Available online at www.sciencedirect.com
ScienceDirect
Procedia - Social and Behavioral Sciences 164 (2014) 627 – 634
Procedia
Social and Behavioral Sciences

International Conference on Accounting Studies 2014, ICAS 2014, 18-19 August 2014, Kuala Lumpur, Malaysia

A theoretical framework on the level of risk management implementation in the Nigerian banking sector: The moderating effect of top management support

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Abstract

Risk management has occupied an important place on the agenda of practitioners, academics and the business community and has been on the rise because it enhances organizational performance and creates value for shareholders. The main objective of this study is to examine the level of risk management implementation in the Nigerian banking sector. It will also determine the antecedents of risk management implementation. It will further investigate the moderating effect of top management support on the relationship between the antecedents and the level of risk management implementation. The research will adopt a quantitative approach using questionnaire. The need for more research on the level of risk management implementation in the banking sector has become imperative in view of the scarcity of research on risk management and the fact that risk management is still at its rudimentary stage in Nigeria.

Peer-review under responsibility of the School of Accountancy, College of Business, Universiti Utara Malaysia.

Keywords: Nigeria banking sector; risk management implementation; enterprise risk management; top management support; shareholder value

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Peer-review under responsibility of the School of Accountancy, College of Business, Universiti Utara Malaysia.
doi:10.1016/j.sbspro.2014.11.156

1. Introduction

Risk management has occupied an important place on the agenda of practitioners, academics and the business community, despite its evident failure in the recent financial crisis that originated from the USA with its multiplier effect on the world economy (Huber & Scheytt, 2013). It has been raised to the top agenda of the business world because it enhances organizational performance and creates value for stockholders (Gates, Nicolas & Walker, 2012; Hillson, 2002).

Recently, there has been growing interest in risk management across the world due to a number of parallel events. The impact of the global financial crisis has highlighted the importance of risk management (Coskun, 2012). Risk management importance is also attributed to the changing business environment characterized by threats from political, economic, natural, and technical resources (Wu & Olson, 2010). Risk management is a systematic approach that aligns strategy, people, technology, processes and knowledge with the purpose of assessing, evaluating and managing the risk that an organization faces. The system by which separate unit or sections of the organization manage risks is referred to as traditional risk management (TRM) or "silo". Traditional approaches view risks as a series of single and unrelated elements where individual risks are classified and coordinated separately (Hoyt & Liebenberg, 2011). The changing phenomenon from the traditional approach to the new trend in risk management is often referred to as a paradigm shift (Manab, 2009). Enterprise risk management (ERM) is a shift from silo approach to enterprise approach. Enterprise risk management will be adopted and used throughout this study and will be used interchangeably with risk management. The adoption is necessary since the international standards and the Basel 11 Accord principles emphasized ERM in banks while Nigerian code of corporate governance directs banks to put in place a robust risk management system (CBN, 2011).

Quite recently, (ERM) has become the practice standard across the world because the silo or traditional approach has failed to produce the desired results and that the financial disaster continues to occur on a regular basis. Therefore, commentators emphasized that a segmented or “silo” approach to risk management may not give the senior management and the board aggregated risk management (D`Arcy, 2001; Lam, 2000). Despite the growing importance of risk management, there is still a lack of evidence on risk management implementation in the banking sector particularly in Nigeria. Lamentably, very few firms have implemented risk management in Nigeria. Furthermore, the study on risk management is scarce as there are only few studies on risk management in Nigeria. Examples are (Donwa & Garuba, 2011; Owojori, Akintoye & Adidu, 2011; Njogo, 2012; Ugwuanyi & Ibe, 2012; Fadun, 2013). The Central bank of Nigeria (CBN, 2012) asserts that risk management is still at a rudimentary stage and is bedevil by a number of challenges. These challenges include poor knowledge of risk management by members of the board of many banks, lack of professionals. Others are lack of risk training and education and lack of a framework that supports the development of skilled and capable workers in the industry (CBN, 2011 & 2012).

Therefore, the main objective of this study is to examine the level of risk management implementation in the Nigerian banking sector. It will also determine the antecedents (board characteristics, external audit quality, internal audit effectiveness, human resources competency & regulatory influence) of risk management implementation. It will further investigate the moderating effect of top management support on the relationship between the independent variables and the depended variable. The study is the first known research to the researcher's knowledge with the same combination of variables.

The scarcity of research on risk management in accounting motivates the study. Limited studies on risk management in the financial sector in developing countries and lack of research on risk management in the Nigerian financial system, especially the banking sector are part of the motivation. The understanding and knowledge of risk management are useful to the government, practitioners, academics, the banks, and board of directors, top management, internal and external auditors, and the stakeholders which can assist them in policy formulation, implementation and evaluation. The research will add to the existing literature on risk management by developing a model that could improve the implementation of (ERM) practices in the Nigerian banking sector. Therefore, the proposed theoretical framework for this study may be a useful tool for academics to understand these antecedents in the future and improve on them.