed money is significantly larger than the equity held by the owners (Owolabi, Bamisaye, & Efuntade, 2021). Compared to other human endeavours, the banking industry is completely vulnerable to risk. Banks now do much more than just take deposits and issue loans; they operate in a fast-paced, highly innovative industry where there is constant pressure to increase profits. This pressure drives banks to continuously develop new products and services, cross-sell and upsell to customers, and manage risks, which are now much more complex because a single action can involve multiple risks.

When a lender bears the risk of loss due to a borrower, counterparty, or obligator not fulfilling their contractual obligations, credit risk emerges. Aladejebi (2021) posits that the loss could be caused by a decline in the counterparty's credit quality, ultimately resulting in a reduction of the debt's value. Alternatively, Adegbola *et al.* (2021) assert that the borrower defaults voluntarily when he fulfills his obligations.

Bank credit failures are not unusual or novel; they have an impact on cash flows, profits, and liquidity. Therefore, according to Noor and Abdulla (2014), it poses the greatest risk to bank performance and is the main reason behind bank failures. Owojori (2021) claims that the statistics from liquidated banks that were available made it abundantly evident that one of the main causes of the distress of liquidated banks in Nigeria was the inability to collect loans and advances given to clients, creditors, or businesses connected to directors or managers. The CBN cancelled several banking licenses as a result of this. As multiple NDIC reports from different years show, many banks had performing credit ratios of less than 10% of total loan portfolios.

Okeke (2022) investigated the value relevance of risk management disclosure in Nigeria. It used data from deposit money banks listed on the Nigerian Exchange Group (NGX) floor from 2012 to 2021. Because banks were selected based on specific criteria, the sampling method used in this study is called filtering sampling. Regression analysis, correlation, and descriptive statistics were used to examine the secondary data that was gathered. The results showed that the share price of Nigerian listed banks is significantly positively impacted by credit risk management disclosure. It concluded that the share prices of the deposit money banks under investigation greatly increase when credit risk management disclosures are made.

Elshandidy and Zeng (2022) investigates whether risk-related disclosure, which includes aggregate risk disclosure and its tone, as well as upside and downside risk disclosures, is value relevant for UK market investors. They employ fixed-effect estimations based on 1941 firm-year observations for nonfinancial firms listed on the FTSE All-Share and discover that the value relevance of aggregate risk information is not statistically observable unless a distinction in its tone is made. Upside- (downside-) risk disclosure, in particular, significantly increases (decreases) stock prices. They also discover that the value relevance of risk information varies cross-sectionally depending on firm growth and profitability. They discover an asymmetric response of stock prices to upside- and downside-risk disclosures for high-growth firms but not for low-growth firms.

Oluwaremi and Oluoch (2021) investigated how Nigerian money deposit banks' market performance was impacted by credit risk management. They used the statistical package for social science to perform both regression and correlational analysis and the result revealed a strong and positive correlation between the dependent variable and two of the independent variables (credit risk management and credit portfolio diversification), all of which were supported. One of the

study's main recommendations is that banks insure their credit because it conveys to the market that they will be compensated in the event that their credit counterparties default in the future.

The value relevance of risk management disclosure among Nigerian listed deposit money banks was examined by Olowookere and Feruke (2021). Using purpose sampling and manual content analysis, data was collected from ten publicly traded deposit money banks between 2014 and 2018. Descriptive statistics tools like mean, standard deviation, and correlation analysis were used for preliminary analysis. Based on the outcomes of the various specification tests, random effect panel regression was used to estimate the value relevance of risk management disclosure. The results showed that the value of Nigerian listed deposit money banks is positively and significantly impacted by risk management disclosure.

Oswari (2019) investigated the impact of credit, operational, and liquidity risks on the financial performance of banks listed on the Indonesian stock exchange. Out of the 43 licensed banks in Ethiopia from 2009 to 2017, five sample banks' financial reports contained secondary data that was taken from the reports for the study. The loan to deposit ratio, operational risk were the three predictors that were used. The multiple linear regression model was used to analyze the data, and the results demonstrated that liquidity and operational risk significantly impacted financial performance negatively. However, it was discovered that credit risk had no bearing on financial performance.

