

Risk Management and Performance of Deposit Money Banks in Nigeria

ABSTRACT

This study examined the relationship between risk management and performance of deposit money banks in Nigeria as moderated by environmental turbulence. The study adopted the cross-sectional research survey design. Primary data was generated through structured questionnaire while the population of study was the 24 deposit money banks in Nigeria. The entire population of 24 deposit money banks were adopted as a census. However, the number of respondents/ participants in the study was one hundred and twenty senior level managers of the 24 Deposit Money Banks in Nigeria. The reliability of the instrument was achieved by the use of the Cronbach Alpha coefficient with all the items scoring above 0.70. The hypotheses were tested using the Spearman's Rank Order Correlation Coefficient. The tests were carried out at a 0.05 significance level. Findings revealed that there is a significant relationship between risk management and performance of deposit money banks in Nigeria. Therefore, the study concludes that the adoption of risk management practice positively enhances the performance of deposit money banks in Nigeria. This implies that by adopting a proactive approach to risk management, deposit money banks can identify, assess, and mitigate potential risks that could adversely impact their operations. Hence, the study recommends that deposit money banks should conduct regular and thorough risk assessments to identify potential risks that could impact the bank's operations and performance. This includes assessing credit, market, liquidity, operational, and other relevant risks. Understanding the risk landscape is crucial for developing effective risk management strategies.

Keyword: Risk Management, Performance, Profitability, Service Quality, Market Share

INTRODUCTION

Over time, management and shareholders typically focus their primary attention on the success of a corporation. Essentially, investors are primarily seeking financial gains from their assets. Organizations implement specific activities and initiatives to enhance organizational performance, ensuring success in terms of product quality and operational efficiency. Organizational managers place a high value on organizational performance because it is their primary responsibility to uphold the trust and confidence placed in them by the owners. Mahapatro (2013) defines organizational performance as the capacity of a company to achieve its objectives and goals through effective governance and skilled administration. Organizational performance is typically a measure of the extent to which a company successfully achieves its objectives. Various scholars have proposed different measures to assess a firm's performance. These measures include customer satisfaction, product quality,

employee satisfaction, organizational reputation, customer loyalty, competitive advantage, perceived image, capacity utilization, employee morale, operational efficiency, product innovations, inventory turnover, and timeliness (Richard, Devinney, & Yip, 2009). Risk management is essential for optimizing performance in different areas. Companies can take proactive steps to manage and reduce potential risks by identifying and analyzing them, resulting in improved decision-making and overall performance. Oliveira et al. (2019) emphasize that risk assessment offers a methodical way to identify and measure uncertainties and potential hazards that could affect performance results. By employing various approaches and tools, such as fault tree analysis and Monte Carlo simulation, companies may evaluate the probability and impacts of risks. This allows them to allocate resources and develop solutions in a prioritized manner. By adopting a proactive strategy, organizations can foresee and prevent possible problems, resulting in improved operational efficiency and effectiveness.

Furthermore, risk assessment enables firms to pinpoint opportunities for innovation and expansion by assessing the possible advantages and rewards associated with taking measured risks. Risk assessment has the dual purpose of enabling businesses to mitigate potential risks while also enhancing their ability to make informed decisions and engage in strategic planning, ultimately resulting in improved performance.

Organizations in the current dynamic business environment encounter many hazards that can impede their overall success (Ireland & Webb, 2007). Nevertheless, implementing efficient risk mitigation techniques can assist firms in improving their performance and guaranteeing long-term success. Rasid, Golshan, Ismail, and Ahmad (2012) propose that a crucial approach to reducing risks is to adopt a thorough risk management framework (Rasid et al., 2012). This entails the identification and evaluation of risks in several domains of the company, including finance, operations, and human resources. Organizations can design focused initiatives to reduce risks and minimize their impact on performance. Another crucial tactic is to foster a culture of risk consciousness and responsibility inside the firm. This entails creating a workplace culture that encourages and supports employees in recognizing and reporting potential hazards, with those in positions of authority responsible for properly addressing and mitigating these risks. Moreover, companies can enhance their performance by broadening the range of risks they encounter. One way to accomplish this is by expanding into new markets, extending their range of products or services, or forming strategic partnerships (Rasid et al., 2012). By diversifying their risks across different sectors, organizations can mitigate the probability of significant impact from a single risk occurrence. In addition, firms can reduce

risks by having strong internal controls and systems. These activities encompass the frequent assessment and revision of policies and procedures, the comprehensive examination of records, and the guarantee of adherence to applicable legislation and standards. Implementing robust internal controls enables firms to promptly identify and mitigate risks, therefore reducing their potential influence on performance. Therefore, the purpose of the study was to examine the relationship between risk management and performance of deposit money banks in Nigeria.

