STRATEGIC RISK BEHAVIOUR AND SHAREHOLDERS' WEALTH OF DEPOSIT MONEY BANKS IN LAGOS STATE, NIGERIA

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Abstract - Bank shareholders are experiencing diminution in their investment as banks continue to pose more non-performing loans, low profitability, decline in return on equity and reduction in dividend. Banks are engaging in risky businesses to meet the shareholders' expectations. This study was carried out to examine the relationship between the strategic risk behavior (SRB) and shareholders' wealth (SHW) of deposit money banks (DMBs) in Lagos State, Nigeria. This was significant for stability of the financial system. This study adopted survey research design, purposive technique of non-probability sampling. Primary data was collected using a questionnaire. Descriptive statistics and Pearson Product Moment Correlation ® were used to test the hypothesis. The study found that there was a weak but negative relationship between SRB and SHW of DMBs ($r(82) = -.297$, $p<0.05$). The study recommended that setting of targets on SHW should be informed by moderate risk and reasonableness.

Keywords - Deposit Money Banks, Risk Disposition, Shareholders' Wealth, Strategic Risk Behaviour, Targets.

I. INTRODUCTION

The corporate performance of financial organisations is critical to the smooth running of the economy of nations across the globe. This is owing to the fact that the financial sector plays a significant role in the development of any economy as evident in its contribution to GDP aside other roles such as credit positioning, liquidity provisioning, and provision of risk management services (Baghebo & Okumoko, 2016). It is noteworthy that the health of the financial system boost the strength of an economy and conversely, any crisis suffered by the financial system always affect the status of the economy as well. This is evident in the global financial crisis of 2007 – 2008 experienced in the US and across Europe. The crisis had a ripple effect on the economy of various countries of the world (Sanusi, 2010, Oluwafemi, Simeon, & Olawale, 2013). The effect of such and other crises on an economy could be mitigated through an efficient and effective strategic risk behavior on the part of the operators of the financial system of a country (Alwattegama, 2018). Besides mitigation of the ripple effect of global financial crises on an economy, the financial performance of a bank to a large extent is also contingent upon its ability to effectively and efficiently manage both prevailing and anticipated risks in the business environment (Oluwafemi, et al., 2013).Many banks are deficient in the demonstration of analytical and strategic risk assessment skills this has arguably contributed to the incident of non-performance loans that has adversely affected many banks with some having to wind down as a result of such irrecoverable loans. The financial system of any country is critical in the economy as evident in its contribution to GDP along with the primary role of credit provisioning, liquidity provisioning and risk management services (Baghebo & Okumoko, 2016). Failure of financial system ripples into economic challenges for the country affected. The world economy was affected when there was global financial crisis in which several large banks failed across the globe in 2007 – 2009. These included Royal Bank of Scotland, Lehman Brothers, Washington Mutual and Aglo Irish Bank that were international banks. The failure of these banks was attributed to deficiencies in the governance of strategic risk both in disclosure and in practice (Mcconnell, 2012). Olalekan and Adeyinka (2013) explain the importance of capital adequacy in preparation for unanticipated losses which the normal earnings cannot absorb. They added that since banks build asset, the level of risk should match the capital to maintain soundness.

II. LITERATURE REVIEW

Strategic risk management is the process of identifying, assessing and managing risk in any part of the organizational strategy aimed at achieving organizational goal and creating value for the shareholders (Lai, 2012).Frigo and Anderson (2009) assert that strategic risk management is the risk policy of an organization which involves a critical analysis of all types of risk and the degree of risk acceptable by firms while aiming towards its organizational goals and creation of value for the shareholders.Frigo and Anderson (2009) opine that the expectations of shareholders from directors and executives in managing strategic risks have increased over time.

According to Sempabwa and Karuiki (2017), strategic risk management is a new approach for companies and a new way of thinking that allows a company to identify and manage its risk. In fact, the

goal of strategic risk management is to create, protect and enhance shareholder value (Aruwa & Musa, 2014). Strategic risk management (SRM) is increasingly becoming a popular strategy that holistically evaluates and manages all the risks faced by the firm. By doing so, SRM uses the firm's risks to determine which risks can be allowed and which should be mitigated or avoided (Sempabwa & Karuiki, 2017). Hui (2014) emphasize that efficiently managing risk in multinational companies is critical for the survival and growth in the economic globalization waves. He further added that recognition of risk management as a separate managerial function entails many advantages and the inclusion of risk management as a strategy in the general management function helps to enhance a firm's value.