2.4 Operational Risk and Share Price

Operational risk is an old risk that regulators have tagged to increase its visibility and promote a culture of self-regulation in banking operations. It is not a brand-new risk. After Barings Bank collapsed in 1995 and the 1998 Long-Term Capital Management (LTCM) crisis, which an investigation linked to operational risk management's failure, the idea of operational risk gained traction (Peter, Gordon & Yueran 2018). Before this time, operational risk was disregarded and thought of as a simple residual risk – that is, as a type of risk that is not included in market or credit risks. After these occurrences, operational risk was acknowledged by Basel II as a distinct risk class from credit and market risk. Operational risks were widely accepted and institutionalized as a result of regulatory hype and their eventual inclusion in Basel II as one of the risk categories drawing regulatory capital (Abdullah, Farouk & Bassam, 2018).

It is impossible to overstate the significance of operational risk management. Unpredictable financial results may arise from inadequate operational risk management. Along with having a detrimental effect on bank profits and net worth, it can also have disastrous systemic repercussions, as was indicated by operational risk's role in the 2008 financial crisis (Muriithi & Waweru, 2017). Decreasing capital costs, making better decisions, increasing employee and customer satisfaction, and improving regulatory compliance are all benefits of effective operational risk management. Efficient handling of operational hazards can also help minimize operational deficits, lower compliance and audit expenses, quickly uncover illicit activity, and lessen vulnerability to potential hazards in the future. Banks that practice effective operational risk management will also be better able to identify all the risks to which they are exposed, even those that they lack the knowledge or experience to handle. This will enable them to put frameworks in place to mitigate these risks and the consequences that may arise should they crystallize, making them less susceptible to systemic issues (Habib, Masood, Hassan, Mubin, & Baig, 2018).

Agbana, Ibrahim, and Maitala (2024) evaluated how operational and market risk affected the performance of DMBs in Nigeria. For this study, eight (8) years of data from 2015 to 2023 were taken from thirteen (13) DMBs' published annual reports. For this study, the analysis comprises panel regression and correlation inferential statistics in addition to descriptive statistics.

According to the study, earnings per share and operational risk have both had a big impact. According to this study, management should priorities putting cost control measures into place in order to lower the ratio of operating expenses, which will eventually increase profit margins.

Okere, Isiaka, and Ogunlowore (2023) investigated the impact of risk management (credit and liquidity) on the financial performance of ten Deposit Money Banks in Nigeria. The research utilized panel data analysis methodologies. The empirical findings demonstrated a positive correlation between money deposit banks' financial performance and risk management. The study recommended that while regulatory bodies should focus more on banks' adherence to bank and other financial institutions' prudential guidelines, banks in Nigeria should increase their capacity in liquidity, risk analysis, credit analysis, and loan administration.

Joel and Manson (2023) examined the relationship between risk management and the banking sector's performance in Nigeria. The analysis used data from a total of 18 deposit money banks that were listed on the Nigerian Stock Market between 2000 and 2021, a period of 22 years. The empirical results showed that, credit risk and operational risk were negative and had no significant relationship with the performance of the Nigerian banking industry. The study recommended that bank management should have a thorough understanding of how credit policy affects the operations of their banks.

Olajide and Diekolola (2020) examined how Nigerian commercial banks' financial performance was affected by operational risk management procedures. The study used ten years' worth of secondary data that was taken from the audited financial statements of particular Nigerian commercial banks. Linear Multiple Regression Model was used to analyses the data. The findings demonstrated a significant relationship between operational risk management and bank financial performance. It was suggested that in order to guarantee effective operational risk management and enhanced financial performance of banks, bank management should devote sufficient resources to comprehending operational risk.

2.5 Liquidity Risk and Share Price

Liquidity risk refers to a company's limited capacity to pay its debts on time or as they become due without having a detrimental impact on its business operations. Noor and Abdulla (2014) define liquidity risk as the risk associated with an investment's incapacity to be bought or sold quickly enough to avoid or minimize a loss. The possibility that a specific asset or security won't be able to be traded in the market fast enough to stop a loss (or turn the necessary profit). Similarly, liquidity mismatch—which can be quantified in terms of liquidity gap – can result in liquidity risk, claimed Murithi and Waweru (2017). The liquidity gap is the difference between a company's short-term assets and liabilities. They evaluate the favourableness or unfavorability of this gap. When all liabilities have been paid for and the company still has liquid assets, there is a favourable gap; when the net income of the company is less than the amount of liabilities accepted, there is an unfavourable gap. Accordingly, Muriithi and Waweru (2017) contended that issues with liquidity risk could arise from breakdowns or delays in debtors' cash flows. Additionally, it was explained that liquidity risk can occasionally result from poor corporate governance or management and the economic downturn. Considering the aforementioned, this study uses the quick ratio—a measure of a firm's liquidity risk—as part of the liquidity gap perspective. The riskiness of the liquidity would be measured by attaching a standard deviation.