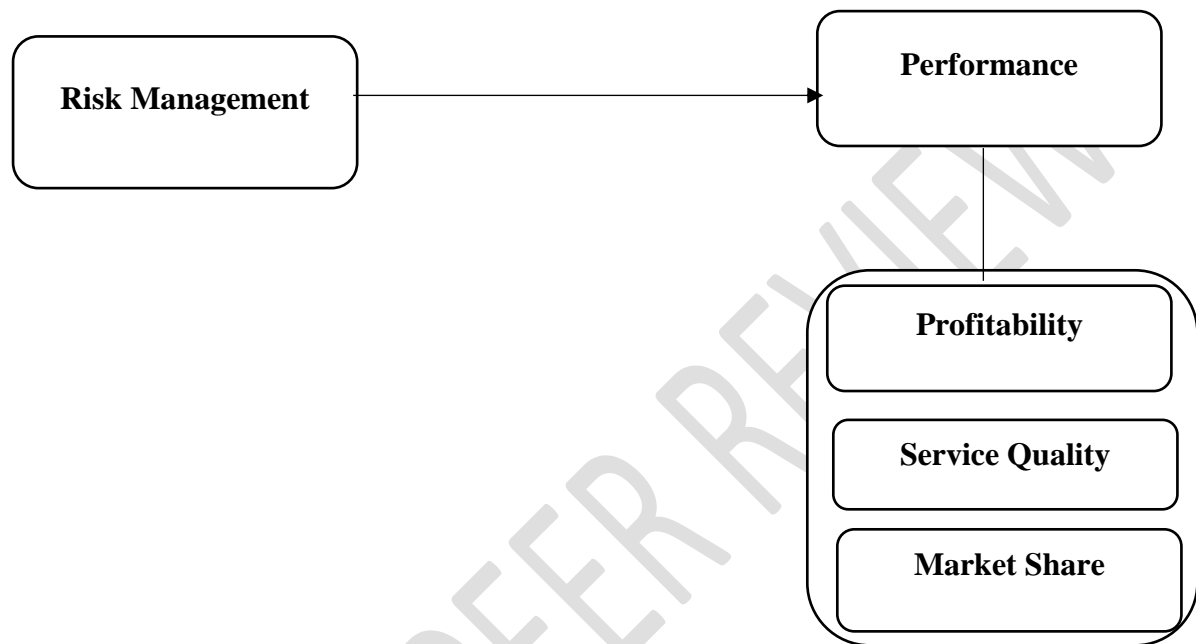


Figure 1: conceptual model for the relationship between risk management and performance
Source: Desk Research (2023)

Theoretical Foundation

Resource-Based View Theory

The resource-based view emerged as a supplementary perspective to the industrial organization view, with Bain (1968) and Porter (1979, 1980, & 1985) being prominent advocates of this approach. Advocates of the resource-based view (RBV) contend that the organization's resources, rather than the external environment, are the fundamental basis for the firm's strategy (Feurer & Chaharbaghi, 1995; 1997). According to Lerner & Almor (2002), management transforms a firm's collection of resources into its strengths and weaknesses. RBV argues that organizations achieve long-term competitive advantages by effectively utilizing significant resources and competencies that are not easily replaceable (Grunert & Hildebrandt, 2004). This

viewpoint argues that a company's competitive advantage stems from its possession of strategic resources that possess value, rarity, high imitation costs, and high substitution costs.