The concept of strategic risk behavior stem from strategic risk management as one of its dimensions. It is the attitude of a corporate organization towards risk management (Manuj & Mentzer 2008). Woods (2007) asserts that strategic risk behavior is the action needed for the exploitation of good risks through a proper risk assessment. Banks that have sensible risk valuation have good behavior by being selective in risk matters with adequate preparations for the risk consequences (Adeleye, 2009). Henkel(2009) opines that strategic risk behavior is not about directing a good attitude by taking too much risk, some certain set of behavior are needed in developing and implementing formal processes and frameworks which enhances the exploitation of good risk necessary for innovative process or increase corporate performance.

Strategic risk behavior is the suitable actions in leading a controllable risk-taking culture (McConnell, 2012). It is a process and frameworks to ensure that everyone in an organization buys in on risk matters. Akram (2013) affirms that a good risk behavior will enable stakeholders to have a sense of responsibility on risk matters. Fadun (2013a) opines that strategic risk behavior is totally influenced by the risk culture of an organization. Organization with good risk culture, enable the whole organization team to show good attitude towards risk management; it influences their commitment as everyone discharge their duties with a mindset of effective management of risk (Adeoye, 2014). Boateng & Boateng, (2014) contribute that organizations suffered from risk management failure because of their bad attitude to risk matters, they are so much concern on maximization of wealth; they have a weak risk appetite and with inadequate knowledge and understanding of an effective risk management. Their poor attitudes hinder their aim in creating the desired value and wealth maximization.

Strategic risk behavior is the appropriate act for significant process in developing rules, frameworks, procedures and standards for the effective management of risk likelihood that has the potential to impact firm's performance and shareholders wealth (Andersen & Schroder, 2010). Ugwuanyiand Ibe (2012) assert that the behavior and culture towards risk management in every organization is crucial in achieving a successful risk management strategy. McConnell (2012) contends that organization do not fail during financial crisis because of bad strategies towards risk management. They failed because of bad attitude and behavior towards consistent implementation of the designed strategies. The board of directors of the organization pay less attention to the enforcement of their strategies especially if they have not recorded any eventuality that cost them so much in recent times; they do not invest much in enhancing a good behavior of all stakeholders towards risk management, their team motivation strategies are directed towards the maximization of their wealth.

Terungwa (2012) asserts that the risk appetite of an organization also influences the behavior towards risk management. Some organizations are naturally risk seekers, they have good appetite and risk taking has become a strength and competitive advantage process especially in areas of innovation development (Smit& Watkins, 2012). Fadun (2013a) contends that firms that are more troubled are often engaged in taking greater actions on less justifiable risk. They often have a conventional wisdom that higher risk-taking actions often lead to higher returns. However, risk taking can sometimes hurt organizations and hinder their performance severely, organizations' must ensure that their actions towards risk taking are not reckless and are strategic enough to take advantage of good risks (Adamu, 2013). Boateng and Boateng (2014) opine that firms with selective risk appetite are choosy about the appropriate risks for exploitation. However, organizations that fail to sufficiently prepare for the consequences of risk-taking act can severely suffer from the negative effects of risk taking (Nickols, 2016).

According to Njogo (2012) strategic risk behaviour is one of the major areas in the global financial crisis in the last decades among the financial institutions. Risk management is characterized by identification, assessment as well as prioritization of risks in conjunction with the coordination and an economical application of available resources in order to minimize, control, and monitors the prospect or impact of unfortunate as well as unwanted events pertaining to a business. Moreover, Dei and Amoh (2016) state in present days of world economy risk management is regarded to be one of the resilient and important tools for financial institutions. Carey (2001) claimed that financial risk management is so vital for all sorts of financial institution and opened up new research avenues in the realm of risk management.

