# FINANCIAL RISK MANAGEMENT ON COOPERATIVE CREDIT SOCIETY’S WEALTH MAXIMIZATION IN NIGERIA: MODERATING ROLE OF RISK COMMITTEE SIZE

**OFUAFO ALEXANDRA OROWO PG/19/023324/BMS**

# SEPTEMBER, 2021.

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**BEING A DISSERTATION SUBMITTED TO THE DEPARTMENT OF ACCOUNTING, MALLAM SANUSI LAMIDO SANUSI COLLEGE OF BUSINESS AND MANAGEMENT STUIDES, IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTERS OF SCIENCE DEGREE (M.Sc) IN ACCOUNTING OF IGBINEDION UNIVERSITY, OKADA, EDO STATE, NIGERIA.**

# SEPTEMBER, 2021.

**DECLARATION**

I declare that this thesis report was based on a study undertaken by me in the Department of Accounting under the supervision of Dr. (Mrs.) Mary Josiah. This project report has not been previously submitted to any other university. All ideas and views were a product of my personal research and where the views of others were used and expressed, they were duly acknowledged.

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# DEDICATION

I dedicate this project to God Almighty my creator, my strong pillar, my travel companion and my source of inspiration, wisdom, knowledge and understanding. He was the source of my strength throughout the programme and on His wings only have I soared. I also dedicate this work to my darling husband, Oghenewoma Godspower, whose words of encouragement and push for tenacity always ring in my ears. My sisters, Lauretta Laura, Eva, Sophie and Ella, you guys are very special and I am grateful I have you all in my life. My bambinos, Oke, Iluo, Oreva, Uyoyo and Elo who were affected in every possible way by this quest, thank you. My love for you all can never be quantified. God bless you all.

# CERTIFICATION

This is to certify that this dissertation was carried out by OFUAFO ALEXANDRA OROWO with matriculation number PG/19/023324/BMS in the Department of Accounting. It is adequate in scope and content for the award of Master of a Science (M.Sc) degree in Accounting.


# Dr. (Mrs.) Mary Josiah. Date

Project Supervisor

# Dr. (Mrs.) Mary Josiah. Date

**Head of Department**

# External Examiner Date

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# ABSTRACT

Risks are fundamentally a part of business operational models. They cannot be completely eliminated and, if not efficiently managed it can result to loss of value. Wealth creation can only take place when the prevailing financial risks in any business are identified and carefully handled. In line with this, this research was carried out to investigate the effect of financial risk on cooperative credit societies using risk committee as a moderating factor. A survey research design and stratifies random sampling techniques were used to select the sample size. We adopted the primary method of data collection through the help of a well-structured questionnaire. 184 questionnaires were distributed and 175 were returned. The demography section of the question was analysed with frequencies and percentages while the multiple regression analysis was used to analyse the hypotheses. Our findings showed that credit, liquidity and operational risk had a positive and significant effect on the wealth maximization of cooperative credit societies while market risk had a negative and significant effect. We concluded that all financial risk managements were vital in carrying out any business and recommended that policies should be put in place to regulate financial risks in order to achieve better wealth maximization.

**Keywords:** Risk, Financial risk, Wealth maximization, Wealth creation, Cooperative credit societies.

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# CHAPTER ONE INTRODUCTION

# Background to the Study

A risk is defined as an event that has a probability of occurring and can have either a positive or negative impact on a project should that risk occur. A risk may have one or more causes and, if it occurs, one or more impacts. For example, a cause may require an environmental permit to do work or have limited personnel assigned to design the project. The risk event is that the permitting agency may take longer than planned to issue a permit or the assigned personnel available may not be adequate for the activity. If either of these uncertain events occurs, there may be an impact on the project cost, schedule or performance. Life is full of risk that the inability to precisely predict the future still remains the major problem of man on earth. Risk, defined as uncertainty as to loss is universal in that it poses a problem to individuals in nearly all walks of life. Students, households, business people, employers, travelers, investors and farmers all face risks and develop ways of handling it. Managers, especially those in developing countries like Nigeria, sometimes overlook risk elements when making their investment decisions. This has majorly contributed to collapse of many businesses after some years of their establishment. If a cost or a loss is certain to occur, it may be planned for in advance and treated as a definite problem and known expense. It is when there is uncertainty about the occurrence of a cost or loss that risk becomes important problem.

Risk as earlier pointed out, is universal. It affects everybody, for instance, there is risk of loss of firms earning power through or loss of its plant or other property by fire, windstorm or other events. These perils or events may or may not occur, but the possibility of their occurrence and subsequent effects cannot be ignored by the prudent manager in any firm. Business faces market risks. The manager may misjudge the desire of consumers by manufacturing goods which can be sold only at a loss. Bad debt losses, losses by advertising in inappropriate media, and loss through selection of improper marketing channels may also occur.

Business also faces production risk. Losses may occur by breakdown of machinery, improper quality controls, poor weather, and inefficient use of materials. Business also faces social risk events like strikes, riots, civil commotions, laws hindering business operations, currency inflation and political events which restrict business activity may cause loss. Business faces financial risk. Sale slowdown may reduce cash flow thereby preventing repayment of debt and resulting in possible bankruptcy. Investment may turn sour; loans needed to keep the business operating may be turned down, causing the firm to use credit sources whose terms or interest rates may be onerous. All projects assume some element of risk, and it is financial risk management where tools and techniques are applied to monitor and track those events that have the potential to impact the outcome of a project (Ozuomba, Anichebe and Okoye 2016).

It is widely recognized that credit co-operatives can play a key role in developing economic disadvantaged regions. Credit co-operatives are typically seen as filling a market niche consisting of low-income entrepreneurs, small business people or farmers who need credit but who have essentially no collateral with which to secure a loan (Cabo, Mclian and Rebelo 2016).

Therefore, credit co-operatives are financial entities which have traditionally dealt with financing an important group of entities within the social economy. They have also been the motor for the co-operative sector in general and the agriculture sector in particular. Such is the situation that occasionally, the role played by credit co-operatives within their area of influence exceeded the financial framework. In fact some studies showed the role of credit institutions in rural poverty improvement (Singh, Patel and Suhag, 2007) or how financial activity promotes the growth of cooperatives.

Managing risk is a part of any organization’s strategic and operational activities, and analysing risks is an important aspect of a manager’s job. Risk management in a credit cooperative society is the process of monitoring risks and taking steps to minimize their impact. Financial risk management in a credit cooperative society is the task of monitoring financial risks and managing their impact. It is a sub-discipline of the wider function of risk management and an application of modern financial theory and practice. Financial risk management falls within the financial function of an organization, and it is a reflection of the changing nature of this function over time (Tuoyo, 2017). Traditionally, the financial function was seen in terms of financial reporting and control. The modern approach is to consider the financial function in terms of

financial policy and financial decision making. This includes the management of the firm’s operational, business and economic risks.

The Nigerian economy has a lot of potential for growth and development. The abundant and natural resources of the country remain largely un- explored. These have to be harnessed to the fullest for the general well-being of Nigeria in the world economy. Perhaps, one important way to realize of goal is through the encouragement of cooperative movement. (Anyanwu, Oyefusi, Oaikhenam and Dimowo, 2017). Cooperatives are defined as “an autonomous association of persons who unite voluntarily to meet their common economic and social needs and aspiration through a jointly owned and democratically controlled enterprise (IC1A, 1995). Cooperatives are established by like-minded persons to pursue mutually beneficial economic interests. Researchers are of the opinion that under normal circumstances cooperatives play a significant role in the provision of services that enhance agricultural development. Regular and optimal performances of these roles will accelerate the transformation of agriculture and rural economic development. It is the cooperative that embraces all types of farmers, and a well- organized and supportive cooperative is a pillar of strength for agriculture in Nigeria. Capital formation can be defined as the transfer of savings from households and governments to the business sector, resulting in increased output and economic expansion (Wikipedia).

Wealth maximization is a modern approach to financial management. Maximization of profit used to be the main aim of a business and financial management till the concept of wealth maximization came into being. It is a superior goal compared to profit maximization as it takes broader arenas into consideration.

The wealth or value of a business is defined as the market price of the capital invested by shareholders. It simply means the maximization of shareholders’ wealth. It is a combination of two words, viz, wealth and maximization. The wealth of a shareholder is maximized when the net worth of a company maximizes. To be even more meticulous, a shareholder holds shares in the company/business and his wealth will improve if the share price in the market increases which, in turn, is a function of net worth. This is because wealth maximization is also known as net worth maximization. The wealth-maximization criterion considers the risk and uncertainty factor while considering the discounting rate. The discounting rate reflects both time and risk. The higher the uncertainty, the higher the discounting rate and vice-versa.

Financial scandals and the recent corporate failure across the globe reinforced the need for corporate governance mostly in developing and developed countries (Waweru 2014). The issue of many breakdowns of high profile institutions such as Enron and Anderson stunned the business world with the scale of their illegal and unethical dealings. The rules and procedure for making decisions on companies affairs are stated by corporate governance which defines how responsibilities in the organization are distributed among the shareholders, board, managers and other stakeholders. Consequently, the objective of corporate governance is to protect the shareholders with regard to opportunistic behaviour, and make managers work hard to accomplish shareholders’ interest in the organization (Kyereboah-Coleman and Biekpe, 2015).

Minton, Taillard and Williamson (2010) discovered that risk committee members independence decreased insiders’ risk taking activities thereby resulting to a decline in losses specifically in financial crises. One of the advantages of having a risk management committee in a company is to assess and manage any potentially catastrophic and operational risks. This has created a proper communication channel of risk assessment and avoidance, whether horizontal or vertical. It provides guidelines and policies to govern the processes of evaluation and supervision by having an expert with experience in identifying, assessing and managing risk coverage oversight and complicated organisational risk committees. This helps to avoid any risks which have potent and undesirable efforts on the corporation’s performance.

# Statement of the Problem

Despite the controversies surrounding the reasons why financial institutions are demanded and why they are willing and able to take on the risks that are inevitably involved in their activity, it is evident from some empirical studies that weak credit risk management is a primary cause of many business (particularly small business) failures. McMenamin (1999) carried out a study of financial institutions that failed in the mid-1980s in the U.S.A and found out that the consistent element in the failures was the inadequacy of the institution's management system in controlling loan quality. Koch and MacDonald (2000) found out that the loans that constituted large proportions of assets in most financial institutions portfolios were relatively illiquid and exhibited the highest credit risk. That was related to the information asymmetric theory by Auronen (2013) which advocated adverse selection and moral hazards problems. Various

researchers studied the reasons behind financial institutions' problems and identified several factors.

Credit problems, especially a weakness in credit risk management (CRM), was identified to be a part of the major reasons behind financial institutions’ difficulties. Kitua (1996) found out that loans constituted the largest proportion of credit risk as they normally accounted for 10 15 times the equity of a bank. Brown Bridge (1998) observed that those problems was at their acute stage, in developing countries. Liuksila (1996) observed that the problem often began right at the loan application stage and increased further at the loan approval, monitoring and controlling stages, especially when credit risk management guidelines in terms of policy and strategies/procedures for credit processing did not exist, were weak or incomplete. Santomero (1997) and Basel (2004) concluded that in order to minimize loan losses and credit risk, it was essential for financial institutions to have an effective credit risk management system in place. They argued that financial institutions not only faced that type of credit risks, they also identified new and unique risks as a result of unique asset classes and liability structures. Khan and Ahmad (2001) argued that the new type of risk was an immediate outcome of their compliance with the moral law requirement.

Financial risk is the possibility of losing money on an investment or a business venture. Some more common and distinct financial risks include credit, liquidity, and operational risks. Financial risk is a type of danger that can result in the loss of capital of interested parties. For governments, it may mean that they are unable to control monetary policy and default on bonds or other debt issues. Corporations also face the possibility of default on debts they undertake but may also experience failure in an undertaking that causes a financial burden on the business.

Financial markets face financial risks due to various macroeconomic forces, changes to the market interest rate and the possibility of default by sectors or large corporations. Individuals face financial risks when they make decisions that may jeopardize their income or ability to pay a debt they have assumed.

Financial risks are everywhere, and come in many shapes and sizes, affecting nearly everyone. One should be aware of the presence of financial risks. Knowing the dangers and how to protect

oneself will not eliminate the risks, but it can mitigate their harm and reduce the chances of a negative outcome.

