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EFFECTS OF RISK MANAGEMENT ON THE PERFORMANCE OF INSURANCE COMPANIES IN PLATEAU STATE

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ABSTRACT

Risk management has occupied an important place on the agenda of practitioners, academics and the business community which has been on the rise because it enhances organizational performance. The main objective of this study is to examine the effects of risk management on organizational performance in insurance companies of Plateau state. The study sample was drawn from auditors, board members and staff of the insurance industry in Plateau state. Structured questionnaire was used to collect data from 250 respondents through purposive simple random sampling technique method. Multiple regression was used for the analyses with the aid of SPSS version 23-0. The findings showed that governance risk management, strategic risk management and operational risk management have a positive and significant relationship with organizational performance. The study thus concluded that by applying governance risk management, strategic risk management and operational risk management, the performance of insurance companies will significantly increase. The study gives recommendations that insurance companies should use governance risk management, strategic risk management and operational risk management to increase organizational performance. Therefore, risk management should be adopted by the Insurance companies for effective performance.

Keywords: *Risk Management, Governance, Strategic, Operational, Organizational Performance*

Background to the study

Considering the persistent increase in risk in organizations, managing risk has become a matter of necessity in Nigeria. Recently, there has been growing interest in risk management across the world due to events like global financial crisis. The impact of the global financial crisis has highlighted the importance of risk management (Coskun, 2012). The need for risk management is also attributed to the changing business environment characterized by threats from political, economic, natural, and technical resources (Wu & Olson, 2010). Risk management is the total process of identifying, controlling and minimizing the influence of uncertain events. These days, businesses put great emphasis on hazard administration as this determines their survival and business performance. Insurance companies are in the risk business and as such cover various types of risks for individuals and companies. It is therefore, necessary that insurance companies manage their risk exposure and conduct proper analysis to avoid losses due to the compensation claims made by the insured. However, (Donwa & Garuba, 2011) posit that most insurance companies cover insurable risks without carrying out proper analysis of governance risk management, strategic risk management and operational risk management for effective organizational performance.

Despite the growing importance of risk management, there is still a lack of evidence on risk management implementation in the insurance industry. Lamentably, very few firms have implemented risk management in Nigeria which has exposed the insurance companies to low productivity (CBN, 2012). These challenges include poor knowledge of governance risk management, strategic risk management and operational risk management which negatively affects companies' performance. Hence, the need to study the effects of risk management on organizational performance is inevitable.

Statement of the Problem

There are noticeable changes in insurance market and socio-economic environment recently, which implies that the risks that insurers are encountering have evolved from volatile investment conditions, increase in longevity and mortality risks due to terrorism threats, climate change and changing business environment characterized by threats from political, economic, natural, and technical resources. On this account, stakeholders concentrate on these risks and

the way in which they are managed because insurance companies are experiencing poor organizational performance.

Despite the growing importance of risk management, there is still lack of risk management in the insurance industry which has led to poor performance 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;2013). Some of the challenges include poor knowledge of risk management by members of the board of insurance industry, poor strategy in risk management and poor operational management which has negatively affected organizational performance. Thus, the study on the effects of risk management is expected to boost the performance of insurance companies in Nigeria

Objectives of the Study

The major objectives of the study are;

1. To examine the relationship between governance risk management and organizational performance
2. To examine the relationship between strategic risk management and organizational performance
3. To examine the relationship between operational risk management and organizational performance

Research Hypotheses

H01: There is no significant relationship between governance risk management and organizational performance

H02: There is no significant relationship between Strategic Risk Management and organizational performance

H03: There is no significant relationship between Operational Risk Management and organizational performance.

SCOPE OF THE STUDY

This study considered the relationship between risk management and organizational performance in the insurance industry of Plateau state. The research focus group is drawn from a pool of shareholders, auditors, directors and staff of insurance companies in plateau state. Primary data was collected in 2021.

Conceptual Review.

Governance Risk Management

Cavezzali and Gardenal (2015), and Beasley and Hermanson (2015) posit governance risk management as the corporate governance mechanism that facilitates board of directors to arrange corporate goals with risk management in order to satisfy all stakeholders. Shad Lai (2015) looks at governance risk management as the principles applied for the identification, management and communication of risk. It encompasses values of accountability, involvement and transparency in establishment of structures and policies so as to create and implement risk-related decisions. Therefore, risk governance principles are based on transparency, responsibility, fairness and accountability.