Jones and Hill (2009) classify company resources as either tangible or intangible. Physical resources have the potential to generate returns above normal levels, but it's the intangible resources, developed through a unique historical sequence and possessing a socially complex dimension, that can establish and sustain an organization's competitive edge (Makhija, 2003). The degree of available resources may limit a firm's risk management strategy in turbulent environments. The firm strategy view is an expansion of the resource-based concept. The statement suggests that organizational processes apply intricate skills and accumulated knowledge to innovate. These processes enable companies to effectively utilize assets and functions as critical factors for success, delivering customer value in a cost-effective manner and strategically deploying resources (Gillies, 2011). The idea examines whether an organization possesses sufficient internal resources to effectively handle and alleviate the negative consequences of a crisis. According to Carter & Carter (2009), possessing distinctive human capital (such as staff skills, experience, and knowledge), a strong reputation, and a well-known brand can help a corporate organization recover quickly during a crisis. In addition, the theory posits that internal structural capital, which refers to formal written guidelines for employees, and relational capital, which pertains to the organization's relationship with the public, are likely to confer a competitive advantage in managing a crisis (Benevene & Cortini, 2010).

Risk Management

Effective risk management is a critical undertaking for businesses, organizations, and individuals alike because it aims to mitigate the adverse consequences of unforeseen occurrences. The process entails identifying, evaluating, and reducing risks to ensure the smooth execution of activities. Risk is the state of not knowing what will happen in the future, or the possibility of an unpredictable outcome or event (Banks, 2004). Moreover, risk refers to the possibility of a detrimental effect on an asset or a valuable attribute that may result from a current activity or a future event (Douglas and Wildavsky, 1982). According to Rejda (2008), risk management is the systematic procedure by which an organization recognizes potential losses it may face and chooses the most suitable methods for dealing with these risks. To begin the risk management process, it is critical to understand the risks and their potential consequences. This necessitates a thorough examination of the potential risk origins and the

probability of their occurrence. The second phase entails employing techniques to identify and evaluate hazards, such as risk mapping, risk assessment, or risk analysis. Ultimately, it is essential to establish and execute efficient risk management techniques in order to minimize the potential consequences of risks. These measures encompass risk avoidance, risk transfer, risk reduction, and risk acceptance.

Risk management is an essential component of a company's strategic management. The risk assessment process entails the continuous evaluation of potential hazards using a variety of tools and approaches. This process aims to identify all conceivable risks, prioritize the most essential ones that need immediate attention, and implement strategies to effectively manage these risks (Tariquillah and Habib, 2001). Efficient and effective risk management is essential for all organizations, and it is a critical responsibility for enterprises in the service industry. Effective risk management increases a business's effectiveness. Assessments of banks' performances revealed deficiencies in their risk management processes, with many banks assuming excessive risk without sufficient consideration for long-term performance (Sitanta, 2011).

Risk Management in Nigerian Deposit Money Banks

Effective risk management is an essential component of Nigerian deposit money institutions' operations. Risk management is of utmost importance because it guarantees the security and stability of financial institutions and shields them from potential losses. Nigerian deposit money banks face a variety of risks that significantly affect their profitability and long-term sustainability. These hazards include credit risk, operational risk, liquidity risk, among others. To effectively handle these risks, it is necessary to employ tactics such as risk assessment, risk mitigation, and risk monitoring.

Deposit money banks rely on risk management to systematically identify, assess, and minimize any risks that may impact their operations and overall financial stability. As per the findings of Kafidipe, Uwalomwa, Dahunsi, and Okeme (2021), using efficient risk management strategies in deposit money institutions can decrease the probability of financial crises and safeguard the interests of depositors and other stakeholders. The authors additionally observe that risk management encompasses a variety of activities, such as risk identification, risk assessment, risk monitoring, and risk reduction. Deposit money institutions can proactively address potential risks by recognizing them and implementing measures to minimize them. These

efforts may include adopting suitable risk management policies and procedures, investing in technology to enhance risk monitoring, and providing proper staff training for effective risk management. Moreover, the implementation of efficient risk management strategies can bolster the standing of deposit money institutions and instill greater trust among stakeholders in the organization, finally resulting in heightened profitability. Hence, it is imperative for deposit money banks to give utmost importance to risk management as a fundamental component of their operations in order to guarantee enduring financial stability and prosperity.