One key indicator of a company's capacity to fulfill short-term maturing obligations is its liquidity. According to Mbah (2018), Nigerian manufacturing companies are performing worse as a result of falling share prices, low capacity utilization, high labour and inventory turnover, slowing GDP growth, high inflation, and interest rates that restrict liquidity, or the amount of money available for investment. Khan (2022) also found that European businesses with credit

restrictions had a higher likelihood of liquidity and cash flow problems and a lower likelihood of obtaining short-term bank financing. Similarly, some Nigerian manufacturing companies have found it challenging to distribute dividends due to cash flow issues.

Abiona, Taiwo, Faiza, Hauwa, and Stanley (2024) investigated the relationship between liquidity risk and the profitability of Nigeria's listed deposit money banks. Ordinary least square regression analysis was performed using panel data that were gathered from the 2008–2023 annual reports and financial statements of the five systemic banks listed on the Nigerian Exchange Group. The study discovered a small but negative correlation between the profitability of Nigerian deposit money banks and the liquidity ratio. According to the study, banks should hire knowledgeable staff to help them make the best decisions regarding the ideal level of liquidity and should make full use of the loan-to-deposit ratio to support sales initiatives.

Muhammed, Nurnaddia and Abubakar (2023) investigated the impact of liquidity risk on the performance of non-financial companies listed on the Nigerian Stock Exchange. Financial reports were used to extract data from each of the 87 non-financial companies listed on the NSE, and descriptive statistics, correlation, and regression were used for analysis. The results revealed that liquidity risk significantly and negatively affects Nigerian firms' performance. The study recommended that in order to reduce the risk of insolvency or bankruptcy of Nigerian firms, more focus should be placed on liquidity management.

Eze (2023) examined the impact of board independence and liquidity risk in sustainable growth. Panel data from twelve banks that were listed on the Nigerian Stock Exchange between 2008 and 2021 was analyzed for the study. The study used the Feasible Generalized Least Squares (FGLS) regression technique, and the result revealed that the relationship between corporate governance variables and elements like liquidity risk, dividend payout ratio, bank size, asset quality, and operating margin had a significant impact on the sustainable growth rate (SGR) of banks.

Effiong and Enya (2020) measured liquidity risk in terms of quick ratios, long-term debts, cash defensive intervals, and liquid cash. A U-shaped relationship was found between the working capital financing and firm performance of 437 non-financial firms in India. Furthermore, it was discovered that businesses with fewer financial constraints funded more working capital through short-term loans.

2.6 Market Risk and Share Price

Market risk is the possibility that an investor will lose money as a result of events that have an impact on the financial market as a whole. Diversification cannot completely eliminate market risk, also referred to as "systematic risk," but it can be mitigated. Recessions, political unrest, interest rate changes, natural disasters, and terrorist attacks are some of the factors that can cause market risk. The risk of losses on the financial statement off-balance sheet positions resulting from unfavourable changes in market prices is known as market risk. From a regulatory standpoint, all positions in banks' trading books, as well as positions involving commodities and foreign exchange risk across the entire financial report, are the source of market risk. Trading book portfolios typically include easy-to-trade or hedge liquid positions. Nonetheless, changes in banks' portfolios have resulted in a rise in credit risk and illiquid assets that are inappropriate for the initial market capital framework (Oye, 2020).

Koch and MacDonald (2019) classified market risks into three categories based on their impact on the banking industry: stock price risk, interest rate risk, and foreign exchange risk. On the basis of this, Wachiaya (2021) asserted that financial instruments subject to market price fluctuations or volatility are accepted by banks as collateral or security for loans, thereby creating market risk. Changes to these will therefore, in one way or another, have an impact on the banks' financial

performance. In assessing how interest rate risk affects banks' profitability, Ongore and Kusa (2018) noted that because interest rates play a significant role in determining their interest income, banks that deal with this kind of market risk are heavily exposed to them. When these risks predominate, there is typically an income gap.