Organisations embark on strategic risk management practices with a view to enhancing their corporate performance – a measure of change in financial

outcomes of an organization arising from its ability to effectively and efficiently manage its resources (Henri, 2002; Hagos & Guban, 2010). Scholars have identified several indicators of corporate performance such as capital adequace (Acharyya & Ball 2011; Amahalu, Abiahu, Okika & Obi, 2017; Mohammed, 2011), liquidity performance (Schroeck, 2002; Henri, Ane, & Peter 2009; Njeri, 2013; Ayodele & Alabi, 2014), shareholders' wealth (Sharfman, 2014; Dafikpaku, Eng,& Mcmi, 2011; McConnell, 2012).

This paper will however be focused on shareholders' wealth as a measure of corporate performance. Shareholders' wealth is of interest to this study as it is an objective of an organization that meets the primary needs of the various stakeholders in a business concern. Most of the other objectives of running an organization are skewed to the organization management. This study is anchored on the Modigliani and Miller Theory. The theory was propounded in 1958 and matches with the thrust of this study as it links organization risk, capital structure and shareholders wealth. The theory argues that given adequate capital structure and efficient and effective strategic risk management shareholders' wealth will be maximized.

III. METHODS AND DATA

The cross-sectional survey research design was adopted for this quantitative study. The population (ninety-six) comprised Chief Risk Officers, Chief Financial Officers, Chief Audit Executive, and Head of Corporate Strategy of the twenty-four deposit money banks selected for the study being the leading banks in the industry. The entire ninety-six officers were sampled for the study by total enumeration method. Ninety-six copies of a validated self-developed questionnaire whose reliability coefficient ranged from 0.727 to 0.857 was administered to collect data on strategic risk behavior and shareholders wealth. The instrument has a six point likert-type scale with attached weights as follows 1 – VL (very low), 2 – L (very low), 3 – ML (moderately low), 4 – MH (moderately high), 5 – H (high), and 6 – VH (very high). The data collected were analysed using both descriptive and inferential statistics.

IV. FINDINGS AND DISCUSSION

Ninety-six copies of the instrument were administered with a response rate of 85.4% as shown in table 3.1

Item	Frequency	Percent (%)
Returned Questionnaire	82	85.4
Unreturned Questionnaire	14	15.6
Total	96	100

Table 3.1: Study Response Rate
Source: Field Survey, 2018

From table 4.1, 82 copies of the administered instrument representing 85.4% were retrieved out of 96 copies that were administered.

The demographic profile of the respondents were as shown in table 3.2

Variables	Categories	Frequency	Percent (%)
Current Function	Risk Management	23	28.0
	Financial Control and Performance	17	20.7
	Independent Review	21	25.6
	Corporate Strategy Implementation	21	25.6
Current Job Title	Chief Risk Officer	24	30.0
	Chief Financial Officer	17	21.2
	Chief Audit Executive	19	23.8
	Head of Corporate Strategy	22	26.0
Approved banking license	Commercial Banking	70	86.4
	Merchant Banking	11	13.6
Level of Authorization of the Banks	International Authorization	34	42.0
	Regional Authorization	39	48.1
	National Authorization	8	9.9
Work experience	Between 11 and 15 years	14	17.1
	Over 15 years	68	82.9
Highest Educational Qualification	HND/B.Sc	3	3.7
	M.Sc/MBA	61	75.3
	M.Phil/Ph.D	6	6.2
	Others	12	14.8

Table 3.2: Demographic Profile of the Respondents (n=82)
Source: Field Survey, 2018

An examination of demographic information revealed that 28% of the respondents are risk management officer of selected commercial banks, 20.7% are financial control and performance officer, 25.6% are independent review and corporate strategy implementation officers respectively. The finding implies that majority of the respondents were risk management officers. On the current job title of respondents, 30.0% of the respondents are chief risk officers in the respective banks, 21.2% are chief financial officers, 23.8% are chief audit executive, and 25.0% are head of corporate strategy officers. The finding on work experience as indicated in table 4.12 revealed that majority (82.9%) of the respondents had experience of over 15 years while a few (11.5%) had experience between 11 and 15 years. These findings indicate that employees who have longer working period in a given organization have greater experience to carry out their duties effectively. Data obtained from the field on the respondents' qualification indicates that 61 respondents, that is, 75.3% were holders of Master degrees, 12 respondents, that is, 14.8% were holders of other professional certificates needed for different corporate performance, while 5 respondents, that is, 6.2% holders of Doctorate degrees, and 3 responders, that is, were Bachelor degree holders. Therefore, it can be inferred that majority of the respondents were college/university graduates. This means that the responses of the participants in this study were well informed as a result of their educational background.