Nigerian deposit money banks (DMBs) encounter various hazards that jeopardize their stability and profitability. Aruwa and Musa (2014) identified several types of risks, namely credit, market, liquidity, operational, and regulatory risks. Credit risk refers to the possibility of financial loss caused by a borrower's inability to repay a loan or fulfill its obligations. Market risk refers to the potential for financial loss caused by unfavorable fluctuations in market prices or rates. Liquidity risk refers to the situation where an entity is unable to fulfill its financial obligations or sell its assets without incurring substantial losses. Operational risk refers to the possibility of financial loss as a result of insufficient or unsuccessful internal procedures, systems, and human mistakes. Regulatory risk refers to the potential loss that arises when there is a failure to adhere to legal requirements and regulations. These interconnected risks can significantly impact the entire banking sector. Inadequate risk management techniques in the past have led to multiple crises in the Nigerian banking industry. Hence, it is imperative for DMBs to use efficient risk management measures to minimize these risks and guarantee their enduring viability.

Efficient risk management is crucial for the survival and expansion of Nigerian Deposit Money Banks (DMBs). Soyemi, Ogunleye, and Ashogbon (2014) provide many ways that Nigerian DMBs might adopt to achieve efficient risk management. First and foremost, deposit money banks (DMBs) should create and execute strong risk management frameworks that encompass all facets of their business. This encompasses the process of identifying, quantifying, overseeing, and managing risks. Furthermore, it is imperative for DMBs to cultivate a risk management culture that fosters a heightened sense of risk awareness and actively supports the implementation of risk mitigation measures. This encompasses routine staff training on risk management and the implementation of incentives to ensure adherence to risk management protocols. Furthermore, it is advisable for DMBs to expand the variety of loans in their portfolios in order to mitigate the risk of overexposure to a single sector or borrower. This

entails diversifying loans across multiple sectors and businesses to mitigate the effects of any negative economic developments in a certain sector. DMBs should regularly perform stress tests to evaluate their susceptibility to unfavorable circumstances and detect any vulnerabilities in their risk management systems. These measures can help Nigerian Deposit Money Banks (DMBs) improve risk management and protect their operations from potential losses.

Concept of Performance

Organizational performance refers to an organization's ability to effectively accomplish its objectives by implementing effective management practices, maintaining robust governance, and consistently striving to achieve desired outcomes. Ibarra (2005) suggested that service organizations should expand their analysis of productivity beyond the traditional focus on the company's perspective to include a dual perspective that considers both the company and the client. This expanded approach can facilitate the resolution of conflicts or the utilization of synergies between improving service quality and increasing service productivity (Huang & Tung, 2001). Organizational performance measurement is a complex notion that occurs at several levels across different sectors, including industrial, corporate, and business units. It is important to focus on specific elements that contribute to performance in a way that aligns with the context of organizations and sector factors that can maintain success in the long run (McGahan, 2004).

Firm performance is an important concept in strategic management. Many areas employ it as the ultimate dependent variable (Cho & Pucik, 2005; Richard, Derinney, Yip, & Johnson, 2009). Production of value is considered to be the core element of performance. Thus, value creation, as determined by the provider of resources, serves as the fundamental criterion for evaluating any business's overall performance (Monday et al., 2015). The primary emphasis of any company is continuous performance, as it is the sole means by which organizations can expand and endure (Gavrea et al., 2011). An enterprise can evaluate its success by employing both financial and non-financial metrics.

Measures of Performance

Profitability

Profitability refers to a company's ability to effectively use its resources to create revenues that exceed its expenses. Put simply, this refers to a company's capacity to earn revenues from its day-to-day activities (Trivedi, 2010). Profitability refers to a business's capacity to generate a

financial gain. Profit is the remaining amount of income that a business has after deducting all expenses directly associated with generating that revenue, including production costs and other business operations expenses (Tulsian, 2014). Profitability refers to the ability of an organization, firm, or enterprise to generate profit from its various commercial activities. The statement demonstrates the extent to which an organization's management can effectively benefit from utilizing all the resources at their disposal (Etale, 2016).

Profitability is a vital component of every firm, and comprehending it is imperative for business managers and owners. According to Scott (2017), profitability refers to a business's capacity to make profits or earnings within a specified timeframe. Various elements influence a company's profitability, such as revenue, costs, and operational efficiency. Revenue refers to the total income generated by a firm through its sales. It is crucial for the revenue to surpass the costs in order to earn a profit.