In the banking industry, there are six common risks: credit; market; liquidity; operational; strategic; and compliance risks (Deloitte Touche Tohmatsu 2009). A credit risk arises from an incident where an obligor is unwilling or unable to perform an obligation (Sabau, 2013). This will ultimately result in a loss on the part of the institution. Liquidity risks are the potential losses of an institution due to its inability to meet obligations when they are due. The liquidity risk may also arise as a result of the institution's failure to address or recognize condition changes in market conditions that affect its ability to liquidate assets quickly with a minimal loss in value. Market risks are the result of adverse fluctuations in the market prices, for example, interest rates, foreign exchange rates, commodity prices and equity prices can all fluctuate. Operational risks arise from internal processes, systems, people or external sources. They are the potential loss of revenue and capital arising from the above factors. A strategic risk is both the current and prospective impact on capital, revenue and reputation. All the above discussed studies were majorly carried out in the banking sector. To the best of the researcher knowledge, none was done on cooperative credit society. In order to bridge the gap, this research was carried out to investigate the effect of financial management on cooperative credit society wealth maximization using risk committee as a moderating factor.

# Research Objective

The broad objective was to examine the effect of financial risk management on cooperative credit society’s wealth maximization.

The specific objectives were to:

* + 1. Determine the effect of credit risk on a cooperative credit society’s wealth maximization.
		2. Find out the effect of liquidity risk on a cooperative credit society’s wealth maximization.
		3. Investigate the effect of operational risk on a cooperative credit society’s wealth maximization.
		4. Examine the effect of market risk on a cooperative credit society’s wealth maximization.

# Research questions

This study was designed to provide answers to the following research questions in order to achieve the forestated objectives:

* + 1. Does credit risk have any significant effect on a cooperative credit society’s wealth maximization?
		2. Does liquidity risk have any significant effect on a cooperative credit society’s wealth maximization?
		3. Does operational risk have any significant effect on a cooperative credit society’s wealth maximization?
		4. Does market risk have any significant effect on a cooperative credit society’s wealth maximization?

# Research Hypotheses

The effect of risk management on a cooperative society’s wealth maximization provided valuable information on the wealth, performance and financial health of an organization. Based on the above objectives, the following hypotheses were formulated:

**H01:** Credit risk has no significant effect on a cooperative credit society’s wealth maximization.

**H02:** There is no significant effect of liquidity on a cooperative credit society’s wealth maximization.

**H03:** There is no significant effect of operational risk on a cooperative credit society’s wealth maximization.

**H04:** Market risk does not have any significant effect on a cooperative credit society’s wealth maximization.

# Significance of the Study

The management of Delta State University Workers’ Multi-Purpose Co-operative Society Ltd would stand to benefit from this study. The study would provide the management with an independent and unbiased view of the credit risk management status of their organization. It would help them to be aware of their approaches to credit risk management. It would also highlight the practices that hinder the effective implementation of credit risk management in their cooperative so that management could therefore work on those areas.

The government formulates policies that relate to the regulatory environment of the country as far as savings and credit cooperative society offering front office and activities services are concerned. As the sector grows, the government has to come up with policies that address the various challenges within the sector so asto reduce any resultant chaos and facilitate faster growth with minimum drawbacks.

Scholars and academics would benefit from this study as it opens up new areas for research, such as determining how the findings of this study would compare with the credit risk management of a commercial bank and credit risk management between the financial and other sectors.

This study sought to ascertain the effect of financial risk management on the optimal performance of cooperative credit societies in Nigeria. The study also contributed to the general body of knowledge on credit risk management in savings and credit cooperative societies offering front office activities services. These would not only benefit the companies employees but any existing shareholders. Managing opportunities allows a company to stay ahead of the financial market trend and makes them appear almost clairvoyant.

However, the information would be useful to investors, shareholders, stakeholders, practitioners and companies’ managers as they are the “outsiders” concerned about the profitability of a company. This project would be important to the investing public, the governing authorities, the Centre Bank of Nigeria (CBN) and other participating financial sectors. It would also be of immerse help to students who may be interested in knowing more about this subject area. It would also serve as a reference to project consultants and financial risk managements for them to prevent any uncertain event in their business.

Furthermore, the study forecast potential problems. This element emphasizes the ability of financial risk management to prevent probable mishaps or overcome them with a controlled

amount of damage. It could help businesses to maximize their financial opportunities by enabling them to act quickly on good investment scopes. Managing financial risks can allow a company to stay ahead of the financial market trend and make quick decisions on a new product or stock.

# Scope of the Study

In carrying out this study, a survey of selected cooperative societies in Nigeria was used. This study was motivated by the current state of the financial risk management as a result of the wealth maximization of multipurpose cooperative societies in Nigeria. Therefore, the views of Delta State University Multipurpose Cooperative Society were sought in providing answers to the questions raised in the study. The study covered both old and new members.

# Limitations of the Study

In view of the technicalities involved, it would be unrealistic to assume that all necessary facts were gathered in the process of this study. The information gathered was limited to the access that was made available by the respondents and also the one gathered with the aid of local newspapers, magazines, journals and reports and basically, the internet. However, the effect of the limitations was reduced to the barest minimum.

# Definition of Terms

**Risk:** A risk is the possibility of something bad happening. A risk involves an uncertainty about the effects/implications of an activity with respect to something that humans value (such as health, well-being, wealth, property or the environment), often focusing on negative or undesirable consequences.

**Risk Committee:** A risk committee is an independent committee of the board of members that has, as its sole and exclusive function, responsibility for the oversight of both the risk management policies and practices of the Corporation’s global operations and the operation of the corporation’s global risk management framework.

**Financial Risk:** Financial risk as the term suggests is the risk that involves firms’ financial loss. A financial risk generally arises due to instability and losses in the financial market caused by movements in stock prices, currencies, interest rates and more.

**Business Risk:** These types of risks are taken by business enterprises themselves in order to maximize shareholder value and profits. For example, companies undertake high-cost risks in marketing to launch a new product in order to gain higher sales.

**Credit Risk:** A credit risk happens when there is a chance that the loan borrower might skip, delay or default on his obligation to the bank or financial institution which lent the money.

**Operational risk:** Is the risk a company faces because of what its employees may or may not do, either deliberately or through human error. In other words, it relates to the risks resulting from failures in internal procedures, people and systems.

**Liquidity risk:** Is the risk that a company or an individual will not be able to meet short-term financial obligations due to the inability to convert assets into cash without incurring a loss.

**Management:** Management is the coordination and administration of tasks to achieve a goal. Such administration activities include setting the organization’s strategy and coordinating the efforts of staff to accomplish those objectives through the application of available resources. Management can also refer to the seniority structure of members of staff within an organization.

**Financial Management:** This means planning, organizing, directing and controlling financial activities such as the procurement and utilization of funds of the enterprise. It means applying general management principles to the financial resources of the enterprise.

**Financial Performance:** Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. The term is also used as a general measure of a firm's overall financial health over a given period.

**Wealth maximization:** Wealth maximization is the concept of increasing the value of a business in order to increase the value of the shares held by its stockholders. The concept requires a company's management team to continually search for the highest possible returns on funds invested in the business while mitigating any associated risk of loss.

**Credit risk Management:** It ensures the review of the policy and specific measures for developing and establishing an adequate credit risk management system with a full understanding of the scope, types and nature of risks, and the techniques of identification,

assessment, monitoring and control regarding credit risk as well as the importance of credit risk management, and with precise recognition of the current status of credit risk management within the financial institution.

**Cooperative Society:** A cooperative society is an autonomous association of persons united voluntarily to meet their common economic cultural needs and aspirations through a jointly owned and democratically controlled enterprise. The key idea behind a co-operative society is to pool scarce resources, eliminate the middlemen and achieve a common goal or interest.



# CHAPTER TWO LITERATURE REVIEW

# Introduction

Financial risk management is the design and the implementation of procedures to manage a business risk. Financial risk management and the concept of wealth maximization have been criticized since it tends to drive a company to take actions that are not always in the best interests of its stakeholders, such as suppliers, employees, and local communities in anticipation of the increasingly complex activities of business entities or companies that are triggered by the development of science and technological progress (Kasidy, 2010). Another definition that explains the meaning of financial risk is the possibility of deviations from expectations that can cause harm. Risk is a possibility of an event that deviates from what is expected, but this deviation is only seen when it has taken the form of a loss (Kasidy, 2010). Another opinion was expressed by Abba and Kasidy (2010). They saw financial risk as an uncertainty that would give birth to a loss. So, from some definitions that have been expressed, it can be concluded that financial risk is something that is uncertain, but if not handled properly will cause harm to the business.

All firms dealing in multiple currencies face a risk of unanticipated gains/ losses due to sudden changes in exchange rates. Because of this a lot of researches were conducted on financial risk management. The literature on financial risk management has grown rapidly, more specifically, after the financial crises in 2020. Those cries showed that exchange rates could have significant real economy effects. There are a large number of theories why companies manage financial risks, and foreign exchange risk and interest rate risk included. Coping with risks has become an important managerial function, especially after the increased volatility in the foreign exchange market in recent years. Because of these types of issues, senior management may find it necessary to back away from the sole pursuit of wealth maximization and, instead, pay attention to other issues. The result is likely to be a modest reduction in shareholders’ wealth.

Given the issues noted here, wealth maximization should be considered just one of the goals that a company must attend to rather than its only goal. Different financial analysts and experts have

different opinions regarding financial risk management on wealth maximization. On the basis of those studies and research articles, various strategies were suggested with the help of multinational companies to manage their financial risk on cooperative societies wealth maximization.

# Conceptual Framework

Academics and researchers have assessed the impact of financial risk management on shareholders’ wealth of organizations in various sectors. Empirical evidence and results of previous studies showed a mixed trend on the effect of financial management risk components on profitability with weak statistical significant a (negative/positive) and, in some cases, with insignificant or no impact of financial risk management practices on wealth maximization. The literature also indicated that researchers used a wide variety of proxies for the components of financial risk management that included non-performing loan ratio, loan to total deposit ratio, interest rates, capital adequacy ratio, growth in interest earnings and loan loss provisions to total loans, total debt to equity, non-performing loans to gross loans ratio, Inflation, total debt to total assets, total equity to total assets, etc. Return on assets and return on equity were widely used to measure financial performance.

# Financial Risk Management

Financial risk management is a function within organizations that aims to detect, manage, and hedge exposure to various risks stemming from the use of financial services. The complexity here is far higher than for individuals because institutions must match various kinds of future income streams and payment obligations, for example, raising funds for investment or working capital requirements, paying wages and invoices, provisioning for future payment obligations like pensions, and so on. Therefore, financial risk management involves an assessment of various assets and liabilities in the present as well as in the future.

Financial and nonfinancial institutions must be distinguished regarding their approach to risk management. Nonfinancial institutions use financial products either to hedge nonfinancial risks or to enable their operations. Financial institutions rather actively assume risk to make a profit either for their own account (like banks or insurance companies) or as trustees for third parties (like asset managers). Managing risk at financial institutions therefore must be seen in the

context of a trade-off with profit targets: loose risk management practices may increase short- term profitability at the expense of long-term [solvency](https://www.sciencedirect.com/topics/social-sciences/solvency); misjudgment of risk or carelessness may lead to dangerous risk concentration at financial institutions.

Interesting research has been done in recent years analyzing the rise of risk management as an organizational techno social practice, as a set of proactive risk cultures that vary from institution to institution and ameliorate risks, but that in doing so also create new ones. Since the 1990s, the tightening of legislative and regulatory requirements as well as technological advancements have gradually increased the influence of risk managers and chief financial officers, especially within financial companies. At the same time, it is important to recognize that risk managers in the finance sector face a virtually impossible task. On the one hand, they and their clients need to earn money, and they can only do so by taking risks. On the other hand, it is the task of the risk manager to confine these risks. Restrictions on risk taking might cause costs or even impede attractive business activities. While coping with the difficult and sometimes contradictory requirements and mitigating risks, risk managers can contribute to emergence of new risks and dangers.