Bassey and Udoh (2022) investigated the effects of market risks on a bank's profitability. Using a sample of four banks chosen using a purposive sample technique, the results of the panel multiple regression and co-integration studies revealed that market risk management has a long-term impact on DMB profitability in Nigeria. The study recommended that banks should optimize their earnings and profits through operational management to reduce the risks of loss resulting from fluctuations in Nigeria's exchange rates.

Isuwa, Agbi, Okpanachi and Suleiman (2021) examined the effect of market risk on stock return of listed firms in Nigeria. Fifty-six (56) financial service companies that are listed on the Nigerian Stock Exchange Market make up the study's population. The ordinary least square regression was used and the results showed that during the examined period, the book to market ratio – a proxy for market risk – had an insignificantly negative impact on stock return. The study suggested that in order to maximize return, portfolio managers and decision makers at financial services companies should use suitable risk strategies through derivatives, forwards, futures, swaps, and options that can reduce market risk.

Handayani, Farlian, and Ardian (2019) investigated the impact of market risk on firm size on the stock return of the 45 most liquid listed companies in Indonesia from 2015 to 2017. Stock return was the dependent variable, and firm size and market risk (market beta) were the independent variables. Panel data were analyzed using a multiple regression model in this study. The research findings indicate that although firm size has a significant positive impact on stock return, market risk has an insignificantly positive effect.

Mwaurah, Muturi, and Waititu (2017) studied the impact of financial risk on stock returns on nine listed banks in the Kenyan stock market. Stock return was the dependent variable in the study, while market risk, credit risk, liquidity risk, and capital risk were the independent variables. The study used a multivariate generalized least square regression model and the findings revealed that market risk significantly increases stock return.

3.0 Analytical framework and model specification

The ex-post factor research design is used in this study due to the fact that the variables cannot be manipulated by the researcher. This method was adopted since social scientific research problems do not lend themselves to experimental and controlled inquiry of the ex-post factor kind. Also, this research design makes it impossible to select, control and manipulate the factors necessary to study cause-and-effect relationships directly. The population of this study consists of Nigerian listed companies on Nigerian Exchange Group (NGX) as at 31st December, 2023. The population comprises of one hundred and fifty five (155) firms listed on Nigerian Exchange Group. Since the entire listed firms cannot be used for the study, the study is limited to twelve (12) listed deposit money banks in Nigeria. The basic criteria of selecting these firms are the capitalization prowess and their specialization. In selecting the sample, purposive sample technique was used to derive the sample size. The purposive sampling was used to ensure that the sample represents a diversity of perspectives. The secondary source of data collection was used for this study where data was gathered from audited annual reports of selected listed deposit money banks in Nigeria. However, for the purpose of this study, ten (10) years annual reports of twelve (12) selected deposit money banks were adopted.

The study employed multiple regression technique of analysis using Least Squares regression estimation. This method was adopted because it enhances easy presentation and interpretation of data.

The empirical model of the study is mathematically expressed as follows;

$$SHP_{it} = \alpha + \beta_1 CDR_{it} + \beta_2 OPR_{it} + \beta_3 LQR_{it} + \beta_4 MKR_{it} + \epsilon_{it}$$

Where;

SHP_{it} = Share Price

CDR_{it} = Credit Risk

OPR_{it} = Operational Risk

LQR_{it} = Liquidity Risk

MKR_{it} = Market Risk

ϵ_{it} = Error term

α = intercept

$\beta_1 - \beta_3$ = Coefficients of parameters estimated

4. Result and Discussion

Table 1: Summary of Descriptive Statistics

Descriptive Statistics									
	N	Minimum	Maximum	Mean	Std. Dev.	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Err	Statistic	Std. Error
SHP	120	.44	47.95	9.8988	11.28806	1.515	.221	1.583	.438
CDR	120	.26	42.83	5.5172	7.02719	3.062	.221	10.104	.438
OPR	120	13.38	101.81	54.4948	16.66085	.056	.221	.612	.438
LQR	120	.40	3.13	1.4516	.43854	.506	.221	3.544	.438
MKR	120	-100.42	192.86	7.2313	48.85803	1.457	.221	2.783	.438
N	120								