Service Quality

Zeithaml (1988) defines quality as a wide concept encompassing superiority or perfection. Kotler and Armstrong (2012) define a product as something that a market can present for attention, acquisition, use, or consumption, potentially fulfilling a want or need. Aaker (1994), citing Ehsani (2015), defines product quality as the customer's perception of its overall quality or superiority compared to alternatives in relation to its intended purpose. According to Kotler and Armstrong (2012), product quality refers to the attributes of a product or service that directly impact its ability to meet the expressed or implied requirements of customers.

Service quality has gained significant importance in the business sector, particularly within the framework of business continuity management (BCM). The quality of a service refers to the extent to which it meets or exceeds client expectations. It plays a crucial role in determining customer satisfaction and loyalty. Within the framework of Business Continuity Management (BCM), the significance of service quality lies in its potential to affect an organization's capacity to sustain operations during times of disruptions or crises. Martínez and Martínez (2010) argue that service quality is a crucial aspect of business continuity management (BCM) since it enables organizations to maintain the provision of vital services to customers even during disruptions, hence enhancing their resilience.

Market Share

Market share is the proportion of a company's sales in a particular market during a specified timeframe. Increased market share directly correlates with increased earnings. Acquiring or developing market share is an aggressive or proactive approach aimed at enhancing the company's position in the market (Sarkissian, 2010). Market share is a metric that quantifies the degree to which consumers choose a certain product compared to other similar products. A larger market share typically results in more sales, reduced effort required to sell more, and a formidable obstacle for any competitors attempting to enter the market. Having a larger market share implies that the leader will benefit more than other competitors if the market grows. Similarly, a market leader, as determined by its market share, must also increase the size of the market in order to achieve its own growth (Schnaars, 1998).

Market share is a crucial metric that measures a firm's level of competitiveness in the market, indicating how effectively it is performing compared to its rivals. In addition to changes in sales revenue, this indicator helps managers assess both overall and specific demand in their industry. It allows them to evaluate not only overall market expansion or contraction, but also patterns in customers' choices among rival companies. Generally, market growth leads to a less expensive and more profitable increase in sales compared to gaining customers from competitors. On the other hand, declines in market share can indicate significant long-term issues that necessitate strategy modifications. Companies that have market shares below a specific threshold may not be economically sustainable. Furthermore, Armstrong and Greene (2007) regard the market share trends of each specific product in a company's range as early predictors of potential future opportunities or challenges.

Risk Management and Performance

Matthews (2013) analyzed the relationship between risk management and managerial efficiency in Chinese banks using a network DEA framework. Chinese banks have historically prioritized other internal tasks over risk management. The prioritization of political structure and developmental goals has frequently disregarded the conventional approach to risk management, leading to high non-performing loan (NPL) levels. Risk managers in China have inferior training and practice compared to foreign banks operating in the country. We conduct a statistical test to evaluate the significance of risk indicators in assessing the efficiency of bank income. The traditional functions of retail banking limited the practice of risk management and risk organization.

Awojobi (2011) conducted an analysis of risk management in banks, specifically examining the evidence of bank efficiency and the impact on macroeconomics. In 2007, the subprime mortgage crisis in the United States caused a global economic collapse, which had a negative impact on financial markets and players in the international financial industry. As a result, most financial institutions, particularly banks, are now facing a crisis in managing their capital. This study examines the Nigerian banking industry and specifically investigates the factors that impact the effectiveness of risk management in banks. The author conducted an empirical inquiry using Panel regression analysis. This analysis utilized a set of time series data and cross-sectional variables related to macroeconomic and bank-specific characteristics. The data covered the period from 2003 to 2009. The panel regression results demonstrate that the efficiency of risk management in Nigerian banks is influenced not just by characteristics specific to each bank, but also by macroeconomic variables. This refers to the tendency of bank performance in the Nigerian banking sector to fluctuate in line with the overall economic cycle. The adequacy of Basel standards for risk management is questionable because asset quality fluctuates in accordance with business cycles.

In their study, Yakob, Yusop, Radam, and Ismail (2010) analyzed the effectiveness of risk management in conventional life insurance companies and Takaful operators. Risk management is a fundamental activity in all firms, but it is particularly crucial in the insurance industry. Shareholders, policyholders, and regulators are primarily concerned with the risk management efficiency of life insurers and takaful operators. The reason for this is that implementing careful risk management ensures a positive return for shareholders, ensures the ability to compensate policy holders for any insured losses that may arise, and guarantees compliance with solvency requirements set by regulators. Fluctuations in interest rate risk, investment risk, solvency risk, and changes in consumer preferences have led to current issues in risk management. Given this situation, it is critical to gain a comprehensive understanding of the effectiveness of risk management among life insurers and takaful operators in Malaysia's highly competitive insurance business. The investigation spans from 2003 to 2007. We source the data from the Annual Financial Reports of fifteen established conventional life insurers and two takaful operators who have consistently operated in the business during the study period.