Compared with other sectors, these conflicts of interest are much more distinct in the financial sector since the risks there are often more abstract and can lie in the distant future. In particular, risk management is tricky when it comes to complex financial products. After 2008, we could see that risk assessment of many complex financial innovations in the run-up to the crisis failed. In addition, complexity offers an opportunity to hide risks or to pass them to clueless [financial](https://www.sciencedirect.com/topics/social-sciences/financial-markets) [market](https://www.sciencedirect.com/topics/social-sciences/financial-markets) participants. Nowadays, the ubiquitous combination of performance incentives with quantitative targets rewards short-term success and induces financial providers to obtain market products with nontransparent risks. Furthermore, experience has also shown that the pressure on risk managers to give up a cautious stance increases when competitors take more risks and behave aggressively. There is therefore a basic tendency toward the procyclical behavior in risk management. The analyses of the multiple failure of risk management before and during the last financial crisis showed that some banks had eased their risk rules and continued investments in toxic products between 2004 and 2007. For example, risk managers working for the failed mortgage giant Fannie Mae ignored the warnings that their sophisticated risk-control system produced. The managers observed the market development and decided to continue assuming

more risk. This example illustrates that risk managers are as prone as lay investors to the influence of emotions, moods, and biases.

At the same time, there was a trend to increase formalization of risk management. To protect themselves in the strict regulatory environment, risk managers neglected traditional heuristic rules (“never put all eggs in one basket,” “margin of safety,” and so on) and increasingly relied on mathematical tools and slavish compliance. Although limiting their own discretionary scope, they justified their actions and decisions by resorting to “objectifiable” numbers or regulations. For example, a parliamentary commission in the United Kingdom examined the collapse of HBOS Bank in 2008 and criticized that risk management in this bank was very much focused on formal procedures but too little on substantive review and assessment of risks; however, exactly this style of formalization persists as regulation tightens, and ever-widening reporting requirements are imposed on risk managers by the supervisory authorities.

The tendency to formalize risk management can lead to blindness and ignorance of new, previously unknown problems. Unforeseen, radically uncertain events, for which no probability of occurrence can meaningfully be determined, are pressed back into a mathematical framework and then falsely appear as measurable and thus controllable. Furthermore, liquidity risk remains one of the most underestimated risks in risk management as it cannot be assessed with the usual quantitative concepts. In the field of open-ended real estate funds, for example, it has become a veritable fund-killer because such funds often had to carry out compulsory sales on bad terms due to cash outflows, which ruined their performance and triggered further withdrawal of money. The hitherto most spectacular fund failure of the hedge fund LTCM in 1998 is ultimately due to the sudden illiquidity of many assets. Also, reputational risk as one of the most severe risks to which modern companies are exposed cannot be caught by formal models.

Financial risks create the possibility of losses arising from the failure to achieve a financial objective. The risk reflects uncertainty about foreign exchange rates, interest rates, commodity prices, equity prices, credit quality, liquidity, and an organization’s access to financing. These financial risks are not necessarily independent of each other. For instance, exchange rates and interest rates are often strongly linked, and this interdependence should be recognized when managers are designing risk management systems Financial risks can be subdivided into distinct categories;

Market risks: These are the financial risks that arise because of possible losses due to changes in future market prices or rates. The price changes will often relate to interest or foreign exchange rate movements, but also include the price of basic commodities that are vital to the business.

Credit risks: Financial risks associated with the possibility of default by a counter-party. Credit risks typically arise because customers fail to pay for goods supplied on credit. Credit risk exposure increases substantially when a firm depends heavily upon a small number of large customers who have been granted access to a significant amount of credit. The significance of credit risk varies between sectors, and is high in the area of financial services, where short- and long-term lending are fundamental to the business. A firm can also be exposed to the credit risks of other firms with which it is heavily connected. For example, a firm may suffer losses if a key supplier or partner in a joint venture has difficulty accessing credit to continue trading.

Financing, liquidity and cash flow risks: Financing risks affect an organization’s ability to obtain ongoing financing. An obvious example is the dependence of a firm on its access to credit from its bank. Liquidity risk refers to uncertainty regarding the ability of a firm to unwind a position at little or no cost, and also relates to the availability of sufficient funds to meet financial commitments when they fall due. Cash flow risks relate to the volatility of the firm’s day-to-day operating cash flow.

# Wealth Maximization

Wealth maximization measures the amount of profit for the period available to the member as the residual returns resulting from the operational activities during the period under consideration. Some studies had measured the performance of expected returns due to the equity providers of fund using wealth maximization (Kapellas and Siougle 2017). Liu and Sun (2017) opined that wealth maximization was a suitable performance evaluation technique to ascertain the productiveness of the managers saddled with the responsibility of piloting the affairs of the organisation and a good parameter to measure the amount of return on investment based on the current period’s performance (Fayed and Dubey 2016).

The shareholders wealth maximization criterion proposed that managerial decisions in any organization should be centred on how to maximize the market value of the share or shareholders’ wealth which was measured as market valuation (Khan and Hussanie 2018).

Market value is the stock exchange market share price as at the end of the financial year of all equity shares in issue (Ogundajo, Enyi and Oyedokun 2019).

Akit, Hamzah and Ahmad (2015) stated that wealth creation could only take place when the prevailing financial risks in an organisation were identified and carefully handled. Al-Eitan and Bani-Khalid (2019) explained that a rise in credit risk and worsening asset quality negatively impacted the shareholders’ wealth maximization. To maximize shareholders’ wealth, apex banks need to increase bank loan portfolio and ensure appropriate risk management strategies. Also, non-performing loans should be kept minimal since high non-performing loans are detrimental to the value of the bank as observed in the empirics. On the other hand, the adoption of an efficient risk management policy could help to reduce non-performing loans and boost profitability.

According to Habib and Jiang (2015), Shareholders’ Wealth Maximization (SHWM) is one of the most important variables to measure the performance of a business as investors take investment decisions based on the expectation that management will create value for the investors. They stated that the accuracy of shareholders’ wealth maximization predictions was a main factor of market forecasts. Many scholars studied shareholders’ wealth maximization (for example, Cudia and Manaligod 2011; Jordan, Clark and Smith 2007; Nikolai and Bazley, 2010). While Nikolai and Bazley (2010) studied shareholders’ wealth maximization as a helpful measure to estimate return on investment and the likely associated risks taken by the company Jordan (2007) argued that there were some limitations in the use of SHWM as a measure of firm performance. Their argument was that SHWM could be used for large establishments but not for small companies’ analysis since it was a poor measure of companies of different sizes so, it was not useful for interfirm comparison.

Theoretically, shareholders’ wealth maximization is essentially a measure of an establishment’s financial performance and estimated economic strength relative to size in the industry. Prior literature had shown enough evidence that the shareholders were always at the losing end due to dishonesty and unethical practices, accounting manoeuvres with deceitful intentions and accounting fraud through the exploitation of the managers’ privileged positions. some examples are the cases of Xerox of improper accounting and deviation from accounting principles, WorldCom leveraging shares to raise debt for expensive acquisitions, Enron and Arthur Anderson’s lack of transparency and premeditated projection of a healthy picture of

performance, Tyco’s aggressive acquisition strategies and accounting frauds, Polly Peck diverting business cash flow into off-share family owned entities and BCCI banks’ deceitful acts and the highly leveraged financial instruments by Goldman Sachs (Yahanpath, 2011). Those were evidence of unethical practices and accounting maneuvres that spelt doom for the companies and their shareholders’ interests.

# Credit Risk

Credit risk refers to the uncertainty of the safety factor of credit funds which are reflected in the possibility that enterprises are unwilling or unable to repay the principal and interest of bank loans for various reasons, making bank loans unable to be recovered and forming bad debts. The main purpose of credit risk measurement is to evaluate the expected loss under a given default condition. Generally, the expected credit loss of a portfolio depends on three factors: the probability of default, the position held in default, and the recovery rate.

Credit risk is the risk that a financial institution will incur losses because the financial position of a borrower has deteriorated to the point that the value of an asset (including off- balance sheet assets) is reduced or extinguished. Credit risk is most simply defined as the potential that a borrower or counterparty will fail to meet his obligations in accordance with the agreed terms. The goal of credit risk management is to maximize an organization's risk adjusted rate of return by maintaining credit risk exposure within acceptable parameters. Organizations need to manage the credit risk inherent in the entire portfolio as well as the risk in individual credits or transactions.

Organizations should also consider the relationships between credit risk and other risks. The effective management of a credit risk is a critical component of a comprehensive approach to risk management and essential to the long-term success of any organization (Kealhofer, 2003).

# Credit Risk Management Practices Loan Portfolio

A loan portfolio constitutes loans that have been made or bought and are being held for repayment. Loan portfolios are the major assets of Delta State University Workers’ Multi- Purpose Co-operative Society Ltd, and other lending institutions. The value of a loan portfolio

depends not only on the interest rates earned on the loans hut also on the quality or likelihood that interest and principal will be paid (Jansson, 2002).

Effective management of the loan portfolio and the credit function is fundamental to the Delta State University Workers’ Multi-Purpose Cooperative Society’s safety and soundness. Loan portfolio management (LPM) is the process by which risks that are inherent in the credit process are managed and controlled. Because a review of the LPM process is so important, it is a primary supervisory activity. Assessing LPM involves evaluating the steps the management takes to identify and control risks through the credit process (Richardson, 2002).

# Credit Risk Management

When the Delta State University Workers’ Multi-Purpose Co-operative Society grants credit to its customers, it incurs the risk of non-payment. Credit management or more precisely credit risk management refers to the systems, procedures and controls which a Sacco has in place to ensure the efficient collection of customer payments to minimize the risk of non-payment (Naceur and Goaied, 2003).

Credit risk management forms a key part of a company's overall risk management strategy. Weak credit risk management is a primary cause of many business failures. Many small businesses, for example, have neither the resources nor the expertise to operate a sound credit management system (Richardson, 2002).

# Credit Risk Assessment

These constitute the process that a financial institution uses to determine the credit worthiness of a borrower. An institution should conduct comprehensive assessments of the **c**reditworthiness of its obligors. These should include, where pertinent, an analysis of the obligor's financial position as reflected in various financial and cash statements, past repayment records, management quality and integrity as well as relevant industry and macroeconomic data.

For corporate obligors, adequate checks on the shareholders and company directors should be conducted. The institution should group related obligors, where appropriate, and conduct credit assessment on a group basis (Baldoni, 1998).

# Credit Risk Monitoring

A Sacco should have in place a system for monitoring the condition of individual credits. Key indicators of a credit condition should be specified and monitored to identity and report potential problem credits. These would include indicators from the following areas: Financial Position and Business Conditions; Conduct of Accounts; Loan Covenants; External Rating; and Market Price. In addition to monitoring the above risk indicators, an institution should also monitor the use of funds to determine whether credit facilities are drawn down for their intended purposes (Al- Tamimi and Al-Mazrooei, 2007).

# Credit Risk Management Procedures

These are procedures followed by an organization in order to implement its credit policy. An institution should establish appropriate procedures and processes which should be documented and set out in sufficient detail to provide operational guidance to their staff. Procedures should be established for the implementation of various controls and checks within the credit process such as the completion of credit and legal documents, verification of loan disbursement, implementation of facility limits and follow up on credit exceptions. The operational procedures should be periodically reviewed and updated to take into account new activities and products as well as new lending approaches and changes in systems (Fallon, 1996).

# Market Risk

Market risk refers to the losses that financial institutions may incur in their trading positions in the financial market due to changes in market price factors. Since the collapse of the Bretton Woods System in the 1970s, market risk has become an important risk faced by financial institutions due to the intensified fluctuations of interest and exchange rates in the international financial market it has been paid more attention because it can intensify the outbreak of risks of other types. With the development of portfolio theory, option pricing model, computer technology and financial industry technology, the following methods of measurement of market risk were developed.