Source: Output of data analysis by author using SPSS (2024)

From the above table, the dependent variable share price (SHP) has a mean value of 9.8988, standard deviation of 11.28806, minimum value of 0.44 and maximum of 47.95. The independent variables; credit risk (CDR) has a mean value of 5.5172 and a standard deviation of 7.02719, a minimum and maximum value of 0.26 and 42.83 respectively. Operational risk (OPR) has a mean value of 54.4948, standard deviation of 16.66085, minimum value of 13.38 and maximum value of 101.81. Liquidity risk (LQR) has a mean value of 1.4516, standard deviation 0.43854, minimum value of 0.40 and maximum of 3.13. Market risk (MKR) has a mean value, standard deviation, minimum and maximum values of 7.2313, 48.85803, -100.42 and 192.86 respectively.

Table 2: Summary of Coefficient of Correlation

Coefficient Correlations				
	CDR	OPR	LQR	MKR
CDR	1.000	.054	-.033	-.072
OPR	.054	1.000	-.444	.021
LQR	-.033	-.444	1.000	-.110
MKR	-.072	.021	-.110	1.000

Source: Output of data analysis by author using SPSS (2024)

Table 2 above shows the 2-tailed correlation analysis of the variables at 0.05 level of significance. This shows that credit risk (CDR) is negatively correlated with liquidity risk (LQR) and market risk (MKR) while positively correlated with operational risk (OPR). Likewise, operational risk (OPR) is positively correlated with credit risk (CDR) and market risk (MKR) but inversely correlated with liquidity risk (LQR).

Table 3: Summary of Regression Result

Model Summary					
Multiple R					.247
R Square					.061
Adjusted R Square					.028
Std. Error of the Estimate					11.127
Coefficients					
	Unstandardized Coefficients		Beta	t	Sig.
	B	Std. Error			
(Constant)	1.155	4.176		.277	.783
CDR	-.095	.146	-.059	-.651	.516
OPR	.088	.068	.130	1.289	.200
LQR	2.953	2.613	.115	1.130	.261
MKR	.024	.021	.106	1.163	.247

Source: Output of data analysis by author using SPSS (2024)

The B column discusses the coefficient of the model. This indicates that a 116% increase in share price will result to a 9.5% reduction in credit risk, 8.8% increase in operational risk, 295% increase in liquidity risk and a 2.4% increase in market risk. The cumulative adjusted R² (0.028) which is the multiple coefficient of determination gives the proportion or percentage of the total variation in the dependent variable as explained by the independent variables jointly. Hence, it signifies that 2.8% of the total variation in share price prediction of the sample firms is caused by the proxies of risk management. This is quite high so predictions from the regression equation are fairly reliable. It also means that 97.2% of the variation is still unexplained so adding other independent variables could improve the fit of the model. This indicated that the model is fit and the explanatory variable are properly selected, combined and used. The findings have theoretical, practical and regulatory significance. This significance represents the contributions of the study which are expected to benefit the existing body of knowledge within the accounting and finance research, regulators and providers of accounting services.

Considering the significant effect of credit risk management on share price of deposit money banks, the regression result in table 3 indicate that credit risk management has a negative and insignificance influence on share price of deposit money banks in Nigeria. This was proved by the beta coefficient value of -0.059 and a t- value of -0.651 which has a p- value of 0.516 which is insignificance at 5% significance level. This leads to the acceptance of null hypothesis and rejection of alternative hypothesis. Hence, it is concluded that credit risk management has no significant effect on share price of listed deposit money banks in Nigeria.

Considering the significant effect of operational risk on share price of deposit money banks, the regression result in table 3 indicate that operational risk has a positive and insignificance influence on share price of deposit money banks in Nigeria. This was proved by the beta coefficient value of 0.130 and a t- value of 1.289 which has a p- value of 0.200 which is insignificance at 5% significance level. This leads to the acceptance of null hypothesis and rejection of alternative

hypothesis. Hence, it is concluded that operational risk has no significant effect on share price of listed deposit money banks in Nigeria. Considering the significant effect of liquidity risk on share price of deposit money banks, the regression result in table 3 indicate that operational risk has a positive and insignificant influence on share price of deposit money banks in Nigeria. This was proved by the beta coefficient value of 0.115 and a t- value of 1.130 which has a p- value of 0.261 which is insignificant at 5% significance level. This leads to the acceptance of null hypothesis and rejection of alternative hypothesis. Hence, it is concluded that liquidity risk has no significant effect on share price of listed deposit money banks in Nigeria.