The tables of descriptive statistics of the study variables are as in tables 3.3 & 3.4.

Items	Very High	High	Moderately High	Moderately Low	Low	Very Low	Mean	Standard Deviation
Adverse publicity from strategic plans	6.1%	61.0%	29.3%	3.7%	0.0%	0.0%	4.70	.642
Taking informed risk	6.2%	33.3%	12.3%	27.2%	21.0%	0.0%	3.77	1.287
Risk appetite of the directors	20.7%	25.6%	23.2%	30.5%	0.0%	0.0%	4.37	1.128
Risk premium in investment decision	0.0%	47.6%	20.7%	31.7%	0.0%	0.0%	4.16	.881
Compliance with regulatory and legal requirements	13.4%	35.4%	15.9%	11.0%	24.4%	0.0%	4.02	1.414
Involvement in disruptive new innovations	4.9%	38.3%	29.6%	11.1%	16.0%	0.0%	4.05	1.161
Average							4.18	1.085

Table 3.3: Descriptive Statistics of Responses to Strategic Risk Behaviour(n=82)
Source: Field Survey, 2018

Table 3.3 shows the respondents' opinions on various issues concerning strategic risk behaviour of selected deposit money banks in Lagos State used in the survey. As reported in Table 3.3, 6.1% of the respondents indicated that adverse publicity from strategic plans is to a very high extent, 6.1% of the respondents indicated adverse publicity from strategic plans is to a high extent, 29.3% indicated to a moderately high extent, and 3.7% indicated to a moderately low extent. On average, the respondents indicated that adverse publicity from strategic plans is to a high extent (M = 4.70, SD = 0.642). Further, table 3.3 revealed 6.2% of the respondents revealed that taking informed risk is to a very high extent, 33.3% indicated to a high extent, 12.3% to a moderately high extent, 27.2% to a moderately low extent, 21.0% to a low extent and 0.0% of the respondents indicated that taking informed risk is to a very low extent. On average, the respondents indicated that taking informed risk is to a moderately high extent (M = 3.77, SD = 1.287).

On risk appetite of the directors, 20.7% of the respondents indicated to a very high extent, 25.6% indicated to a high extent, 23.2% indicated to a moderately high extent, while 30.5% indicated it is moderately low. On average, the respondents indicated that risk appetite of the directors is to a moderately high extent (M = 4.37, SD = 1.128). The result of the descriptive analysis also revealed that 0.0% of the respondents indicated that risk premium in investment decision is to a very high extent, 47.6% indicated to a high extent, 20.7% indicated to a moderately high extent, and 31.7% indicated to a moderately low extent. On average, the respondents indicated that risk premium in investment decision is to a moderately high extent (M = 4.16, SD = 0.881). Also, the results of the descriptive analysis revealed that 13.4% of the respondents indicated that

compliance with regulatory and legal requirements is to a very high extent, 35.4% of the respondents indicated compliance with regulatory and legal requirements is to a high extent, 15.9% indicated to a moderately high extent, 11.0% to a moderately low extent, 24.4% to a low extent and 0.0% of the respondents indicated compliance with regulatory and legal requirements is to a very low extent. On average, the respondents indicated that compliance with regulatory and legal requirements is to a moderately high extent (M = 4.02, SD = 1.414).

Further, the Table 3.3reveals 4.9% of the respondents revealed that involvement in disruptive new innovations is to a very high extent, 38.3% indicated to a high extent, 29.6% to a moderately high extent, 11.1% to a moderately low extent, and 16.0% to a low extent. On average, the respondents indicated that involvement in disruptive new innovations is to a moderately high extent (M = 4.05, SD = 1.161). The average score of the statements is 4.18 with a standard deviation of 1.086 which means that on average the respondents indicate that strategic risk behaviour of deposit money banks in Lagos State is moderately high.