# Operational Risk

The formal definition of operational risk by the Basel Committee on Banking Supervision is that it refers to the risk of a direct or an indirect loss caused by imperfect or problematic internal operating processes, personnel, systems or external events. This definition includes legal risk but not strategic and reputation risks. Operational risk is more difficult to measure than credit and market risks. The main problem is the probability distribution of operational risk loss. However, with more and more attention paid to operational risk, many scholars carried out in-depth research and analysis on operational loss. The model of operational risk was also explained in the regulation of Basel ⅡandⅢ. Embrechts, Frey and McNeil (2005) discussed operational risks in their book. The book explained the definition, classification and position of operational risk in financial risk management, and introduced the modelling of operational risk, including the top- down model such as multi-factor equity pricing model, capital asset pricing model and operational leverage model. There were also bottom-up models such as process-based and actuarial models. Jarrow (2008) supposed that the operational risk of banks could be divided into two parts from the point of view of corporate finance: (1) a loss caused by company operating technology (2) and risk loss caused by agency cost. Moreover, he believed that the data of operational risk was internal to the company. If the net present value of the company is not taken into account in the calculation of operational risk, there will be a large deviation of capital requirements. Combining internal data with the standard risk rate estimation process can provide a more accurate method than estimating market risk. Ergashev (2011) introduced a framework that incorporated a scenario analysis into the operational risk model. The basic idea of this framework was that only the worst case contained tail behaviour information of operational risk because the worst case compares the normal loss with the corresponding severity loss distribution quartile determined by historical loss. Huang, Smith and Durr (2013) proposed a simple weighted average model to measure internal operational risk. Previous complex models were affected by insufficient historical data or models based on probability theory which could not be widely used. The model was based on the subjective judgment of an uncertain stage of operational risk identification, and was a feasible alternative to traditional probability model.

# Liquidity Risk

Liquidity risk refers to the possibility of a company's assets encountering economic losses due to liquidity uncertainties. Liquidity risk mainly arises from banks' inability to cope with liquidity difficulties caused by falling liabilities or increasing assets. When a company lacks liquidity, it cannot rely on debt growth or quick liquidation of assets at a reasonable cost to obtain sufficient funds which will affect its profitability. In extreme cases, insufficient liquidity can lead to company failure.

Compared with credit, market and operational risks, liquidity risk has more complex and extensive causes, and is usually regarded as a comprehensive risk. In addition to the imperfect liquidity plan of the company, the defects of risk management in credit, market, operation and other fields will also lead to the lack of liquidity of the company, and even to the spread of a risk resulting in liquidity difficulties in the entire financial system.

There are two main methods to measure liquidity risk: one is to assume that the exogenous variables of the holding period remain unchanged without considering the market risk of the holding period but only the liquidity risk caused by liquidity cost. This kind of model focuses on the endogenous liquidity risk. The other is a liquidity risk measurement model based on bid-ask spreads which take exogenous liquidity risk into account. However, it ignores the endogenous liquidity risk, that is, the impact of the trader's own trading strategy on asset prices.

# Risk Management Committee Size

Risk management committee existence may be related with board size. The existence of a large board size gives more opportunities to discover directors with needed expertise to organize and be in charge of a subcommittee dedicated to risk management.

The boards of directors set up monitoring committees that mitigate the cost related with larger boards (Upadhyay, Bhargava and Faircloth, 2014) thus, larger boards have been associated with both improved performance(Adams and Mehran, 2005) and greater bank risk taking(IMF, 2014). Consistent with prior studies (Peni and Vähämaa, 2012) an examination of a sample of financial institutions indicated that firms with shareholder-focused boards were associated with greater levels of systemic risks or lower returns.

A board’s primary responsibility is to deliver an effective monitoring function. According to (Bédard, Chtourou and Courteau, 2004), a big committee offers strength, expertise and diversity of views which are effective in terms of resolving potential problems. A risk oversight arrangement seeks to mitigate structural features that can hamper external shareholders’ ability to monitor banks effectively, given the complexity and opaqueness of their activities (De Andres and Vallelado, 2008). Banks boards of directors play a key role in overseeing risk controls to mitigate misconduct in financial institutions (Nguyen, Hagendorff and Eshraghi, 2015). Precisely, they reporedt reduced banks’ misconduct levels when monitoring quality was high.

The presence of a risk management committee may be tied to a board size. The presence of board size provides more opportunities for managers with the necessary skills to coordinate and be in charge of a sub-committee on risk management (Abubakar, Ado, Mohamed and Mustapha, 2018). In another loss, the size of the risk committee is used as a measure of the willingness of a corporation to expend board money to improve the prestige of clients and the strength of committee. Bédard, Chtourou and Courteau (2004) noted that not only did a broad committee have power but the resulting plurality of opinions within a committee made it more successful in solving possible problems (Ng, Chong and Ismail, 2013). It was also proposed as an improvement of ERM roles by a growing number of members in a risk committee.

Accounting or financial skills are attributes / qualifications or knowledge that an individual gained before becoming a member of a firm's board. In comparison, financial expertise and board members' experience gained considerable coverage in the literature on corporate governance. This work adopted the idea of a financial expert to determine the financial competency of the risk committee as established by the FRC for audit committees. The advice from the FRC (2012) was that financial consultants should have formal credentials (in accounting or finance or actuarial) and ample expertise in corporate financial matters. In the UK, according to Elamer and Benyazid (2018), adding a financial expert to the audit committee is a requirement (FRC, 2012;2014) but for a risk committee, there is (until now) no legal or regulatory control. The Walker research, however, recommended that a risk committee, would have at least one financial specialist with ample appropriate expertise to communicate with the executive team and respond to the key risk concerns within the ERM limits (Walker, 2009). The indicator of the competence of the risk committee is measured as the proportion of members of

finance or actuarial experience to the total RMC number. The data were obtained from the financial accounts section of corporate governance as the section also includes biographical information on each board member.

# Prior Studies

Many prior studies documented the nexus and effects of credit risk and financial performance from the advanced and the developing economies. Many of the studies recorded divergence opinions and inconsistent results. Among them were the following studies by Oduro, Asiedu and Gadzo, (2019) which looked at the effect of credit risk on corporate financial performance: evidence from listed banks on the Ghana in Stock Exchange. The study identified the factors that determined the level of bank credit risk and also estimated the effects of how bank credit risk on variables such as capital adequacy, operating efficiency, profitability, and net interest margin were inversely related to credit risk while bank size and financing gap tended to relate positively with credit risk. Therefore, an increase in bank credit risk negatively affected corporate financial performance in accordance with Basel accord. Thus, critical attention was paid to credit risk exposure by the management.

The studies on the influence of financial risk management practices on financial performance have been largely conceptual drawing on the theoretical frameworks provided by institutional regulators. Zubair and Irem (2018) considered shareholders’ wealth maximization the most appropriate and sustainable objective of a business concern. Shareholders wealth maximization criterion proposes that a business concern should only consider the decisions that maximize the market value of the share or the shareholders’ wealth. The market value of a share is treated as an indicator of efficiency and effectiveness of the firm. Finance theory asserts that shareholders’ wealth maximization is the single substitute for shareholders’ utility.

Kajola, Babatunji, Olabisi and Babatolu (2019) investigated the effect of credit management on financial performance of ten listed deposit money banks in Nigeria for the period 2005 - 2016. Using non-performing loan to total loan ratio (NPLLR); non-performing loan to total deposit ratio (NPLDR) and capital adequacy ratio as a surrogate for credit management and return on asset (ROA) and return on equity (ROE) for financial performance, the study utilized random effects generalized least squares (GLS) regression as its data estimation technique. The study

found that that all the three credit risk parameters had a significant relationship with ROA and ROE, and recommended that the management of deposit money banks should develop rigorous and robust credit policies that would assist banks to effectively assess the creditworthiness of their customers. In addition, the regulatory agencies were advised to come up with modern credit risk measurements, identification and control while prompt and necessary action should also be taken against the management of any bank that flouted their credit risk guidelines to prevent unpleasant distress in the financial system.

Also, Priya (2008) examined the relationship between dividend policy and stockholders’ wealth in the chemical industry of India. The data were collected from 28 companies on BSE which studied the significant difference between dividend payers and non-payers. The result showed that dividend yield had a negative relationship with stock returns in Kuala Lumpur Stock Exchange. The little change in dividend policy gave a large change in stock returns as well as shareholders’ wealth

Collins, M-epbari, Sira and Grend (2018) examined the effect of credit management and bank performance in Nigeria. The study adopted the cross sectional survey design. The population of the study consisted of all management staffs of commercial banks operating in Nigeria. The sample sizes of eleven (11) selected commercial banks was considered by a systematic technique. The purposive sampling technique was adopted while six respondents were administered questionnaires (Bank Manager and five senior staff) from each bank to make up 66 respondents for the study. The multiple regression analysis was adopted for the study to determine the influence/effects of credit management variables (credit appraisal, credit risk control, and collection policy) on bank performance. The study revealed that credit management had a significant effect on bank performance in Nigeria. The study also revealed that among the credit management variables considered, credit risk control had the highest driving force in bringing about an effective financial performance of banks in Nigeria. The study recommended that financial institutions should not only take credit management seriously, but should recognize the role of credit risk section if they aim at increasing profitability.

Kimani (2018) sought to investigate the relationship among credit scoring, credit monitoring and credit risk diversification and loan performance among DTSACCOs headquartered in Nairobi. A descriptive study of credit risk management techniques used by SACCOS was conducted. The

study focused on 36 DTSACCOs headquartered in Nairobi. The study relied on primary and secondary data. The primary data were collected using structured and semi-structured questions, and open and close ended questions. The questions were presented to credit managers and credit officers. A regression analysis was done to determine the relationship between the identified techniques and loan performance. The results from the study suggested that there was a significant positive correlation between credit risk scoring and loan performance. The study further established a positive correlation between credit monitoring and loan repayments although the relationship was not like the case of credit risk scoring. Moreover, the study found that credit scoring significantly influenced the ability of borrowers to repay their loans.

Riasi (2018) sought to determine how credit risk management practice impacted on the financial performance of deposit taking Sacco’s. The design which was used for the study was the descriptive design. The research was based on 18 Sacco’s in Mombasa County whose performance was analysed for a period of two years from 2014 to 2015. The information for the study was ancillary data collected from Sacco’s and regulator websites. The data which were drawn from the statements of the Sacco’s were explored using the multiple regression analysis to establish how credit risk management practice impacted the financial performance of Sacco’s. The data were evaluated using descriptive statistics by Microsoft excel and SPSS. It was noted that, there was a positive correlation between credit risk management practice and financial performance. The four independent variables had a positive coefficient indicating that an increase in credit policy, credit appraisal, monitoring and restrictive covenant and credit collateral and agreement resulted to an increase in financial performance.

Olabamiji and Michael (2018) examined the influence of credit management practices on the financial performance of Nigerian banks with a specific reference to First Bank Plc. The data were collected using the purposive sampling technique from thirty (30) respondents as a sample size. Both descriptive and inferential statistics were used to analyse the data such as frequency, percentage, weighted mean score and multiple regression. The result revealed that credit management practices had a significant positive influence on the financial performance of First Bank. The study concluded that client appraisal, credit risk control, and collection policy were major predictors of the financial performance of First Bank. Subsequently, the study recommended that management of other banks should learn from First Bank by enhancing their

client appraisal corporate financial performance from 2003 to 2017. Using the method of 2SLS the study found that techniques, credit risk control and adopting a more stringent policy improved their financial performance.

Moreover, we found a document from PricewaterhouseCoopers International Limited entitled “Creating value: Effective risk management in financial services.” In the document, they detailed their use of an online survey and interviews with senior executives in financial institutions on the subject of risk management. The research questioned “how effective is the risk management function at adding value to the business?” They begain with briefly suggesting that the financial institute must concentrate on such things as commitment from the top, embedded risk managers, culture and governance, and quality and utility of data, etc (PricewaterhouseCoopers, 2007).

We found articles on effective risk management that explained the process and importance of managing risks. Some articles gave examples of the critical success factors for effective risk management. For instance, some organizations set up communication policies to make sure employees were aware of recognized risks knew who to report to and recognized each other’s responsibilities. Some organizations set up teams which understood the organization and had different perspectives of risk such as an IT team focusing on an IT risk. In addition, many large organizations created teams whose role it was to make the large range of risks in the organization understood, provide information about security risks and advise executive management on business decisions (Harris, 2006).