Considering the significant effect of market risk on share price of deposit money banks, the regression result in table 4 indicate that market risk has a positive and insignificant influence on share price of deposit money banks in Nigeria. This was proved by the beta coefficient value of 0.106 and a t- value of 1.163 which has a p- value of 0.247 which is insignificant at 5% significance level. This leads to the acceptance of null hypothesis and rejection of alternative hypothesis. Hence, it is concluded that market risk has no significant effect on share price of listed deposit money banks in Nigeria.

4.1 Discussion of Findings

The results indicate that almost all the variables are significantly normally distributed at 5% level of significance. The correlation matrix indicates the variables have mixed relationships. The results also indicate the absence of multi-collinearity.

The findings from the first hypothesis agreed that credit risk management has no significant effect on share price of listed deposit money banks in Nigeria. This findings is in agreement with the findings of Okeke (2022) and Elshandidy and Zeng (2022) but in disagreement with the results of Oluwaremi and Oluoch (2021) and Olowookere and Feruke (2021).

The findings from the second hypothesis revealed that operational risk has no significant effect on share price of listed deposit money banks in Nigeria. This result agrees with the findings of Joel and Manson (2023) and Okere, Isiaka and Ogunlowore (2023) while it negates the findings of Olajide and Diekolola (2020).

The findings from the third hypothesis revealed that liquidity risk has no significant effect on share price of listed deposit money banks in Nigeria. This is further strengthened by the position of Muhammed, Nurnaddia and Abubakar (2023) and Eze (2023) while it negates the findings of Effiong and Enya (2020).

The findings from the fourth hypothesis revealed that market risk has no significant effect on share price of listed deposit money banks in Nigeria. This findings correlates with the findings of Basse and Udoh (2022), Isuwa, Agbi, Okpanachi and Suleiman (2021) and Handayani, Farlian and Ardian (2019) while it negates the findings of Mwaurah, Muturi and Waititu (2017).

5.0 Conclusion and Recommendation

5.1 Conclusion

Given how risk management disclosure affects corporate accomplishments, it is a crucial practice that businesses in this dynamic business environment are expected to implement. The rise in risk management is primarily attributable to the variety and intensity of risks that corporations encounter as a result of the increasing complexity of the business environment. Risk is practically necessary for business to function, suggesting that risk will always exist in any corporate environment. A company's management can be categorized as either risk-lovers, risk-averse, or risk-neutral based on how much risk they are willing to take. Better bank performance is the

outcome of improved risk management in terms of managed funds, decreased costs for bad and doubtful loans, and debt equity ratio. Therefore, it is imperative that banks exercise prudent risk management in order to safeguard their assets and preserve the interests of their investors.

5.2 Recommendations

The following recommendations are hereby made:

- i. The banks should manage their operations in a way that optimizes their earnings and profits in order to mitigate the credit risks of loss occasioned by exchange rate conditions in Nigeria's banking sector.
- ii. Central Bank of Nigeria should therefore consider developing a framework that will drive the implementation of operational loss consortium data industry-wide and make loss information available to participating banks.
- iii. Managers of the deposit money bank in Nigeria should pay attention to the disclosure of liquidity risk in their annual report to enhance the development of their company's share price which will in turn increase the value of the company.
- iv. Since market risk is systematic in nature that investors cannot eliminate through a diversified portfolio, decision-makers and portfolio managers of financial service firms should employ appropriate risk strategies through derivatives, forwards, futures, swaps, options that can mitigate market risk.