Items	Very High	High	Moderately High	Moderately Low	Low	Very Low	Mean	Standard Deviation
Yearly dividend	11.0%	0.0%	14.6%	45.1%	3.7%	25.6%	2.93	1.489
Share price	3.7%	7.4%	7.4%	71.6%	6.2%	3.7%	3.20	.941
Earnings per share	3.7%	7.3%	7.3%	64.6%	4.9%	12.2%	3.04	1.116
Return on asset	3.7%	0.0%	32.9%	54.9%	0.0%	8.5%	3.27	.969
Return on equity	0.0%	3.7%	13.4%	65.9%	8.5%	8.5%	2.95	.845
Shareholder capital gain	0.0%	3.7%	20.7%	56.1%	11.0%	8.5%	3.00	.903
Bonus issue	3.7%	0.0%	7.3%	24.4%	40.2%	24.4%	2.29	1.138
Total shareholders fund	0.0%	7.3%	39.0%	26.8%	14.6%	12.2%	3.15	1.145
Average							2.98	1.068

Table 3.4: Descriptive Statistics of Responses to Shareholders' Wealth(n=82)
Source: Field Survey, 2018

Table 3.4 shows the respondents' opinions on shareholders' wealth of deposit money banks in Lagos State. According to the analysis in Table 3.4, 11.0% of the respondents indicated that yearly dividend in the banks is very high, 14.6% indicated that it is moderately high, 45.1% indicated that it is moderately low, 3.7% indicated that it is low and 25.6% of the respondents indicated it is very low. On average, the respondents indicated that yearly dividend is moderately low (M = 2.93, SD = 1.489). Further, Table 3.4reveals that 3.7% of the respondents indicated that share price is very high, 7.4% indicated to a high extent, 7.4% to a moderately high extent, 71.6% to a moderately low extent, 6.2% to a low extent and 3.7% of the respondents indicated that share price is to a very low extent. On average, the respondents indicated that share price is moderately low (M = 3.20, SD = 0.941). On earnings per share, 3.7% of the respondents indicated that it is very high, 7.3% indicated it is high, 7.3% indicated it is moderately high, 64.6% indicated that it is moderately low, 4.9% indicated that it is low, and 12.2% indicated that it is very low. On average, the respondents indicated that earnings per share is moderately low (M = 3.04, SD = 1.116). The result of the descriptive analysis also revealed that 3.7% of the respondents indicated that return on asset is very high, 32.9% indicated that it is moderately high, 54.9% indicated that it is moderately low, and 8.5% of the respondents indicated that return on asset is very low. On average, the respondents indicated that return on asset is moderately low (M = 3.27, SD = 0.969). Also, the results of the descriptive analysis revealed that 0.0% of the respondents indicated that return on equity is to a very high extent, 3.7% of the respondents indicated return on equity is to a high extent, 13.4% indicated to a moderately high extent, 65.9% to a moderately low extent, 8.5% to a low extent and 8.5% of the respondents indicated return on equity is to a very low extent. On average, the respondents indicated that return on equity is moderately low (M = 2.95, SD = 0.845).

Further, the analysis revealed, 3.7% indicated that it is high, 20.70% indicated that it is moderately high, 56.1% to a moderately low extent, 11.0% to a low extent and 8.5% of the respondents indicated that shareholder capital gain is to a very low extent. On average, the respondents indicated that shareholder capital gain is moderately low (M = 3.00, SD = 0.903). On bonus issue, 3.7% of the respondents

indicated to a very high extent, 0.0% indicated to a high extent, 7.3% indicated to a moderately high extent, 24.4% indicated to a moderately low extent, 40.2% indicated to a low extent, and 24.4% of the respondents indicated that bonus issue is to a very low extent. On average, the respondents indicated that bonus issue in the banks is low (M = 2.29, SD = 1.138). The result of the descriptive analysis also revealed that 7.3% of the respondents indicated that total shareholders fund is high, 39.0% indicated is moderately high, 26.8% indicated that it is moderately low, 14.6% indicated is low, and 12.2% of the respondents indicated that total shareholders fund is very low. On average, the respondents indicated that total shareholders fund is moderately low (M = 3.15, SD = 1.145). The average score of the scale is 2.98 with a standard deviation of 1.068 meaning that on average the respondents indicated that shareholder's wealth in the banks is moderately low.