Prior literature showed enough evidence that the shareholders were always at the losing end due to dishonesty and unethical practices, accounting manoeuvres with deceitful intentions and accounting fraud through the exploitation of the managers’ privileged positions thereby, negating shareholders’ wealth maximization goals. For example, the cases of Xerox’s improper accounting and deviation from accounting principles, WorldCom leveraging shares to raise debt for expensive acquisition, Enron and Arthur Anderson’s lack of transparency and premeditated projection of a healthy picture of performance, Tyco’s aggressive acquisition strategies and accounting frauds, Polly Peck diverting business cash flow into off-share family owned entities and BCCI banks’ deceitful acts and the highly leveraged financial instruments in the case of Goldman Sachs (Yahanpath, 2011) are evidence of such unethical practices and accounting maneuvres which have spelt doom for companies and their shareholders’ interests. The issue of

whether there is a nexus between Financial Reporting Quality (FRQ) and Shareholders’ Wealth Maximization (SHWM) using earnings per share as a proxy has been greatly debated in literature. Nevertheless, despite more than 20 years’ prior studies on the issue (Bamidele, Ibrahim and Omole, 2018), there have been contradictions in the results. Whereas many of the prior empirical studies reached the conclusion that there was a positive association between financial reporting quality and SHWM (for example, Adetula, Owolabi & Onyinye, 2014; Hassan, 2015), there have also been several other studies resulting in a negative association (Chao-Jung, 2015; Patro and Gupta, 2016) and yet, some reported neutral and non-significant results (for example, Duarte and Azevedo, 2015) or mixed relationships (Fariba & Mehran, 2016; Taouab, Ahsina and Daghi, 2014). The reason behind the contradictions could be explained by the in consistences or vagueness in the construct of the measurement aimed at capturing financial reporting quality and earnings per share (Callan and Thomas, 2009). Callan and Thomas (2009) posited that there is therefore need for more research concerning the nexus between financial reporting quality and earnings per share.

Onafowokan (2013) examined impact of cooperative societies’ savings scheme in rural finance to the extent to which savings products offered by cooperative societies in some parts of Nigeria met the financial needs of the rural dwellers. The study used the data from interviews and focus group discussions from randomly selected members of cooperative societies in six local governments areas. The data were analysed using percentages, content analysis and quotation. The study found that the savings product helped to inculcate a good savings habit among the participants because they found it easier to save then than when they were introduced to the programme. The members also developed self esteem as “part owners” of the programme because of the compulsory savings that they participated in, and they did not want the programme to collapse. Members were also satisfied because they were able to save in the scheme which helped them to reduce their expenses on frivolous spending such as leisure drinking and acquisition of more wives. The members’ inability to withdraw money from their savings when in financial need, except on cessation of membership, was found as the drawback of the programme.

However, none of the studies above touched on the effect of financial risk management on a cooperative credit society’s wealth maximization in Nigeria and the role of the risk committee in

moderating the risk. Consequently this study investigated the effect of financial risk management on credit cooperative societies in Nigeria using 8 cooperative societies in Ughelli and Abraka Metropolis in Delta State.

# Theoretical Frame Work

As earlier stated, the research is an ongoing study on financial risk management on shareholders’ wealth maximization. Therefore, the research framework for this study was limited to the research problems and literature review. The framework focused on the effect of financial risk management on shareholders’ wealth in some companies in Nigeria. The independent variable was the financial risk a proxy for credit risk, earnings per share, liquidity risk and operational risk. Meanwhile, financial performance, was measured by return on asset (ROA), return on equity (ROE) and operating efficiency. Hence, they represented the dependent variables.

The foundation of this research was financial risk management of shareholders’ wealth maximization of private companies, specifically (credit risk, liquidity risk, earnings per share and operational risk). It was the foundation which made us interested in the study of the relationship between financial risk management and financial performance (profitability) of shareholders. And specifically, we wanted to find out the relationship between financial management risks and financial performance of shareholders’ wealth. We neede to quantify financial risks (credit, liquidity and operational) as well as performance to disclose the relationship in a statistical and objective method. To achieve that, we actually proposed to investigate the effect among the indicators chosen to represent or measure financial risks and the indicators chosen to represent financial performance. The following theories were used in this study;

# The Credit Risk Theory

Credit risk refers to the risk of suffering a financial loss due to a decline in the creditworthiness of a counterparty in a financial transaction (Liu, Mirzaeiand and Vandoros, 2014).The source of credit risk is the default risk, that is, the risk that the accounted party will not fulfil the contractual obligations. The risk is primarily that of the lender and includes lost principal and interest. A disrupted loss may be complete or partial and can arise in a number of circumstances such as an insolvent bank unable to return funds to a depositor.

Although people have faced credit risk over the years, credit risk was not widely studied until some 30 years ago. Early literature (before 1974) on credit risk used traditional actuarial methods of credit risk whose major difficulty lay in their complete dependence on historical data. Up to now, three main quantitative approaches have been used to analyse credit risk: structural approach; reduced form approach; and incomplete information approach (Crosbie, Peter and Bohn, 2003). Merton (1974) introduced the credit risk theory otherwise called the structural theory which said that the default event derived from a firm's assets evolution modelled by a diffusion process with constant parameters. Such models which commonly defined as "structural models" and based on variables related to a specific issuer. An evolution of this category is represented by a set of models where the loss conditional on default is exogenously specified (can be deterministic or stochastic) nonetheless maintaining the endogenous nature of a default event. In these models, the default can happen throughout the life of a corporate bond and not only at maturity (Longstaff and Schwartz, 1995) and Saa-Requejo and Santa Clara, 1997). The assets dynamics are generally modelled as a constrained diffusion with respect to an absorbing barrier, the latter being deterministic or stochastic and representing the default threshold. In the second approach, of the "reduced form models," both the default event and the loss given default are exogenous to the firm. The pricing of any (exotic) credit derivative is achieved through the calibration of the default probabilities curve from the most liquid corporate bonds and (plain vanilla) credit derivatives written on the same firm (Jarrow and Tumbull, 1995; Jarrow, Lando and Turnbull, 1997: Duffie and Singleton, 1999).

# Introduction

**CHAPTER THREE METHODOLOGY**

This chapter discusses the procedure adopted to conduct the research. The discussion is divided into such sub-headings as sources of data, research design, population of the study, determination of sample size, administration of questionnaire, model specification and method of data analysis.

# Research design

This study adopted a survey research design. It employed the use of primary data with the aid of questionnaires to collect data from respondents in order to achieve the stated objective of the study and provide facts on the stated hypotheses.

# Population of the Study

The population for this study was the 8 cooperative societies in Ughelli and Abraka Metropolis as at the period of the study. The population of the members of the cooperative was not given by the executives for security and other reasons best known to them.

# Sample Size

The sample size for the study was 200 using stratified random sampling techniques. 23 members were the sample out of the 8 cooperative based on the location of the researcher and accessibility to the members of the cooperative. Out of the 184 questionnaires distributed 175, were returned by the respondents.

# Sampling Techniques

The stratified random sampling technique was used in this study. It was adopted so as to give each cooperative an equal chance. The study was limited to the cooperative societies in Delta State, Ughelli and Abraka specifically. The questionnaires were distributed to respondents in the locality of the researcher which to the best knowledge of the researcher, was good for the generalization of all the other cooperative societies.

# Method of data collection

According to Olannye (2006), data collection is the gathering of relevant information for addressing the questions raised in the research and the problem statement. The method of data collection that was used in this study was the primary source of data. The data were sourced from the members and some executives of the cooperative societies.

# Method of data Analysis

The descriptive analysis was used to analyse the demographic section of the question (frequencies and percentages) and the question items while the multiple regression analysis was used to test the hypothesis.

# Model Specification

The broad of objective of the model was to specify, and estimate and examine the effectiveness of financial risk management in cooperative credit society wealth maximization. The model was stated below:

WM = β0+β1CR+β2 LR+β3OR+β4MR +β5RC +e

Where:

WM= Wealth Maximization CR =Credit Risk

OP= Operational Risk OP= Market Risk OP= Risk Committee β0- β5 = coefficient

e = Stochastic term

# CHAPTER FOUR

**DATA PRESENTATION AND ANALYSIS**

# Introduction

This chapter contains the data presentation, analysis and interpretation of the data collected for the study. It is a vital part of any research since it forms the basis for the recommendation and conclusion at the end of the research. The demographic data of the respondent were analysed first using percentages and frequencies. It was followed the tests for reliability and hypotheses. The results were presented and interpreted below**:**

# Data Presentation Table 4.2.1

**Demography of Respondents**

|  |  |  |  |
| --- | --- | --- | --- |
| **S/N** | **VARIABLE** | **FREQUENCY** | **PERCENTAGE %** |
| 1 | **Names of cooperative societies:** |  |  |
|  | 1. Fupre cooperative | 22 | 12.6 |
|  | 1. Delsu Women cooperative
2. Delsu Academic cooperative
 | 21 | 12.0 |
|  | 4. Desomatex cooperative | 23 | 13.1 |
|  | 1. Iloho Isoko cooperative
2. Sacred Heart cooperative
 | 20 | 11.4 |
|  | 7. Delsu Bursary cooperative | 22 | 12.6 |
|  | 8. All Saint cooperative**Total** | 23 | 13.1 |
|  |  | 22 | 12.6 |
|  |  | 22 | 12.6 |
|  |  | 175 | 100 |

|  |  |  |  |
| --- | --- | --- | --- |
| 2 | **Age:** |  |  |
|  | 20- 30years | 14 | 8 |
|  | 31-40years | 68 | 38.9 |
|  | 4oyears and above | 93 | 53.1 |
|  | **Total** | 175 | 100 |
| 3 | **Work Experience:** |  |  |
|  | Less than 5years | 18 | 10.3 |
|  | 6-15years | 87 | 49.7 |
|  | 15years and above | 69 | 39.4 |
|  | **Total** | 175 | 100 |
| 4 | **Highest Educational Qualification:** |  |  |
|  | SSCE | 10 | 5.7 |
|  | NCE/ND | 27 | 15.4 |
|  | HND/ BSc./BA | 103 | 58.9 |
|  | Post graduate | 35 | 20.0 |
|  | Total | 175 | 100 |

## Source: Field Survey, 2021

The table 4.2.1 above showed the demographic presentation of the respondents. The numbers of respondents from each cooperative societies were 22 (12.6%) from Fupre, 21(12%) from Delsu Women, 23(13.1%) from Delsu Academic, 20(11.4%) from Desomatex cooperative, Iloho Isoko 22(12.6%), Sacread Heart 23(13.1%), DelsuBusary 22(12.6%) and All Saint cooperative 22(12.6%).

The ages of the respondents as shown in the above Table 14(8%) were between 20 and 30years, 68(38.9%) were between the ages of 31 and 40years and 93(53.1%) were ages 40years and above. They had working duration of 18(10.3%) for less than 5years, 87(49.7%) for 6 – 15years and 69(39.4%) for 15years and above.

The highest educational qualifications of the respondents showed that 10(5.7%) had SSCE, 27(15.4%) had ND/NCE, 103(58.9%) had BSc/ HND/BA and 35 (20%) had postgraduate certificates.


# Table 4.2.2: Reliability Statistic test for variables

**Reliability Statistics**

|  |  |  |
| --- | --- | --- |
| Cronbach's Alpha | Cronbach's Alpha Based on Standardized Items | No of Items |
| .739 | .782 | 38 |

# Author’s computation, 2021.

Using the rule by Geory and Mallery (2003), the Table 4.2.2 above showed the reliability test of the variables. The result for the variable showed an excellent result of 0.739. Based on that we assumed that the degree to which an instrument yielded was consistent.

# Question Analysis

**Question One:** Does credit risk have any significant effect on a cooperative credit society’s wealth maximization?

Below were the description and presentation of the sampled respondents’ answers to question one in Table 4.2.3.

