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RESEARCH ARTICLE

The Influence of Risk Management on Organizational Efficiency

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ABSTRACT

This work evaluates the importance of risk management on organizational efficiency. An empirical review was carried out. The data was gotten from staff responses from various organizations operating in Nigeria. The study adopted the organizational culture theory, the respondents to the questionnaire were 510 people from the organizations we looked at. SPSS 28.0 was used to perform data analysis techniques such as correlation and regression analysis on the data. Each organization responded to questionnaires using google forms. The questionnaire is designed with 5 Likert scale points. The result of the study shows that risk analysis, evaluation of risk, the threat of risk, and monitoring and review of risk has a statistically significant positive effect on organizational efficiency at a 5% level of significance. However, identification of risk was not statistically significant at a 5% level of significance, hence it does not affect organizational efficiency. The study asserts that banks in Nigeria should monitor their loans and advances and avoid a mismatch between their assets and liabilities to safeguard their banks from failures.

Keywords: Risk Management; Organizational Efficiency; Organizational Growth

Introduction

The aftermath of the global financial crisis which occurred in 2008, is the emphasis on risk management as a holistic business management practice due to the systemic nature of the failures which affected the organizations involved in the crises (European Commission, 2010). This holistic approach to risk management in businesses referred to as enterprise risk management has received a lot of attention in recent times as businesses seek to build resilience to future crises (IRM, 2012).

Muthuveloo (2015) emphasized that the survival of a firm can be determined by performance which is an indicator of profit or loss. They added that a firm's performance can be improved by a strong risk management system such as Enterprise risk management systems (ERMs) which create and add value to the success of the business through the reduction of uncertainties and customer satisfaction. Monitoring and regulating are used to reduce risk, and standard policy setting is done to assure risk minimization. Kiragu (2014) asserted that risk reduction practice positively affects the financial performance of an organization through loss control, risk mitigation, and risk transfer to insurance firms. They explained that risk reduction practices significantly improve the return on assets of the firm.

Mohammad (2014) observed that a successful Risk Management adoption needs to be accompanied by a compatible information system that enables organizational information. He emphasized that risk management backed up by an information system improves the performance of an organization. Hashim et al., (2012) revealed that the integration of a risk management system with information technology has a strong relationship in improving the company's performance. Implementing risk management information system in organizations enhance risk management processes (Altaany, 2013).

Several studies have shown that is a strong correlation between organizational performance and the implementation and application of risk management. Therefore, if risk management practices are implemented

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effectively, the overall performance of the organization will be improved. By propagating a risk management culture within an organization, managers can improve their organization's performance. The cornerstone of a successful company is having competent staff, especially in light of the weak organizational culture among workers. Key players in the corporate governance process are accountable for managing the different dimensions of financial and other risks. Enterprise risk management itself enables the company to reduce costs through better integration of risk assessment and management by balancing the threats and opportunities from external factors.

Risk Management is a management activity that becomes more important as companies become more global and more competitive. The risk management process consists of a series of steps that define context, analyze assess, process, control, communicate, and continuously improve decision making. By implementing risk, organizations can reduce unexpected and costly emergencies and allocate resources more efficiently. It helps improve communication and improve organizational performance by providing a summary of the threats it may face (Pojasek, 2017). The effect of Risk management has been proven as significant and positive to organizational performance through a reduction in fraud risks, customer satisfaction, and retention of customer loyalty.

Literature Review

Theoretical Review

The theory that undergirds this research work is the organizational cultural theory. Organizational culture is a set of values, beliefs, and behavior patterns that differentiate one organization from another organization (Ortega, 2013). Yirdaw (2014) indicated organizational culture as the glue that combines the nonhuman resources with the human resources in an organization to build teamwork and good performance. It can also be viewed as organizational procedures and actions that are appreciated, expected, and encouraged by the organization's operations. Risk management can be embedded as a culture in the organization, it can be integrated into the company's operations. These operations can be seen in the light of tone at the top or leadership example. Prevailing accountability framework, effective challenge, and compensation or reward system.

Empirical Review

Mohammad (2020) researched the impact of risk management practices on organizational performance. The population of the study was the Hashemite Kingdom of Jordan insurance companies. Data were collected from 120 managers who work in Jordanian insurance companies through the use of questionnaires. When confirming the normal distribution of answers and the validity and reliability of the tool, a descriptive analysis was performed and the correlation between the variables was investigated. Data were analyzed with regression analysis using SPSS 19. The findings of this study show that most companies separate for a long time. The study demonstrated that risk management practices have an impact on organizational performance.