Connecting Tables 3.3 and 3.4, strategic risk behaviour and shareholders' wealth of deposit money banks in Lagos State do not have the same pattern of increase. The study found that strategic risk behaviour of deposit money banks in Lagos State is moderately high. The study however found that shareholder's wealth of the banks is moderately low. The study also found that bonus issue in the banks is low. The study implicates that strategic risk behaviour of deposit money banks in Lagos State may not drive shareholders' wealth in the banks. The findings thus indicated that there could be relationship between strategic risk behaviour and shareholders' wealth of deposit money banks in Lagos State of Nigeria.

Further to the descriptive statistics, an inferential analysis was carried out on the data on strategic risk behavior and shareholders wealth. Since the interest of the study was on finding if there is any significant relationship between strategic risk behavior and shareholders wealth, a correlational analysis was carried out with results as shown in table 3.

		Strategic Risk Behaviour	Shareholder's Wealth
Strategic Risk Behaviour	Pearson Correlation	1	-.297*
	Sig. (2-tailed)		.008
	N	82	82
Shareholder's Wealth	Pearson Correlation	-.297*	1
	Sig. (2-tailed)	.008	
	N	82	82
*. Correlation is significant at the 0.05 level (2-tailed).			

Table 3.5: Correlation Analysis of Strategic Risk Execution and behaviour and Shareholders' Wealth
Source: Researcher's Result (2018)

Table 3.5 presents the result of correlation analysis on the strategic risk behaviour and shareholders' wealth of deposit money banks in Lagos State of Nigeria. The results in Table 3.5 reveal that there was a weak but negative relationship between strategic risk behaviour and shareholders' wealth of deposit money banks in Lagos State of Nigeria ($r(82)= -.297$, $p<0.05$). The relationship is not by chance but is statistically significant as p – value of 0.000** (less than the 0.05 alpha levels for significance). This means if strategic risk behaviour of deposit money banks in Lagos State of Nigeria is increased, it will lead to a decrease in shareholders' wealth. This means that deposit money banks in Lagos State did not consider the implication of a moderately high display of strategic risk behaviour on their banks. The relationship is also confirmed by the results of descriptive statistics in Table 3.3 which showed that strategic risk behaviour of deposit money banks in Lagos State is moderately high. It was also indicated in Table 3.4 that shareholder's wealth in the deposit money banks .is moderately low. Based on the Pearson correlation result, the null hypothesis which states that there is no significant relationship between strategic risk behaviour and shareholders' wealth of deposit money banks in Lagos State of Nigeria was rejected.

The results in table 3.5 revealed that there was a weak negative and significant relationship between strategic risk behaviour and shareholders' wealth of deposit money banks in Lagos State of Nigeria. The finding also shows that majority of the respondents agreed that on average shareholder's wealth in the banks is moderately low by a mean of 2.98. Others agreed that strategic risk behaviour of deposit money banks in Lagos State is moderately high by a mean of 4.05. This is in line with Lai (2014) who revealed that there is a fundamental connection between ERM and improvement of shareholders' value. Likewise, the finding of the current study is in line with Adeusi, et al. (2017) who revealed a significant inverse relationship between banks financial performance and doubtful loans as well as capital asset ratio. The study further established that a significant relationship exists between banks performance and risk management. Likewise, the findings of the current study are also supported by Hoyt and Liebenberg (2011) who revealed that there exists a positive relationship between firm value and ERM program and enterprise risk management program that support

strong risk appetite and behavior towards risk management enhances shareholders wealth maximization. However, it is worthy of note that while strategic risk behavior is high, shareholders wealth is low. The implication of this is that there is a need for risk officers to reconsider their behavior when it comes to strategic risk evaluation. This findings suggests that the officers concerned need to change their disposition in terms of strategic risk behavior to be more prudent and consequently reverse the trend to boost shareholders wealth through more impeccable attitude to risk thereby improving the profile of shareholders wealth.

V. CONCLUSION AND RECOMMENDATION

On the bases of the results of the descriptive and inferential analyses as reported in this study, this study concluded that strategic risk behavior affects shareholders wealth of deposit money banks. The study argue that the current risk behavior of concerned officers is not productive for shareholders wealth optimization and as such requires refinement in the interest of maximization of shareholders wealth.

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