# Table 4.2.3 Effect of credit risk on a cooperative credit society’s wealth maximization

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **STATEMENTS** | **SA** | **A** | **U** | **SD** | **D** |
| Credit Risk |  |  |  |  |  |
| The cooperative has a clear credit policy | 57 | 116 | 1 | 0 | 0 |
| assessed against risk by an independent internal | (32.6%) | (66.3%) | (0.6%) | (0%) | (0%) |
| system. |  |  |  |  |  |
| The credit policies are communicated | 53 | 108 | 9 | 4 | 1 |
| throughout the organization and periodically | (30.3%) | (61.7%) | (5.1%) | (2.3%) | (0.6%) |
| revised. |  |  |  |  |  |
| Credit policy formulation, credit limit setting, | 51 | 92 | 19 | 10 | 3 |
| monitoring of credit exposures and review and | (29.1%) | (52.6%) | (10.9%) | (5.7%) | (1.7%) |
| monitoring of documentation functions are |  |  |  |  |  |
| performed independently of the loan origination |  |  |  |  |  |
| function. |  |  |  |  |  |
| Policies relating to credit assessment and | 45 | 115 | 13 | 2 | 0 |
| granting process are documented with adequate | (25.7%) | (65.7%) | (7.4%) | (1.1%) | (0%) |
| checks and balances in place to ensure that |  |  |  |  |  |
| credit is granted on an arms-length basis. |  |  |  |  |  |
| The cooperative credit society has a well- | 32 | 122 | 18 | 1 | 2 |
| structured internal risk rating system. | (18.3%) | (69.7%) | (10.3%) | (0.6%) | (1.1) |
| The cooperative credit society has a system for | 26 | 138 | 10 | 0 | 1 |
| monitoring the condition of individual credits | (14.9%) | (78.9%) | (5.7%) | (0%) | (.6%) |
| Credit policy is a part of the cooperative credit | 45 | 112 | 13 | 4 | 1 |
| society-wide capital management strategy. | (25.7%) | (64.0%) | (7.4%) | (2.3%) | (0.6%) |
| The cooperative credit society has an adequate | 40 | 114 | 18 | 2 | 1 |
| system in place to identify and monitor risks on | (22.9%) | (65.1%) | (10.3%) | (1.1%) | (0.6%) |
| an on going basis. |  |  |  |  |  |

## Source: Field Survey, 2021

The Table 2.2.3 above, it revealed that most of the respondents showed a level of agreement with the statement that credit risk had an effect on wealth maximization.32.6% (57) and 66.3% (116) strongly agreed and agreed respectively that “*The cooperative has a clear credit policy assessed against risk by an independent internal system”* while 0.6% (1) were undecided, and 0.6% (1)

strongly disagreed. 30.3% (53) and 61.7% (108) strongly agreed and agreed with the second statement that “*The credit policies are communicated throughout the organization and periodically revised*” while 5.1% (9) were undecided and 2.3% (4) is disagreed. Also, 29.1%

(51) and 52.6% (92) strongly agreed and agreed with the third statement that “*Credit policy formulation, credit limit setting, monitoring of credit exposures and review and monitoring of documentation functions are performed independent of the loan origination function*” 25.7%

(45) and 65.7% (115) strongly agreed and agreed with the fourth statement that “*Policies relating to credit assessment and granting process are documented with adequate checks and balances in place to ensure that credit is granted on an arms-length basis*” respectively while 18.3% (32) and 69.7% (122) strongly agreed and agreed with the fifth statement that “*The cooperative credit society has a well-structured internal risk rating system*”. 14.9% (26) and 78.9% (138) strongly agreed and agreed respectively with the six statement that “*The cooperative credit society’s has a system for monitoring the condition of individual credits*” while 25.7% (45) and 64% (112) strongly agreed and agreed with the seventh statement “*Credit policy is a part of the cooperative credit society’s-wide capital management strategy*”. However, 22.9% (40) and 65.1% (114) strongly agreed and agreed with the last statement that “*The cooperative credit society has an adequate system in place to identify and monitor risk on an on going basis*” respectively.

**Question Two:** Does liquidity risk have any significant effect on a cooperative credit society’s wealth maximization?

Table 4.2.4 below presented respondents’ answers to question two

# Table 4.2.4 Effect of liquidity risk on a cooperative credit society’s wealth maximization

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **STATEMENTS** | **SA** | **A** | **U** | **SD** | **D** |
| Liquidity Risk |  |  |  |  |  |
| Cooperative credit society has established a | 53 | 103 | 11 | 4 | 4 |
| robust liquidity risk management framework that | (30.3%) | (58.9%) | (6.3%) | (2.3%) | (2.3%) |
| ensures sufficient liquidity. |  |  |  |  |  |
| The management has developed a strategy, | 44 | 114 | 11 | 3 | 3 |
| policies and practices to manage liquidity risk in | (25.1%) | (65.1%) | (6.3%) | (1.7%) | (1.7%) |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| accordance with the risk tolerance. |  |  |  |  |  |
| Cooperative credit society regularly measures its | 53 | 85 | 32 | 3 | 2 |
| capacity to raise funds quickly from each source | (30.3%) | (48.6%) | (18.3%) | (1.7%) | (1.1%) |
| and it identifies the main factors that affect its |  |  |  |  |  |
| ability to raise funds and monitors them closely. |  |  |  |  |  |
| Cooperative credit society actively manages its | 51 | 94 | 21 | 5 | 4 |
| day-to-day liquidity positions and risks to meet | (29.1%) | (53.7%) | (12.0%) | (2.9%) | (2.3%) |
| payment and settlement obligations on a timely |  |  |  |  |  |
| basis. |  |  |  |  |  |
| Cooperative credit society publicly discloses | 34 | 107 | 27 | 3 | 4 |
| information on a regular basis to enable members | (19.4%) | (61.1%) | (15.4%) | (1.7%) | (2.3%) |
| to make an informed judgment about the |  |  |  |  |  |
| soundness of its liquidity risk management |  |  |  |  |  |
| framework and liquidity position. |  |  |  |  |  |
| Management regularly performs a comprehensive | 52 | 107 | 12 | 2 | 2 |
| assessment of the cooperative’s overall liquidity | (29.7%) | (61.1%) | (6.9%) | (1.1%) | (1.1%) |
| risk management framework and liquidity |  |  |  |  |  |
| position. |  |  |  |  |  |
| Cooperative credit society has a formal | 37 | 98 | 27 | 6 | 6 |
| contingency funding plan that clearly sets out the | (27.8%) | (56%) | (15.4%) | (3.4%) | (3.4%) |
| strategies for addressing liquidity shortfalls in |  |  |  |  |  |
| emergency situations. |  |  |  |  |  |

## Source: Field Survey, 2021

The Table 2.2.4 above, it revealed that most of the respondents’ showed a level of agreement with the statements that liquidity risk had a significant effect on cooperative credit wealth maximization. 30.3% (53) and 58.9% (103) strongly agreed and agreed respectively that “*Cooperative credit society has established a robust liquidity risk management framework that ensures sufficient liquidity*”, while 6.3% (11) were undecided. 25.1% (44) and 65.1% (114) strongly agreed and agreed to the second statement that “*The management has developed a strategy, policies and practices to manage liquidity risk in accordance with the risk tolerance*” while 6.3% (11) were undecided and 1.7% (3) and 1.7% (3) disagreed and strongly disagreed respectively. Also, 30.3% (53) and 48.6% (85) strongly agreed and agreed with the third

statement that “*Cooperative credit society regularly measures its capacity to raise funds quickly from each source and it identifies the main factors that affect its ability to raise funds and monitors them closely*”. The fourth statement that “*Cooperative credit society publicly discloses information on a regular basis that enables members to make an informed judgment about the soundness of its liquidity risk management framework and liquidity position*” 2.9% (51) and 53.7% (94) strongly agreed and agreed while 12% (21) were undecided and 2.9% (5) and 2.3%

(4) disagreed and strongly disagreed respectively. The fifth statement that “*Management regularly performs a comprehensive assessment of the cooperative’s overall liquidity risk management framework and liquidity position*”, saw 19.4% strongly agreed while 61.1% (107) agreed. Finally, for the last statement that “*Cooperative credit society has a formal contingency funding plan that clearly sets out the strategies for addressing liquidity shortfalls in emergency situations*”, 27.8% (37), 56% (98), 15.4% (27) and 6.8% (12) strongly agreed, agreed, were undecided and disagreed respectively.

**Question Three:** Does operational risk have any significant effect on a cooperative credit society’s wealth maximization?

The Table 4.2.5 below illustrated the respondents’ answers to question three.

# Table 4.2.5 Effect of operational risk on a cooperative credit society’s wealth maximization

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **STATEMENTS** | **SA** | **A** | **U** | **SD** | **D** |
| Operational Risk |  |  |  |  |  |
| There is no internal control in a | 52 | 107 | 12 | 2 | 2 |
| cooperative credit society. | (29.7%) | (61.1%) | (6.9%) | (1.1%) | (1.1%) |
| Month end financial reports in our | 25 | 121 | 12 | 11 | 6 |
| cooperative credit society are reviewed | (14.3%) | (69.1%) | (6.9%) | (6.3%) | (3.4%) |
| and verified for accuracy on a monthly |  |  |  |  |  |
| basis |  |  |  |  |  |
| The management of your cooperative | 32 | 117 | 16 | 7 | 3 |
| credit society, consistent with its duties | (18.3%) | (66.9%) | (9.1%) | (4.0%) | (1.7%) |
| and responsibilities, adopted written |  |  |  |  |  |
| policies pertaining to guarantees issued |  |  |  |  |  |
| that established procedures for reviewing |  |  |  |  |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| guarantee applications. |  |  |  |  |  |
| Employees responsible for cash handling | 22 | 119 | 18 | 14 | 2 |
| and deposits are provided with a manual | (12.6%0 | (68%) | (10.3%) | (8.0%) | (1.1%) |
| or set of standard operating procedures |  |  |  |  |  |
| The main reason for increasing | 30 | 108 | 7 | 16 | 14 |
| operational risk in the cooperative credit | (17.1%) | (61.7%) | (4.0%) | (9.1%) | (8.0%) |
| society are money laundering, |  |  |  |  |  |
| misconduct, fraud, legal risk terrorist |  |  |  |  |  |
| financing and sanctions non-compliance. |  |  |  |  |  |

## Source: Field Survey, 2021

The Table 2.2.5 above, revealed that most of the respondents showed a level of agreement with the statement on the effect of operational risk on a corporative credit society’s wealth maximization. 29.7% (52) and 61.6% (107) strongly agreed and agreed respectively that “*There is no internal control in cooperative credit society”*. 14.3% (25) and 69.1% (121) strongly agreed and agreed with the second statement that “*Month end financial reports in our cooperative credit society are reviewed and verified for accuracy on a monthly basis*”. Also, 18.3% (32) and 66.9% (117) strongly agreed and agreed with the third statement that “*The management of your cooperative credit society, consistent with its duties and responsibilities, adopted written policies pertaining to guarantees issued that established procedures for reviewing guarantee applications*” while 9.1% (16), 4.0% (7) and 1.7% (3) undecided, disagreed

and strongly disagreed respectively. However, 12.6% (22) and 68% (119) strongly agreed and agreed with the fourth statement that “*Employees responsible for cash handling and deposits are provided with a manual or set of standard operating procedures*” while 10.3% (18), 8.0% (14) and 1.1% (2) were undecided, disagreed and strongly disagreed. The final statement that “*The main reasons for increasing operational risk in the cooperative credit society were money laundering, misconduct, fraud, legal risk terrorist financing and sanctions non-compliance*” had 17.1% (30), 61.7% (108), 4.0% (7), 9.1% (16) and 8.0% (14) strongly agreed, agreed, undecided, disagreed and strongly disagreed respectively.

**Question Four:** Does market risk have any significant effect on a cooperative credit society’s wealth maximization?

Below were the description and presentation of the sampled respondents’ answers to question one in Table 4.2.6.