References

- Abdullah, A., Farouk, A., & Bassam, R. (2018). Operational risk management in financial institutions: An overview. *Business and Economic Research*, 8(2), 11-32.
- Abiona, J.O., Taiwo, A.M., Faiza, M.H., Hauwa, L.A. & Stanley, N.A. (2024). The impact of liquidity risk on profitability of listed deposit money banks in Nigeria. *International Journal of Professional Business Review*, 9(6), 1 – 24.
- Adegbola, O. O., Damilola, F. E., Tony, I. N., Sainey, F., Kerry, E. H. & Jemima, T. B. (2021). Enterprise risk management (ERM) and firm's performance: A Study of listed manufacturing firms in Nigeria. *Research in World Economy*, 12(1), 31 – 42.
- Agbana, J., Ibrahim, U. A., & Maitala, F. (2024). Market and Operational Risk Impact on Quoted Deposit Money Banks' Financial Performance in Nigeria: A Panel Regression Approach. *Open Journal of Business and Management*, 12, 2727-2753.
- Ajao, M. G. & Wemambu, M. U. (2019). Volatility estimation and stock price prediction in the Nigerian stock market. *International Journal of Financial Research*, 3(3), 45 – 58.
- Aladejebi, O. (2021). Board gender diversity and performance of listed deposit banks in Nigeria. *European Business & Management*, 5(1), 27-36.
- Bassey, I.F. & Udoh, F.S. (2022). Market risks and profitability of deposit money banks in Nigeria: A cointegration and panel multiple regression analysis. *NDIC Quarterly*, 38(1), 49 – 63.

- Bravo, F. (2017). Are risk disclosures an effective tool to increase firm value? *Managerial and Decision Economics*, 38(8), 1116–1124.
- Bushman, R. M. (2016). Transparency, accounting discretion, and bank stability. *Economic Policy Review*, 22(1), 129–149.
- Central Bank of Nigeria (2022). Annual Statistical Bulletin. <https://www.cbn.gov.ng/documents/statbulletin.asp>
- Coles, J. L. (2022). Equilibrium pricing under parameter uncertainty. *Journal of Financial and Quantitative Analysis* 30(3), 347–64.
- Effiong, S. A. & Enya, E. F. (2020) Liquidity risk management and financial performance: are consumer goods companies involved? *International Journal of Recent Technology and Engineering (IJRTE)*, 9(1), 31-40.
- Elamer, A. A. & Benyazid, I. (2018). The impact of risk committee on financial performance of UK financial institutions. *International Journal of Accounting and Finance*, 7(9), 1–30.
- Elshandidy, T. & Zeng, C. (2022). The value relevance of risk-related disclosure: Does the tone of disclosure matter? *Borsa Istanbul Review*, 22(3), 498–514.
- Erin, O. & Aribaba, F. (2021). Risk governance and firm value: exploring the hierarchical regression method. *Afro-Asian Journal of Finance and Accounting*, 11(1), 104-130.
- Eze, O. A. (2023). Corporate governance, liquidity risk, and sustainable growth rate in the Nigerian banking industry. *International Journal of Professional Business Review*, 8(10), 1 – 34.
- Giner, B., & Mora, A. (2019). Bank loan loss accounting and its contracting effects: The new expected loss models. *Accounting and Business Research*, 49(6), 726–752.
- Habib, S., Masood, H., Hassan, T. S., Mubin, M., & Baig, U. (2018). Operational risk management in corporate and banking sector of Pakistan. *IISTE Journal*, 4(5), 58-66.
- Handayani, M., Farlian, T., & Ardian, A. (2019). Firm size, market risk, and stock return: Evidence from Indonesian blue chip companies. *Jurnal Dinamika Akuntansi dan Bisnis*, 6(2), 171-182
- Ibrahim, M. F., Okika, N. P., Yunusa, I. & Janada, A. (2020). Risk management committee size, independence, expertise and financial performance of listed insurance firms in Nigeria. *International Journal of Research and Innovation in Social Science*, 4(5), 313 – 319.
- Isuwa, D., Agbi, E. S., Okpanachi, J. & Suleiman, T. (2021). Market risk and stock return of listed financial service firms in Nigeria. *European Journal of Business and Management*, 13(8), 110 – 134.
- Joel, O. & Manson, O. (2023). Risk management and performance of the Nigerian banking industry. *Journal of Business Studies and Management Review*, 6(2), 118 – 127.
- Khan, S. U. (2022) Financing constraints and firm-level responses to the COVID-19 pandemic: International evidence. *Research in International Business and Finance*, 59(10), 87 – 106.
- Koch, T. & MacDonald, S. (2019). *Bank Management*. New Jersey; Nelson Education.