Based on the foregoing, the study thus hypothesized that:

H01: There is no significant relationship between risk management and profitability of deposit money banks in Nigeria.

H02: There is no significant relationship between risk management and service quality of deposit money banks in Nigeria.

H03: There is no significant relationship between risk management and market share of deposit money banks in Nigeria.

METHODOLOGY

The study adopted the cross-sectional research survey design. Primary data was generated through structured questionnaire. The population of this study was the 24 deposit money banks in Nigeria. The entire population of 24 deposit money banks were adopted as a census. However, the number of respondents/ participants in the study was one hundred and twenty senior level managers of the 24 deposit Mooney banks in Nigeria. The reliability of the instrument was achieved by the use of the Cronbach Alpha coefficient with all the items scoring above 0.70. The hypotheses were tested using the Spearman's Rank Order Correlation Coefficient and tests were carried out at a 0.05 significance level. [49]

DATA ANALYSIS AND RESULTS

Table 1: Correlations matrix for Risk Management and measures of Performance [49]

			Risk Management	Profitability	Service Quality	Market Share
Spearman's rho	Risk Management	Correlation Coefficient	1.000	.564**	.320**	.792**
		Sig. (2-tailed)	.	.000	.001	.000
		N	104	104	104	104
	Profitability	Correlation Coefficient	.564**	1.000	.795**	.320**
		Sig. (2-tailed)	.000	.	.000	.001
		N	104	104	104	104
	Service Quality	Correlation Coefficient	.320**	.795**	1.000	.431**
		Sig. (2-tailed)	.001	.000	.	.000
		N	104	104	104	104
	Market Share	Correlation Coefficient	.792**	.320**	.431**	1.000
		Sig. (2-tailed)	.000	.001	.000	.
		N	104	104	104	104

** . Correlation is significant at the 0.01 level (2-tailed).

Source: SPSS Output

H01: There is no significant relationship between risk management and profitability of deposit money banks in Nigeria.

Table 1 shows a Spearman Rank Order Correlation Coefficient (ρ) of 0.564 on the relationship between risk management and profitability. This value implies that a moderate relationship exists between the variables. The direction of the relationship indicates that the correlation is positive; implying that an increase in profitability was as a result of the adoption of risk management. Therefore, there is a moderate positive correlation between risk management and profitability of deposit money banks in Nigeria. Similarly displayed in the Table 1 is the statistical test of significance (p-value) which makes possible the generalization of our findings to the study population. From the result obtained, the significance value calculated is less than significant level ($p = 0.000 < 0.05$). Therefore, based on this finding the null hypothesis earlier stated is hereby rejected and the alternate upheld. Thus, there is a significant relationship between risk management and profitability of deposit money banks in Nigeria.

H02: There is no significant relationship between risk management and service quality of deposit money banks in Nigeria.

Secondly, Table 1 shows a Spearman Rank Order Correlation Coefficient (ρ) of 0.320 on the relationship between risk management and service quality. This value implies that a weak relationship exists between the variables. The direction of the relationship indicates that the correlation is positive; implying that an increase in service quality was as a result of the adoption of risk management. Therefore, there is a weak positive correlation between risk management and service quality of deposit money banks in Nigeria. Also displayed in the Table 1 is the statistical test of significance (p-value) which makes possible the generalization of our findings to the study population. From the result obtained, the sig- calculated is less than significant level ($p = 0.000 < 0.05$). Therefore, based on this finding the null hypothesis earlier stated is hereby rejected and the alternate upheld. Thus, there is a significant relationship between risk management and market share of deposit money banks in Nigeria.

H03: There is no significant relationship between risk management and market share of deposit money banks in Nigeria.