# Table 4.2.6 Effect of market risk on a cooperative credit society’s wealth maximization

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **STATEMENTS** | **SA** | **A** | **U** | **SD** | **D** |
| Market Risk |  |  |  |  |  |
| The cooperative credit society loans | 66 | 95 | 4 | 4 | 6 |
| have helped members to improve | (37.7%) | (54.3%) | (2.3%) | (2.3%) | (3.4%) |
| their lives/businesses |  |  |  |  |  |
| Interest rate for a short term borrower | 20 | 93 | 12 | 27 | 23 |
| is high. | (11.4%) | (53.1%) | (6.9%) | (15.4%) | (13.1%) |
| Loan repayment is a smooth process | 38 | 122 | 6 | 6 | 3 |
| for members. | (21.7%) | (69.7%) | (3.4%) | (3.4%) | (1.7%) |
| Our cooperative credit society has a | 34 | 120 | 11 | 4 | 6 |
| written manual on how it determines | (19.4%) | (68.6%) | (6.3%) | (2.3%) | (3.4%) |
| future interest rates by the time they |  |  |  |  |  |
| enter into transactions which entail a |  |  |  |  |  |
| long payback period. |  |  |  |  |  |

## Source: Field Survey, 2021

The Table 2.2.6 above, revealed that most of the respondents’ showed a level of agreement with the statement on the effect of market risk on a corporative credit society’s wealth maximization. 37.7% (66) and 54.3% (95) strongly agreed and agreed respectively that “*the cooperative credit society loans have helped members to improve their lives/businesses”*. 11.4% (20) and 53.1%

(93) strongly agreed and agreed with the second statement that “*Interest rate for a short term borrower is high.*” Also, 21.7% (38) and 67.7% (122) strongly agreed and agreed with the third statement that “*Loan repayment is a smooth process for members*” while 3.4% (6), 3.4% (6) and 1.7% (3) were undecided, disagreed and strongly disagreed respectively. However, 19.4% (34) and 68% (120) strongly agreed and agreed with the fourth statement that “*Our cooperative credit society has a written manual on how it determines the future interest rates by the time they*

*enter into transactions which entail a long payback period*” while 6.3% (11), 2.3% (4) and 3.4%

(6) were undecided, disagreed and strongly disagreed respectively.

Does risk committee have any significant effect on a cooperative credit society’s wealth maximization?

Below were the description and presentation of the sampled respondents answer to question one in Table 4.2.7.


# Table 4.2.7 Effect of risk committee on a cooperative credit society’s wealth maximization

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **STATEMENTS** | **SA** | **A** | **U** | **SD** | **D** |
| Risk Committee |  |  |  |  |  |
| Cooperative credit society has no risk | 105 | 54 | 5 | 8 | 3 |
| committee. | (60%) | (30.8%) | (2.9%) | (4.5%) | (1.7%) |
| Risk committee members have the appropriate | 26 | 112 | 18 | 9 | 10 |
| qualifications to meet the objectives of the risk | (14.9%) | (64.0%) | (10.3) | (5.1%) | (5.7%) |
| committee’s aims and objectives, including |  |  |  |  |  |
| appropriate financial risk management |  |  |  |  |  |
| background/qualifications. |  |  |  |  |  |
| The risk committee demonstrates integrity, | 38 | 112 | 20 | 4 | 1 |
| credibility, trustworthiness, active participation, | (21.7%) | (64.0%) | (11.4%) | (2.3%) | (0.6%) |
| an ability to handle conflict constructively, |  |  |  |  |  |
| strong interpersonal skills, and the willingness |  |  |  |  |  |
| to address issues proactively. |  |  |  |  |  |
| The risk committee reports its proceedings and | 31 | 118 | 21 | 3 | 2 |
| recommendations to the management of the | (17.7%) | (67.4%) | (12.0%) | (1.7%) | (1.1%) |
| cooperative credit society after each committee |  |  |  |  |  |
| meeting. |  |  |  |  |  |
| Risk committee meetings are conducted | 27 | 119 | 21 | 5 | 3 |
| effectively, with sufficient time spent on | (15.4%) | (68.0%) | (12.0%) | (2.9%) | (1.7%) |
| significant or emerging issues. |  |  |  |  |  |
| Meetings are held with enough frequency to | 36 | 116 | 22 | 1 | 1 |
| fulfil the risk committee’s duties, at least | (20.6%) | (66.3%) | (12.6%) | (0.6%) | (0.6%) |
| monthly, to enable them to breach the gap |  |  |  |  |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| between the management of the cooperative andits members. |  |  |  |  |  |
| The cooperative credit society provides the risk committee with sufficient information on and access to all vital documents to fulfil its objectives and engage external parties onmatters requiring external expertise. | 33(18.9%) | 123(70.3%) | 16(9.1%) | 2(1.1%) | 1(0.6%) |
| The risk committee discusses the cooperative credit society’s risk appetite and specific risk tolerance levels in conjunction with strategic objectives, as presented by management, at leastannually. | 33(18.9%) | 104(59.4%) | 18(10.3%) | 6(3.4%) | 14(8.0%) |

## Source: Field Survey, 2021

The Table 2.2.7 above, showed that most of the respondents’ revealed a level of agreement with the statement on operational risk on a cooperative credit society’s wealth maximization. 60%

(105) and 30.8% (54) strongly agreed and agreed respectively that “*Cooperative credit society has no risk committee*”. 14.9% (26) and 64 % (112) strongly agreed and agreed with the second statement that “*Risk committee members have the appropriate qualifications to meet the objectives of the risk committee’s aims and objectives, including appropriate financial risk management background/qualifications*”. Also, 21.7% (38) and 64% (112) strongly agreed and agreed with the third statement that “*The risk committee demonstrates integrity, credibility, trustworthiness, active participation, an ability to handle conflict constructively, strong interpersonal skills, and the willingness to address issues proactively*” while 11.4% (20), 2.3%

(4) and 0.6% (1) were undecided, disagreed and strongly disagreed respectively. However, 17.7% (31) and 67.4% (118) strongly agreed and agreed with the fourth statement that “*The risk committee reports its proceedings and recommendations to the management of the cooperative credit society after each committee meeting”* while 12.0% (21), 2.9% (5) and 1.7% (3) were undecided, disagreed and strongly disagreed respectively. The fifth statement that “*Risk committee meetings are conducted effectively, with sufficient time spent on significant or emerging issues”* had 15.4% (27), 68% (119), 12.0% (21), 2.9% (5) and 1.7% (3) were strongly agreed, agreed, undecided, disagreed and strongly disagreed respectively. 20.6% (36) and 66.3%

(116) strongly agreed and agreed with the sixth statement that “*Meetings are held with enough*

*frequency to fulfil the risk committee’s duties at least monthly to enable them to breach the gap between the management of the cooperative and its members*”. However, 18.9% (33) and 70.3%

(123) strongly agreed and agreed to the seven statement that “*The cooperative credit society provides the risk committee with sufficient information and access to all vital documents to fulfil its objectives and engage external parties for matters requiring external expertise”*

Finally, 18.9% (33) and 59.4% (104) strongly agreed and agreed respectively with the last statement that “The risk committee discusses the cooperative credit society’s risk appetite and specific risk tolerance levels in conjunction with strategic objectives as presented by management, at least annually”.

# Table 4.2.8 Effect of wealth maximization on a cooperative credit society’s wealth maximization

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **STATEMENTS** | **SA** | **A** | **U** | **D** | **SD** |
| Wealth Maximization |  |  |  |  |  |
| The profit declared by our cooperative has been on the increase for the past years till date. | 73(41.7%) | 94(53.7%) | 5(2.9%) | 3(1.7%) | 0(0%) |
| The dividend shared every year has been on the increase over the years | 72(41.1%) | 90(51.4%) | 9(5.1%) | 4(2.3%) | 0(0%) |
| The cooperative has a good return on their investment | 76(43.4%) | 92(52.6%) | 5(2.9%) | 2(1.1%) | 0(0%) |
| All the members of the cooperative are happy with the return they get from their savings. | 77(44.0%) | 88(50.3%) | 7(4.0%) | 3(1.7%) | 0(0%) |
| The returns on investments for both individual and the cooperative are reasonable. | 75(42.9%) | 79(45.1%) | 12(6.9%) | 3(1.7%) | 6(3.4%) |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| The cooperative has enough fund for investment | 73(41.7%) | 92(52.6%) | 7(4.0%) | 1(0.6%) | 2(1.1%) |

## Source: Field Survey, 2021

The Table 4.2.8 showed that 41.7% (73) and 53.7% (94) respondents strongly agreed and agreed respectively with the statement that “*The profit declared by our cooperative has been on the increase for the past years till date*”. Also, 41.1% (72) and 51.4 %( 90) respondents strongly agreed and agreed respectively with the statement that “*The dividend shared every year has been on the increase over the years”* while 5.1% (9) were undecided. 43.4% (76) and 52.6% (92) respondents strongly agreed and agreed respectively with the statement “*The cooperative has a good return on their investment*” while 2.9% (5) were undecided. 44% (77) and 50.3% (88) respondents strongly agreed and agreed respectively with the statement that “*All the member of the cooperative are happy with the returns they get from their savings*” while 4% (7) were undecided. About 43% (75) and 45.1% (79) strongly agreed and agreed with the fifth statement that “*The returns on investments for both individual and the cooperative are reasonable*.” and 1.7% (3) disagreed with the statement. Finally, 41.7% (73) and 52.6% (92) strongly agreed and agreed with the sixth statement that “*The cooperative has enough fund for investment” while 4.0*

*%( 7) was undecided.*

# 4.3 Test of hypotheses

**Decision rule: Accept null hypothesis if p-value > 0.05 and reject alternative hypothesis. Reject the null hypothesis if the p-value <0.05 and reject alternate hypothesis.**

The Tables below showed the result obtained from the multiple regression for the hypotheses. They were interpreted accordingly.

# Table 4.3.1

**Model Summaryb**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin- Watson |
| 1 | .909a | .826 | .821 | .21100 | 1.138 |

1. Predictors: (Constant), Risk committee, liquidity risk, market risk, credit risk, operational risk.
2. Dependent Variable: wealth maximization

From the Table 4.3.1 above, The R value was 0.909 which indicated a good level of the prediction of the independent variables (credit risk, liquidity risk, operational risk and market risk). Also, the R2 which was the coefficient of determination, that is, the proportion of the dependent variable (wealth maximization) that could be explained by the independent variables (credit risk, liquidity risk, operational risk and market risk). The value of the R2 was 0.826, that is, the independent variables could explain approximately 83% of the dependent variable.

# Table 4.3.2

**ANOVAa**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Model | Sum of Squares | df | Mean Square | F | Sig. |
| 1 | Regression | 35.710 | 5 | 7.142 | 160.414 | .000b |
|  | Residual | 7.524 | 169 | .045 |  |  |
|  | Total | 43.234 | 174 |  |  |  |

1. Dependent Variable: whealth maximization
2. Predictors: (Constant), Risk committee, liqudity risk, market risk, credit risk, operational risk.

The Table 4.3.2 above (the Anova table) showed whether the overall regression model was of good fit or not. From the Table the value of p was 0.000 which showed that the independent variables statically and significantly predicted the dependent variable. It showed that the regression model was a good fit of the data.


# Table 4.3.3

**Coefficientsa**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Model | Unstandardized Coefficients | Standardized Coefficients | t | Sig. |
| B | Std. Error | Beta |
| 1 (Constant) | .870 | .141 |  | 6.153 | .000 |
| credit risk | .235 | .032 | .357 | 7.262 | .030 |
| liquidity risk | .132 | .033 | .166 | 3.985 | .002 |
| operational risk | .162 | .041 | .209 | 3.998 | .000 |
| market risk | -.060 | -.034 | .085 | -1.761 | .040 |
| Risk committee | .230 | .047 | .265 | 4.874 | .000 |

# Hypothesis I:

a. Dependent Variable: wealth maximization

**Credit risk has no significant effect on a cooperative credit society’s wealth maximization**

From the Table 4.3.3, it could be seen that credit risk had a positive and significant effect on cooperative credit wealth maximization. The p value (0.030) was less than 0.05 with a

coefficient of 0.235. It showed that credit risk could increase the rate of wealth maximization if it was managed very well by about 24%. It meant that if cooperate credit societies could manage the credit risk well, it could influence the wealth maximization positively with about 24%. Based on that result, we rejected our null hypothesis which said that credit risk did not have any significant effect on the wealth maximization of cooperative credit societies, and accepted our alternate hypothesis which said that credit risk had no significant effect on the wealth maximization of cooperative credit societies.


# Hypothesis II:

**Liquidity risk has no significant effect on a cooperative credit society’s wealth maximization.**

From the Table 4.3.3, it could be seen that liquidity risk had a positive and significant effect on cooperative credit wealth maximization, the p value (0.002) is less than 0.05 with a coefficient of

0.132. It showed that liquidity risk could increase the rate of wealth maximization if it was managed very well by about 13%. It meant that if cooperative credit societies could manage the liquidity risk well, it could influence the wealth maximization positively with about 13%. Based on that result, we rejected our null hypothesis which said that liquidity risk did not have any significant effect on the wealth maximization of cooperative credit societies and accepted our alternate hypothesis which said that liquidity risk did not have any significant effect on wealth maximization of cooperative credit societies.