Hanggraeni (2019) researched the impact of internal, external, and enterprise risk management on the performance of micro, small and medium enterprises. The population of this study was 5 provinces which include 14 cities in Indonesia-East Java, West Sumatra, North Sumatra, West Nusa Tenggara, and East Nusa Tenggara which are underdeveloped regions. The resource-based view and market-based view methods were chosen to measure 1,401 data of MSMEs. Questionnaires were administered to collect data from primary sources, then processed using SPSS. The findings of this study were that the activity of the enterprises in identifying and managing risk would bring up a significant effect on operational business performance.

Erlane et al. (2016) researched the effect of risk management and operational information disclosure practices on public listed firms' financial performance. The population sample studied was 106 listed firms in Bursa Malaysia. 318 annual reports over three years of these firms and content analysis were used as the research instrument. The findings of this study indicate that the amount of risk management and operational information disclosed in the firms' annual reports could influence the firms' performance.

Kpodo (2015) conducted a study on the effect of risk culture on organizational performance. The population of the study is selected from financial institutions in Ghana. It relied on the financial stability Board's (FSB) risk culture model. All factors of the two main variables of risk culture and organizational performance were analyzed using descriptive statistical measures. The data was obtained from the 19 banks listed on the Ghana club 100 representing about 70% of the total market share of the Ghanaian banking industry, with both local and foreign origins. Data was gotten from respondents through questionnaires issued. There was a positive correlation between risk culture and organizational performance in the banking industry in Ghana.

Pagach (2010) studied the impact on corporate long-term performance by studying the financial characteristics of assets, and the market evolution of adopting EPM (Enterprise risk management) principles. Using a sample of 106 companies that announced they were hiring CROs (Chief Risk Officers), they found that companies that adopted ERM were facing a decline in stock price volatility. Similar companies using CRO increased asset capacity and reduced market value, and profits compared to revenue volatility compared to similar companies that did not specify CRO in the industry group. In addition, these researchers found a negative compact between changes in the company's market value and changes in profit.

Altanashat (2019) carried out a study on the impact of enterprise risk management on institutional performance in the Jordanian public. Based on the ERM COSO (Committee of Sponsoring Organizations) Integration Practices (2004), this study examines the impact of corporate risk management on the organizational performance of listed companies in Jordan. In this study, 313 questionnaires were collected using a questionnaire as the survey method. The resulting data is analyzed by a structural equation modeling tool (Smart-PLS), and based on the analysis, the company's risk management implementation has a significant impact on organizational performance. Analysis of the results showed that the company's risk management practices are important to improve the performance of the Jordan mining company. The analysis also highlights the continued implementation of global risk management practices to improve the performance of Jordanian mining companies. Furthermore, in addition to goal preparation, all independent variables (internal environment, event identification, risk assessment, risk response, control activities, information and communication, monitoring) are important predictions. These variables predict the performance of Jordan mining companies in a statistically significant way. The results of this survey are going to help organizations better understand the implementation of global risk management and identify areas for improvement within the process of each component of overall management.

Research Methodology

The primary goal of this research is to examine the impact of risk management on organizational efficiency. In this study, we used a convenient sampling technique that allowed us to quickly and efficiently obtain a large number of desired questionnaires. Each organization responded to questionnaires using Google Forms. The questionnaire is designed with 5 Likert scale points (SA=5; A=4; UD=3; SD=2; D=1).

Response Rate and Data Analysis Techniques

Data on risk management and organizational efficiency were gathered from staff responses from various organizations operating in Nigeria. 510 people from the organizations we looked at filled out the questionnaire. SPSS 28.0 was used to perform data analysis techniques such as correlation and regression analysis on the data.

Research Model

Risk identification, risk analysis, risk evaluation, risk treatment, monitoring, and review were all included. As a result, the model is shown below in equations 1 and 2.

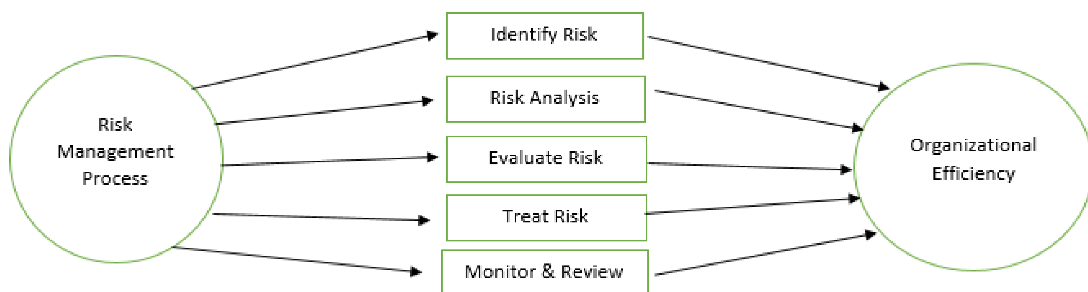

Fig 1: Research Model

$$OF = \alpha + \beta_1(X_1) + \beta_2(X_2) + \beta_3(X_3) + \beta_4(X_4) + \beta_5(X_5) + \mu \ldots\ldots\ldots\ldots (1)$$

$$OF = \alpha + \beta_1(IR) + \beta_2(RA) + \beta_3(ER) + \beta_4(TR) + \beta_5(MR) + \mu \ldots\ldots\ldots\ldots (2)$$

