Nigerian Journal of Management Studies
Vol. 18, No. 2, 2018, 35-44

Corporate Governance, Risk Management and Organizational Performance

By

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Abstract

Recent financial crisis has brought forth the efficacy of corporate governance and risk management to the discourse. This study examines both the role of corporate governance and risk management in organisations and expands on previous researches in the area of corporate governance and risk management. It scrutinizes both areas and its interdependency on each other in terms of success or failure of organisations. It provides arguments to support the importance of the inter-relationship to the longevity of organisations. The study concludes that risk management is the bridge linking compliance and corporate governance and its importance reflect throughout the organisation.

Keywords: Risk Management, Corporate Governance

1.0 Background of the study

The recent financial crisis have brought corporate governance and risk management under excessive scrutiny (Jalilvand & Malliaris, 2014); (Drennan, 2004); (Ingley & van der Walt, 2008). This is so because the success and failure of organisations are often linked to the ineffectiveness of either or both of these two functions (Harner, 2010).

According to Dickinson (2001), corporate governance is the system by which an organisation is directed and controlled while risk management is the system by which the impact of external and internal factors on which an organisation is assessed. Simply put, an organisation's awareness of risks enables for a better foundation for direction and controlling the organisation (Merna & Al-Thani, 2008). By implementing a robust risk management profile, boards are viewed to be performing. Most organisations are managed by the board of directors; they direct and control the activities of the organisation. This is done by setting objectives, laying down organisational strategy and most importantly managing risks because it has been argued that a corporate strategy with a higher risk profile tends towards higher rewards (Dickinson, 2001). Due to the importance of both the roles of the board of directors and risk taking in the organisation, the board should understand and manage the full breadth of risks facing their organisations so that its disclosure to investors be made and thus be incorporated into decisions regarding allocation of investment capital (Simkins & Ramirez, 2008). Risk management is a central and critical domain that board of directors must accept as their responsibility (Jalilvand & Malliaris, 2014). It is the responsibility of the executives of a company to create and implement a risk policy, and risk oversight (Raber, 2003). Risk policy set by the boards will identify the fundamental principles, requirements and practices that serve as a foundation for all risk management practice throughout the organisation (McCrae & Balthazar, 2000). This means ensuring that management has identified and brought the major risks faced by the enterprise to the board's attention and has plans to deal with such risks. It also means that the board as an independent entity must establish its own mechanisms for analysing and monitoring risk and risk policy if it is to be effective in fulfilling its general oversight responsibility (Raber 2003).

Companies have suffered astonishing losses as a result of poor decisions stemmed from excessive risk taking (Desender & Lafuente, 2014). A lack of understanding and communication of firm's risk appetite and exposure firm-wide have been identified from reports of failed firms (Desender & Lafuente, 2014). Also Raber (2003) posits that much emphasis on board risk oversight is placed mainly on financial risk and audit role in corporate governance. The study in view of the foregoing examines at corporate governance, risk management, the convergence of both areas in contributing to the success or failure of organisations whilst highlighting their importance.

Nigerian Journal of Management Studies
Vol. 18, No. 2, 2018, 35-44
Although the importance of managing risks cannot be over emphasized, studies such as Ingley & van der Walt (2008); Harner (2010) show that boards still indicate a lax approach to holistic risk management. We aim to contextualise this relationship by looking at the role risk management plays in corporate governance and the inter link between both. This study argues that incorporating risk management in board oversight can only contribute to the success of any organisation. We seek to contribute to the existing literature in addressing risk management as an integral part of corporate governance and not as an add-on process.

The paper is divided into five sections as follows: the first section is introduction, the second section reviews literature on corporate governance and risk management. The third section provides a critique of the corporate governance theories and examines its implication on risk management. The fourth section highlights the relationship and interdependency of the two concepts. The fifth and final section discusses on the relationship and concludes the study.