# Hypothesis III:

**Operational risk has no significant effect on a cooperative credit society’s wealth maximization.**

From the Table 4.3.3, it could be seen that operational risk had a positive and significant effect on a cooperative credit society’s wealth maximization. The p value (0.000) was less than 0.05 with a coefficient of 0.162. It showed that operational risk could increase the rate of wealth maximization if it was manage very well by about 16%. It meant that if cooperative credit societies could managed the operational risk well, it can influence the wealth maximization

positively with about 16%. Based on that result, we could reject our null hypothesis which said that operational risk did not have any significant effect on wealth maximization of cooperative credit societies and accept our alternate hypothesis which said that operational risk did not have any significant effect on wealth maximization of cooperative credit societies.


# Hypothesis IV:

**Market risk has no significant effect on a cooperative credit society’s wealth maximization**

From the Table 4.3.3, it could be seen that market risk had a negative and significant effect on cooperative credit wealth maximization. The p value (0.040) was less than 0.05 with a coefficient of 0.060. This shows market risk can decreases the rate of wealth maximization by about 6%. It meant that cooperative credit societies must take the market serious in other to minimize the negative influence that it could cause on the wealth maximization. Based on that result, we could reject our null hypothesis which stated that market risk did not have any significant effect on thewealth maximization of cooperative credit societies and accept our alternate hypothesis that says market risk had no significant effect on the wealth maximization of cooperative credit societies.

# Discussion of Findings

The empirical analysis showed evidence that credit risk had a positive and significant effect on wealth maximization. It showed that if the cooperative credit societies could manage the credit risk well by monitoring the loans and interest with a well structured policy and its implementation to make sure that all loans and interest were paid as and when due, they could also make provisions for any legal issue that might arise from it. The result was in line with the result by Obamiji and Michael (2018) and Colliins et al (2018) which found a positive and significant effect of credit management on performance. However, it was not in support of the work by Bamidele et al (2018).

Also, our findings showed that liquidity risk had a positive and significant effect on wealth maximization. It showed that the cooperative credit societies, had a policy as regards liquidity (availability of fund when needed) and if they were implemented by the executives, it would improve the wealth maximization of cooperative credit societies. The result was in support of that by Kajola et al (2019) who found a significant relationship between credit management and bank performance, and against that by Bamidele (2018).

Operational risk had a positive and significant relationship with the wealth maximization of cooperative credit societies. It showed that the way proper operation of the day to day activities was carried out could affect the performance positively. It meant that in maximizing the wealth of cooperative credit societies in the day to day activities, all necessary activities should be carried out as and when due efficiently. That was in support of the work by Asiedu and Gadso (2019) but not that by (Bamidele, Ibrahim and Omole, (2018).

Finally, market risk had a negative and significant effect on the wealth maximization of cooperative credit societies. It showed that the inability of the cooperative societies to control the market based on some external factors that were beyond their power made it to have a negative effect on their wealth maximization. It meant that the executive and committee should look at the areas of making some policies that would not have a devastating effect on their wealth maximization. That was in line with the work by Collins et al (2018) but against that by (Chao- Jung, (2015); Patro and Gupta, (2016).

# CHAPTER FIVE

**SUMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS**

# Introduction

This study empirically examined the effect of financial risk on the wealth maximization of cooperative credit societies. We used cooperative credit societies in Delta State as a case study with particular attention on Ughelli and Abraka Metropolis. The study also used risk committee as a control variable. This chapter deals with the summary of findings, conclusion and recommendations.

# Summary of Findings

The findings of the study were summarized as follows:

* + 1. Credit risk had a positive and statically significant effect on the wealth maximization of cooperative credit societies.
		2. Liquidity risk had a positive and statically significant effect on the wealth maximization of cooperative credit societies.
		3. Operational risk had a positive and statically significant effect on the wealth maximization of cooperative credit societies.
		4. Market risk had a negative and statically significant effect on the wealth maximization of cooperative credit societies.

# Conclusion

The empirical analysis above showed that all financial risks should be properly managed because they had a significant effect on wealth maximization. It showed that failure to manage them properly could affect the performance of society, and that could jeopardize the objectives of cooperative credit society. Since wealth maximization is one of the major objectives of cooperative credit societies, the executive should pursue the objective in order to meet the members expectations and expand society.

# Recommendations

The following policy recommendations were made from the findings of this study.

* + 1. A policy should be made and enforced as regards credit risk in order to minimize defaulters’ delay in the recovery of their funds given as loan and the interest that accrued to it.
		2. Also, a policy should be made as regards liquidity issues that show how the liquidity of the societies should be so as not to run out of cash or funds whenever the need arises.
		3. Guidelines that regulate the day to day activities and, all the activities of the executives and members of staff of the society should be clearly stated to create division of labour and give a sense of responsibility to everyone in order to achieve better wealth maximization.
		4. Possibly, professionals should be involved in the running of the affairs of the societies so that some of the market risks that cannot be controlled by the societies can be foreseen and necessary action taken in order to minimize its effect on the wealth of the societies.

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# Appendix

Department of Accounting, College of Business and Management studies, Igbinedion University, Okada,

Benin City, Edo State.

21st July, 2021.

Dear Sir/Madam

Request for your cooperation in completing this questionnaire

I am a post graduate student undergoing an M.Sc programme in the Accounting Department of Igbinedion University, Okada, Benin City, Edo State. As part of the requirements for the programme, I am undertaking a research on the effect of financial risk management on a cooperative credit society’s wealth maximization in Nigeria: the moderating role of risk committee size. In this regard, you have been duly selected as a suitable member of the sample.

I will be grateful if you can assist me in this study by kindly sparing a few minutes out of your busy time to complete this questionnaire. Your responses will be strictly treated confidential by and used for academic purpose only. Thank you for your cooperation.

Yours Sincerely,

Ofuafo, Alexandra Orowo Researcher

# INSTRUCTIONS

This questionnaire is in two parts. Part A contains 4 items only on your personal data. Part B contains 32 statements to which you should respond with a tick each. Strongly Agree (SA) Agree

1. Disagree (D) Unsure (UN) Strongly Disagree (SD). Please note that each statement should have only one tick.

# PART A (PERSONAL DATA)

Please tick the one that is more appropriate to you

* 1. Name of your cooperative credit society………………………………………………...

b) Age: 20 – 30 [ ], 31 – 40 [ ], 41 and above [ ]

1. How long have you worked in your current establishment? Less than 5 years [ ], 6-15 years [ ], 15 years and above [ ]
2. Educational Qualifications
3. SSCE. [ ]

NCE/ND [ ]

HND/ BSc./BA [ ]

Post graduate [ ]

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| S/N | **STATEMENTS** | **SA** | **A** | **U** | **SD** | **D** |
|  | Credit Risk |  |  |  |  |  |
| 1 | The cooperative has a clear credit policyassessed against risk by an independent internal system. |  |  |  |  |  |
| 2 | The credit policies are communicatedthroughout the organization and periodically revised. |  |  |  |  |  |
| 3 | Credit policy formulation, credit limit setting, monitoring of credit exposures and review and monitoring of documentation functions are performed independency of the loan originationfunction. |  |  |  |  |  |
| 4 | Policies relating to credit assessment and granting process are documented with adequate checks and balances in place to ensure credit isgranted on an arms-length basis. |  |  |  |  |  |
| 5 | The cooperative credit society has a well-structured internal risk rating system. |  |  |  |  |  |
| 6 | The cooperative credit society has a system formonitoring the condition of individual credits |  |  |  |  |  |
| 7 | Credit policy is a part of the cooperative creditsociety-wide capital management strategy. |  |  |  |  |  |
| 8 | The cooperative credit society has an adequatesystem in place to identify and monitor risks on an on going basis. |  |  |  |  |  |

Liquidity risk

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| 9 | Cooperative credit society has established arobust liquidity risk management framework that ensures sufficient liquidity. |  |  |  |  |  |
| 10 | The management has developed a strategy, |  |  |  |  |  |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | policies and practices to manage liquidity risk inaccordance with the risk tolerance. |  |  |  |  |  |
| 11 | Cooperative credit society regularly measures its capacity to raise funds quickly from each source and it identifies the main factors that affect itsability to raise funds and monitors them closely. |  |  |  |  |  |
| 12 | Cooperative credit society actively manages its day-to-day liquidity positions and risks to meet payment and settlement obligations on a timelybasis |  |  |  |  |  |
| 13 | Cooperative credit society publicly discloses information on a regular basis that enables members, to make an informed judgment about the soundness of its liquidity risk managementframework and liquidity position. |  |  |  |  |  |
| 14 | Management regularly performs a comprehensive assessment of the cooperative’s overall liquidity risk management framework and liquidityposition |  |  |  |  |  |
| 15 | Cooperative credit society has a formal contingency funding plan that clearly sets out the strategies for addressing liquidity shortfalls inemergency situations. |  |  |  |  |  |

Operational risk

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| 16 | There is no internal control in a cooperative credit society. |  |  |  |  |  |
| 17 | Monthly end financial reports in our cooperative credit society are reviewedand verified for accuracy on a monthly basis |  |  |  |  |  |
| 18 | The management of your cooperative credit society, consistent with its duties and responsibilities, adopted written policies pertaining to issued guaranteesthat establish procedures for reviewing guarantee applications. |  |  |  |  |  |
| 19 | Employees responsible for cash handling and deposits are provided with a |  |  |  |  |  |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | manual or set of standard operating procedures |  |  |  |  |  |
| 20 | The main reasons for increasing operational risk in the cooperative creditsociety are money laundering, misconduct, fraud, legal risk terrorist financing and sanctions on non-compliance. |  |  |  |  |  |

Market Risk

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| 21 | The cooperative credit society loans have helped members to improve theirlives/businesses |  |  |  |  |  |
| 22 | Interest rate for short term borrowers is high. |  |  |  |  |  |
| 23 | Loan repayment is a smooth process for members. |  |  |  |  |  |
| 24 | Our cooperative credit society has a written manual on how it determines future interest rates by the time they enter into transactions which entail a longpayback period. |  |  |  |  |  |

Risk committee

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| 25 | Cooperative credit society has no risk committee |  |  |  |  |  |
| 26 | Risk committee members have the appropriate qualifications to meet the objectives of the risk committee’s aims and objectives, including appropriatefinancial risk management background/qualifications. |  |  |  |  |  |
| 27 | The risk committee demonstrates integrity, credibility, trustworthiness, active participation, an ability to handle conflict constructively, strong interpersonalskills and the willingness to address issues proactively. |  |  |  |  |  |
| 28 | The risk committee reports its proceedings and recommendations to themanagement of the cooperative credit society after each committee meeting. |  |  |  |  |  |
| 29 | Risk committee meetings are conducted effectively, with sufficient time spenton significant or emerging issues. |  |  |  |  |  |
| 30 | Meetings are held with enough frequency to fulfil the risk committee’s dutiesat least monthly, to enable them to breach the gap between the management of the cooperative and its members. |  |  |  |  |  |
| 31 | The cooperative credit society provides the risk committee with sufficientinformation on and access to all vital documents to fulfil its objectives and |  |  |  |  |  |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | engage external parties on matters requiring external expertise. |  |  |  |  |  |
| 32 | The risk committee discusses the cooperative credit society’s risk appetite andspecific risk tolerance levels in conjunction with strategic objectives, as presented by management, at least annually. |  |  |  |  |  |

Wealth maximization

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| 33 | The profit declared by our cooperative has been on the increase in the pastyears till date. |  |  |  |  |  |
| 34 | The dividend shared every year has been on the increase over the years. |  |  |  |  |  |
| 35 | The cooperative has good return on their investment. |  |  |  |  |  |
| 36 | All the members of the cooperative are happy with the return they get fromtheir savings. |  |  |  |  |  |
| 37 | The returns on the investment for both individuals and the cooperative arereasonable. |  |  |  |  |  |
| 38 | The cooperative has enough fund for investments. |  |  |  |  |  |
| 39 | The profit declared by our cooperative has been on the increase in the pastyears till date. |  |  |  |  |  |
| 40 | The dividend shared every year has been on the increase over the years. |  |  |  |  |  |