Operational Risk Management

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or external events. Jussi (20160 defined operational risk management as the malfunctions of the information systems, reporting systems, internal monitoring rules and internal procedures designed to take timely corrective actions. Operational risks appear at different levels, such as human errors, processes and information technology.

Organizational Performance

Organizational performance is a set of financial and nonfinancial indicators which offer information on the degree of achievement of objectives and results (Lebans & Euske, 2006). In this study, the following five items were used as indices of organizational performance; income and expenditure for last three years, profit margin on sales, market share of the main products and services, the frequency of the development of new products and turnover rate of regular employees and customer's satisfaction.

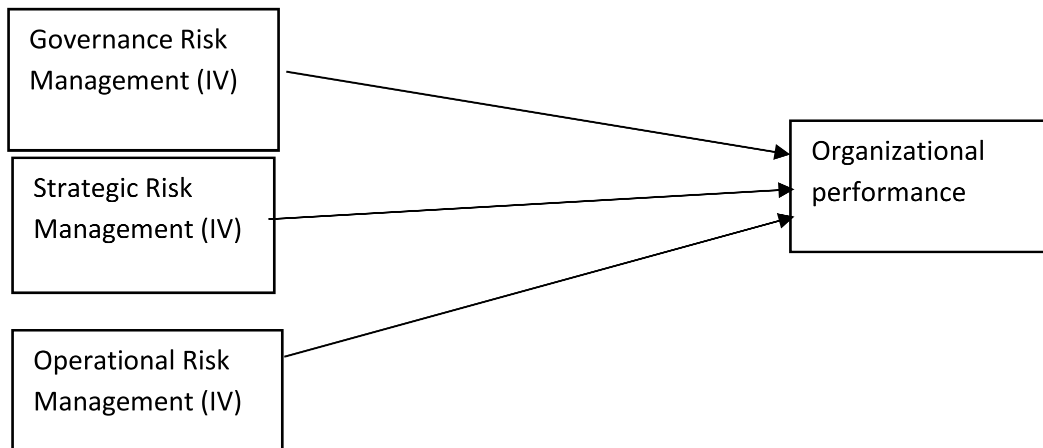

Figure 1. Conceptual framework

EMPIRICAL REVIEW

Chong and Ismail (2013) examined the relationship between risk management committee characteristics and risk taking ability of the Malaysian insurance companies. The researchers found that size and committee independence seemed to be negatively associated with risk underwriting while the number of meetings of the risk management committee is insignificant. Nahar, Jubb and Azim (2016) investigated the association between risk governance and bank performance in developing countries. Data was collected using yearly observations of 21 banks. Risk governance practices were measured by number of risk committees, risk disclosure, and presence of a risk management section. The results showed that the relationship between risk governance and bank performance is significant.

Stonehouse & Pemberton (2002) examined the usage of strategic management tools and techniques for Finland and Russia's SMEs, and found out that Benchmarking and Outsourcing were the most used in Finland and Russia respectively and there were big differences in the usage rate. Vaitkevičius (2007) revealed the results of an investigation into the awareness and practical usage of management tools for managers in the manufacturing, retail, wholesale and service industries in Lithuania. The tools and techniques used were Strategic Goals, Vision, Strategic Alternatives, Management Structure, SWOT Analysis, Porter's 5 Forces Model, PEST analysis, Product Portfolio Matrix, Management Style, and Scenario Model. The results showed that awareness and practical usage of management tools influence the performance of manufacturing companies.

Masenene (2015) investigated the effectiveness of operational risk management among the financial institutions in Tanzania were by 5 banks were selected as samples. The study used 84 respondents randomly selected from the chosen five banks in Tanzania. The results revealed that most of the respondents proved that operational risk management in Tanzanian financial institutions were found not well implemented.

Based on the empirical studies above, we then conclude that risk management lines of actions include financial risks management, operational risk management, governance risk management and strategic risk management practices. Insurance organizations with efficient risk management structures outperform their peers as they are well prepared for any occurrence of the related risks. This study investigated the positive relationship between risk

management (governance risk management, strategic risk management and operational risk management) and organizational performance of insurance in Nigeria.