2.0 LITERATURE REVIEW

One of the major lessons learnt from the wave of recession and subsequent global financial crisis that swept through developed countries between 2007 and 2010 is the importance of practicing good corporate governance (Kirkpatrick, 2009); (Jalilvand & Malliaris, 2014); (Stultz, 2008) . The recession exposed the slack of some big companies in adhering to their corporate governance principles which thus led to their fall (Mallin, 2013). However, this is not the first time companies' corporate governance codes and principles have been put under scrutiny, several isolated cases of big companies failing over the years such as Barings Bank; Enron; UBS; BP to mention a few were all blamed on ineffective corporate governance (Simkins & Ramirez, 2008). The relevance of corporate governance cannot be overemphasized and is thus reflected in different studies conducted in all realms and aspects of corporate governance. According to Bebchuk and Weisbach, (2010) over nine hundred (900) research papers have been written with corporate governance as one of the key words.

It is on the basis of these principles of corporate governance that companies set guidelines in relation to transparency and disclosure; control and accountability and the form of board structure. In summary lack of effective corporate governance has been seen to have a big role to play in the collapse of big organisations and corporations such as Barings Bank, Enron, Parmalat and so on, which in turn send shockwaves through stock markets across the globe (Mallin, 2010). Ineffectiveness of corporate governance have also been responsible for trillions of money taken off the value of businesses worldwide; thousands of jobs lost; personal savings and pensions reduced or eliminated; economic prospects being retarded and governments been tainted with accusations of bribery, incompetence, peculation and fraud (Bloomfield, 2013. p.5).

Corporate governance in itself has become an important factor in managing organisations in the current business climate (Abdullah & Valentine, 2009). Good corporate governance is considered as the diligent way in which providers of corporate financial capital guarantee appropriate rewards in a legal and ethically moral way (Nworji, et al, 2011).

To give a better understanding of the concept of corporate governance, the next section presents a brief definition of the concept of corporate governance, its evolution over the years, major theories underlying corporate governance; and the importance of corporate governance to organisations.

2.1 Corporate Governance Defined

The first ever definition of corporate governance and was provided by the Cadbury Committee in 1992 and defined and explained as thus; *"Corporate governance is the system by which business corporation are directed and controlled. Boards of directors are responsible for the governance of their companies. The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place. The responsibilities of the board include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship. The board's actions are subject to laws, regulations and the shareholders in general meeting".*

This definition and explanation though not perfect has provided the basis to what corporate governance is today. Several other reviews have been conducted, and the definition has been modified to include other important elements excluded in the original definition as more information is received either from new corporate failures or from the ever changing business terrain. Several countries and world bodies such as Organization for Economic Co-operation and Development (OECD) and the Committee of

Nigerian Journal of Management Studies
Vol. 18, No. 2, 2018, 35-44
Sponsoring Organisations of the Threadway Commission (COSO) have harnessed on to this definition, modified it and provided a corporate governance framework which offer an understanding of the roles of all stakeholders involved in governance.
For the purpose of this paper, Bloomfield's (2010) definition will be used. He defined corporate governance "as the governing structure and processes in an organisation that exist to oversee the means by which limited resources are efficiently directed to competing purposes for the use of the organisation and its stakeholders; including the maintenance of the organisation and its long run sustainability, set and measured against a framework of ethics and backed by regulation and laws."

2.2 Corporate Governance Theories

Adrian Cadbury (2004) states that corporate governance is concerned with holding the balance between economic and social goals and between individual and economical goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of hose resources (Clark, 2004).
In light of this and the various parties involved in governance, several theories have been purported to describe the governance interaction (Bloomfield, 2013). These theories have also affected the development of corporate governance (Mallin, 2014).