- Martins, M. A., Umar, A. I. & Taiwo, A. M. (2022). Effect of board characteristics and risk management practices on the financial performance of listed non-financial firms in Nigeria. *Problems and Perspectives in Management*, 20(3), 285-296
- Mbah, P. C. (2018). Effect of economic recession on the performance of manufacturing firms in Enugu state Nigeria. *International Journal of Academic Research in Economics and Management Sciences*, 7(2), 32-44
- Muhammed, A. A., Nurnaddia, B. N. and Abubakar, H. U. (2023). Liquidity risk and performance of non-financial firms listed on the Nigerian Stock Exchange. *Gusau Journal of Accounting and Finance*, 4(1), 54 – 74.
- Muriithi, J. G. & Waweru, K. M. (2017). Operational risk, bank size and the financial performance of commercial banks in Kenya. *Journal of Finance & Banking Studies*, 6(3), 39-50.
- Mwaurah, I. G., Muturi, W., & Waititu, A. (2017). The influence of credit risk on stock returns. *International Journal of Scientific and Research Publications*, 7(5), 575 – 569.
- Noor, J.A.M. & Abdulla, A. I. (2014). The impact of financial risks on the firms' performance. *European Journal of Business and Management*, 6(5), 78 – 94.
- Okeke, M.U. (2022). Value relevance of risk disclosure of listed banks in Nigeria. *Scholarly Journal of Management Sciences Research*, 1(6), 1 – 15.
- Okere, W., Isiaka, M., & Ogunlowore, A.(2023). Risk management and financial performance of deposit money banks in Nigeria. *European Journal of Business, Economics and Accountancy*, 6(2), 30-42.
- Olajide, S.F. & Diekolola, O. (2020). Impacts of operational risk management on financial performance: A case of commercial banks in Nigeria. *International Journal of Finance & Banking Studies*, 9(1), 22 – 35.
- Olowookere, J. K. & Feruke, B.(2021). Value relevance of risk management disclosure among listed deposit money banks in Nigeria. *Business Excellence and Management*, 11(4), 64–79.
- Olusi, W. & Ibrahim, T. (2021). Nigeria's largest FMCGs' profits far from pre-pandemic levels. *Business Day News, Nigeria*.
- Oluwaremi, O.J. & Oluoch, O. (2021). Effect of credit risk management on the stock market performance of money deposit banks in Nigeria. *International Journal of Social Sciences and Information Technology*, 4(10), 375 – 390.
- Ongore, V. O. & Kusa, G. B. (2018). Determinant of financial performance of commercial banks in Kenya. *International Journal of Economics and Financial Issues*, 3(1), 237-241.
- Owojori, A. A. (2021). The challenge of risk management in Nigerian banks in the post consolidation era. *Journal of Accounting and Taxation*, 13(2), 23 – 31.
- Owolabi, T. J., Bamisaye, T. O. & Efuntade, A. O. (2021). Board diversity and financial performance of quoted firms in Nigeria. *International Journal of Economics, Business and Management Research*, 5(10), 46 – 62.
- Oye, D. (2020). Analysis of impacts of operational risk management practices on banks' financial performance: Study of selected commercial banks in Nigeria. *International Journal of Finance & Banking Studies*, 9(1), 22 – 35.

- Peter, S., Gordon, L. & Yueran, M. (2018). Rethinking operational risk capital requirements. *Journal of Financial Regulation*, 4(1), 1–34.
- Pierce, E. M. & Goldstein, J. (2018). ERM and strategic planning: A change in paradigm. *International Journal of Disclosure and Governance*, 15(1), 51-59.
- Simamora, R. J. & Oswari, T. (2019). The effects of credit risk, operational risk and liquidity risk on the financial performance of banks listed in Indonesian stock exchange. *International Journal of Economics, Commerce and Management*, 7(5), 182 – 193.
- Umar, M. J. & Taiwo, O. Y. (2022). Stakeholders perception of provision of non-audit services on the auditor independence in the Nigerian banking industry. An Unpublished M. Sc Thesis Department of Accounting A. B. U. Zaria.
- Wachiaya, J. (2021). A survey of market risk management techniques by commercial banks in Kenya and their suitability in mitigating financial loss. *Unpublished Doctoral Dissertation Submitted to the Department of Risk Management*, University of Nairobi, Kenya. 1-186.