METHODOLOGY AND DATA ANALYSES

The study used Cross-sectional design as data were collected at a single point in time. This study adopted quantitative method because it tests causal theories with statistics, and believes in the importance of replicating studies. The research respondents were asked the extent of their agreement with 7 items of governance risk management, 4 items of strategic risk management, 4 items of operational risk management and 5 items of organizational performance. The agreement ratings were made on a 5-point Likert scale ranging from 1 (Strongly disagree) to 5 (Strongly agree). Data was subjected to descriptive statistics and Multiple Regression was adopted to test the hypotheses using the Statistical Package for Social Science (SPSS Version 23.0) software. Preliminary analyses were performed to ensure no violation of the assumptions of normality, multicollinearity, homoscedasticity and linearity. The population of the study consists of 250 respondents randomly selected from auditors, board members and senior staff of the insurance companies in plateau state. The study employs a purposive simple random sampling technique because Sekaran (2003) suggested that a sample of 200 respondents and above is okay for analysis.

Table 1: model summary

Model	R	R Square	Adjusted R Squared	Std. Error of the Estimate	Durbin-Watson
1	.798[a]	.637	.621	.312	1.622

a. Predictors: (Constant), governance risk management, strategic risk management, operational risk management.
b. Dependent Variable: Organizational performance

Source: Author's Fieldwork Computation (2021).

The result of regression as contained in table of model summary, shows that the R Square gave a value of 63.7 per cent. The value of R-square indicates a strong relationship between the criterion and predicted values of the variables. This means that the model which includes the independent variables (governance

risk management, strategic risk management and operational risk management) and the dependent variable (organizational performance) has a strong relationship. The Durbin-Watson Statistic gives 1.622 coefficient which indicates that there is absence of serial correlation in the error terms of the model as such ruling out problems associated with spurious regressions.

TABLE 2: Results of the regression analysis (Coefficients)

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (constant)	.961	.155		6.200	.000
Governance Risk Management	.240	.066	.261	3.636	.009
Strategic Risk Management	.131	.054	.159	2.425	.030
Operational Risk Management	.125	.054	.163	2.315	.010

a. Dependent Variable: Organizational Performance.

Source: Author's Fieldwork Computation (2021)

The results of the regression coefficient in H1 has the value 0.240 and a critical value of t=3.636, p-value (0.009) < 0.05. This shows that for every increase in the predictor, organizational Performance increases by 24.0% with p-value value of less than 0.05. Based on the result, the null hypothesis is rejected; thus, Governance Risk Management has significant effect on organizational Performance.

The result of the regression coefficient in H2 has the value of 0.131 and a critical value of t=2.425, p-value (0.030) <0.05. This shows that for every increase in the predictor, organizational Performance increases by 13.1% with p-value value of less than 0.05. Based on the result, the null hypothesis is rejected; thus, Strategic Risk Management has significant effect on organizational performance.

The result of the regression coefficients in H3 has the value of 0.125 and a critical value of t=2.315, p-value (0.010) <0.05. This shows that for every increase in the predictor, organizational Performance increases by 12.5% with

p-value value of less than 0.05. Based on the result, the null hypothesis is rejected; thus, Operational Risk Management has significant effect on organizational Performance.

CONCLUSION AND RECOMMENDATION

In view of the findings, this study established that Governance Risk Management, Strategic Risk Management and Operational Risk Management have a positive and significant relationship with Organizational Performance. The results of H1 showed that Governance Risk Management has positive and significant relationship with Organizational Performance. This finding supports H1 and it is consistent with the findings of Chong and Ismail (2013) and Nahar, Jubb, and Azim (2016). For H2, the results showed that Strategic Risk Management has a positive and significant link with Organizational Performance. This hypothesis is supported and the result is consistent with the findings of Stonehouse & Pemberton (2002) and Kalkan & Bozkurt (2013). For H3, the results showed that Operational Risk Management has a positive and significant relationship with Organizational Performance. Therefore, H3 is supported and the result is consistent with the findings of Masenene (2015) and *Lebans and Euske, (2006)*.

Based on the research results, we now conclude that Governance risk management, strategic risk management and operational risk management positively and significantly affects organizational performance. Therefore, the following recommendations are forwarded;

1. Insurance companies should consider board members, auditors, regulatory influence and top management in risk management decisions in order to enhance organizational performance.
2. Internal and external environmental factors should be considered in risk management because it affects organizational performance
3. Insurance companies should implement operational risk management to address weaknesses in the management of operational risks by providing strong risk management departments.

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