Were
OF= Organizational efficiency
IR= Identify Risk
RA= Risk Analysis
ER= Evaluating Risk
TR=Treat risk

MR= Monitor and Review Risk

Descriptive Statistics and Correlation Analysis

Table 1: Descriptive Statistics

	Organizational Efficiency	Identify Risk	Risk Analysis	Evaluating Risk	Treat Risk	Monitor and Review
Mean	3.42	2.79	3.11	3.31	3.07	3.26
Std Dev	0.612	0.501	0.552	0.603	0.529	0.589

After calculating the means and standard deviations for each variable of the study, the highest mean value is risk evaluation (3.31), indicating that the main factor of risk management affecting organizational efficiency is risk identification while evaluating risk identification with the lowest mean value indicates that it has the least effect on organizational efficiency.

Table 2: Spearman's Correlation

	Organizational Efficiency	*Identify Risk*	*Risk Analysis*	*Evaluating Risk*	*Treat Risk*	*Monitor and Review*
Organizational Efficiency	1					
Identify Risk	0.138	1				
Risk Analysis	0.542	0.231	1			
Evaluating Risk	0.761	0.315	0.401	1		
Treat Risk	0.491	0.102	0.112	0.477	1	
Monitor and Review	0.550	0.221	0.247	0.098	0.192	1

The correlation table in table 2 above suggests that this risk management process has a relationship with organizational efficiency. Evidently, evaluations of risk show a very high and positive relationship with organizational efficiency, and this could support pour findings in table 1. Similarly, identification of risk shows a very low and positive relationship with organizational efficiency.

Regression Analysis

Regression is a statistical technique used in accounting, making investments, financial reporting, and other disciplines to determine the strength and character of a relationship between a single dependent variable and a set of other variables known as independent variables. Table 3, 4, and 5 below summarizes the regression output for the influence of risk management on organizational efficiency in Nigeria which includes the Model Summary, Anova table, and Table of variable coefficient.

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.960[a]	.923	.909	.04949

a. Predictors: (Constant), OF, IR, RA, ER, TR, MR

Table 4: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.496	1	.496	1771.43	.000[b]
	Residual	.042	509	.000082		
	Total	.537	510			

a. Dependent Variable: Organizational Efficiency

b. Predictors: (Constant), OF, IR, RA, ER, TR, MR

Table 5: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	6.622	.274		24.130	.000
	IR	.114	.065	.216	1.737	.087
	RA	.391	.132	.441	2.962	.000
	ER	.114	.376	.207	.3032	.027
	TR	.061	.105	.073	0.583	.045
	MR	.228	.104	.177	2.204	.029

a. Dependent Variable: Organizational Efficiency

The result of the regression analysis is summarized above, table 5 specifically shows that the model for risk management and organizational efficiency in Nigeria is

$$\mathbf{OF} = \mathbf{6.622} + \mathbf{0.114(IR)} + \mathbf{0.391(RA)} + \mathbf{0.114(ER)} + \mathbf{0.61(TR)} + \mathbf{0.228(MR)} + \mu \ldots\ldots\ldots\ldots.(\mathbf{3})$$

This reveals that risk analysis, evaluation of risk, treatment of risk, monitoring, and review of risk has a statistically significant positive effect on organizational efficiency at a 5% level of significance. However, identification of risk was not statistically significant at a 5% level of significance, hence it does not affect organizational efficiency.

Discussion of Findings

Most organizations are still reluctant when it comes to risk management, however for this study we outlined various risk management processes organizations should be able to effect in other to have organizational efficiency. The response from the respondents suggests that most of these organizations believed that evaluation of risk is a more important factor that affects organizational efficiency this is evident from its mean value (3.31) recorded in table 1. Secondly, the result of the correlation coefficient shows that all the risk management process is correlated with organizational efficiency and as such should be taken into consideration by organizations. The result of the regression analysis indicates that risk analysis, evaluation of risk, treatment of risk, monitoring, and review of risk has a statistically significant positive effect on organizational efficiency at a 5% level of significance. This implies that an increase in risk management will cause a corresponding increase in organizational efficiency.

Conclusions

The core of this study is to identify the influence of risk management on organizational performance. Data was acquired from questionnaires administered to the respondent, the response from the respondent suggests that most of these organizations believed that evaluation of risk is a more important factor that affects organizational efficiency this is evident from the mean value of 3.31. It is, therefore, recommended that adequate measures should be taken to mitigate risk in the organizations as this has a significant influence on organizational efficiency.

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