Table 1 shows a Spearman Rank Order Correlation Coefficient (ρ) of 0.792 on the relationship between risk management and market share. This value implies that a strong relationship exists between the variables. The direction of the relationship indicates that the correlation is positive; implying that an increase in market share was as a result of the adoption

of risk management. Therefore, there is a strong positive correlation between risk management and market share of deposit money banks in Nigeria. Also displayed in the Table 1 is the statistical test of significance (p-value) which makes possible the generalization of our findings to the study population. From the result obtained, the sig- calculated is less than significant level ($p = 0.000 < 0.05$). Therefore, based on this finding the null hypothesis earlier stated is hereby rejected and the alternate upheld. Thus, there is a significant relationship between risk management and market share of deposit money banks in Nigeria.

DISCUSSION OF FINDINGS

The study uncovered a noteworthy positive correlation between risk management and the performance of deposit money institutions in Nigeria. Awojobi (2011), who conducted an analysis on risk management in banks, confirmed this discovery. Research has revealed that macroeconomic variables, in addition to bank characteristics, influence the effectiveness of risk management in Nigerian banks. This refers to the tendency of bank performance in the Nigerian banking sector to fluctuate in line with the overall economic cycle. The adequacy of Basel standards for risk management is questionable because asset quality fluctuates in accordance with business cycles. Furthermore, Yakob, Yusop, Radam, and Ismail (2010) conducted previous research on the effectiveness of risk management in conventional life insurers and Takaful operators, which aligns with the present discovery. This finding presents potential avenues for insurance companies to enhance their risk management practices and meet the expectations of their stakeholders.

In recent years, the importance of risk management procedures in Nigerian deposit money banks (DMBs) has grown significantly. Soyemi, Ogunleye, and Ashogbon (2014) conducted a study that revealed that the banking industry in Nigeria has encountered notable difficulties as a result of diverse risk factors, including credit risk, market risk, operational risk, and liquidity risk. The authors contend that DMBs have acknowledged the necessity of adopting resilient risk management techniques to guarantee the stability and longevity of their operations. The study discovered that Nigerian Deposit Money Banks (DMBs) have implemented several risk management practices. These activities include the formation of risk management committees, the application of risk assessment frameworks, the utilization of risk-based capital adequacy measures, and the deployment of risk management software. These techniques empower DMBs to efficiently identify, quantify, track, and manage risks, therefore reducing the possible adverse effects on their financial performance and general stability. Additionally, the study indicates that the Central Bank of Nigeria (CBN) has played a vital role in fostering risk

management techniques in deposit money banks (DMBs) by issuing rules and regulations. Various factors influence the performance of deposit money banks (DMBs) in Nigeria. The amount of capital adequacy is a crucial determinant. According to Edem's (2017) research, banks that have larger levels of capital are more capable of absorbing losses and maintaining stability while the economy is experiencing a downturn. This is especially crucial in Nigeria, where the banking industry has had substantial difficulties in the past, such as bank collapses and hardship. The quality of loan portfolios is another influential factor in determining the performance of DMBs. Non-performing loans (NPLs) provide a substantial threat to the financial viability and stability of institutions. According to Edem (2017), banks that have greater ratios of non-performing loans are more likely to encounter challenges in producing income and sustaining liquidity.

Furthermore, Ogboi and Unuafe's (2013) research, which examined the favorable correlation between risk management and performance in Nigerian banks, aligns with the present discovery. Their study revealed that the implementation of effective risk management strategies is essential for enhancing the financial performance of banks. Nigerian banks operate in a highly unstable and unpredictable environment, requiring them to effectively manage various risks like credit risk, liquidity risk, and market risk.

CONCLUSION AND RECOMMENDATION

The study concludes that risk management positively enhance the performance of deposit money banks in Nigeria. This implies that by adopting a proactive approach to risk management, deposit money banks can identify, assess, and mitigate potential risks that could adversely impact their operations. This enables them to make informed decisions and implement strategies to safeguard their assets, maintain financial stability, and protect the interests of their stakeholders.

Based on the foregoing, the study recommends that deposit money banks should conduct regular and thorough risk assessments to identify potential risks that could impact the bank's operations and performance. This includes assessing credit, market, liquidity, operational, and other relevant risks. Understanding the risk landscape is crucial for developing effective risk management strategies.

Disclaimer (Artificial intelligence)

Author(s) hereby declare that NO generative AI technologies such as Large Language Models (ChatGPT, COPILOT, etc) and text-to-image generators have been used during writing or editing of manuscripts.

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