2.2.1 Agency Theory

Agency theory has its roots in economic theory and originates from the works of Alchian & Demsetz (1972) and Jensen & Meckling (1976). The agency view suggests the shareholders as the 'principal' in whose interest the corporation should be run even if they rely on 'agents' to actually run it (Clarke, 2004). It describes the relationship between the shareholders and the managers that they choose to appoint to run their business in legalistic terms, using a contractual relationship as the foundation of the governance process (Bloomfield, 2010). The theory refers to the relationships established between the owners of a company and its directors, that is relationships embodied in a mandate (agent) contract which consists in one first part (the principal) that engages the other part (the agent) to perform some services on their behalf (Borlea & Achim, 2013).
A major argument of the agency theory is at which point does the agent stops acting on behalf of the principal and start acting to maximize its own utility (Padilla, 2002). This argument is supported by Steinhauser (2014) and Laughhunn, et al (1980) where it states that manager's personal interests differ and therefore their incentives can differ from those of the firm owners. For example the case of Nick Leeson and Barings Bank. Daily et al (2003) however argue that the benefits of the agency theory far out shines its disadvantages and corporate governance mechanisms are therefore put in place to provide shareholders some reassurance that the 'agents' will try to achieve outcomes that are in the 'principals' interests (Shleifer & Vichny. 1997). These include incentive schemes for managers which reward them financially for maximising shareholder interests. Such schemes typically include plans whereby senior executives obtain shares, perhaps at a reduced price, thus aligning financial interests of executives with those of shareholders (Jensen & Meckling 1976 in Donaldson & Davis 1991). Such governance mechanisms include:

- An effective and structured board
- Compensation contracts that encourage shareholder orientation
- Concentrated ownership holdings that lead to active monitoring of executives
- The market for corporate control that is an external mechanism activated when the internal mechanism for controlling managerial opportunism or failure have not worked.

The mechanisms seek to reconcile the interests of shareholders and managers, utilization of these governance mechanisms such as monitoring by non-executives (Fama & Jenson, 1983), monitoring by large shareholders (Schleifer & Vishny, 1997) the incentive effects of executive share ownership (Jensen & Meckling, 1976, and the implementation of internal controls (Matsumura & Tucker, 1992) in Desender & Lafuente (2012).These are also backed by regulation and law to enforce the moral and ethical basis on which the relationship is founded (Bloomfield, 2010). In conclusion the agency theory sees the organisation as a nexus of contract (Mallin, 2013).

2.2.2 Stewardship Theory

Stewardship theory has its roots in psychology and sociology and is defined by Davis, Schoorman & Donaldson (1997) in Abdullah & Valentine, (2009) as) as "a relationship whereby a steward protects and maximises shareholders wealth through firm performance, because by so doing, the steward's

Nigerian Journal of Management Studies
Vol. 18, No. 2, 2018, 35-44
utility functions are maximised". It argues that there is no conflict of interest between managers and owners that the optimum governance structure is served when the manager and owner are held by the same person (Donaldson & Davis, 1991). It suggests combining the role of the CEO and the chairman together in order to reduce agency costs whilst having a greater role as stewards of the organisation (Abdullah & Valentine, 2009). This theory was set forth in the works of Donaldson & Davis (1991) as an alternative to the agency theory. Stewardship theory believes that contrary to the agency theory, the 'agent' may not only be motivated by financial compensation but also by some non-financial motivators such as performance, sense of belonging, sense of responsibility, achievement etc. (Bloomfield, 2010). It also holds that performance variations arise from whether the structural situation in which the executive is located facilitates effective action by the executive. Stewardship theory hampers more on organisational structure and stresses that the structure of the organisation should provide clear, consistent role expectations and authority that empower senior management (Donaldson & Davis, 1991). It emphasizes that a conflict of interest will not arise if the role of the CEO and the chair of the board is the same as posited by the agency theory which believes in the separation of powers.

2.2.3 Stakeholder Theory

A stakeholder is any persons having interest in the company (Bloomfield, 2010) such as employees, providers of credit, customers, suppliers, government, community and management (Mallin, 2013). These group benefit from or are harmed by corporate actions (Freeman, 1994). Stakeholder theory begins with the assumption that values are necessarily and explicitly a part of doing business, and rejects the separation thesis (Freeman, 1994). Stakeholder theory has a firm belief that each stakeholder should not be treated as a means to an end but have participation in determining the direction in which the organisation they have a stake in is heading (Freeman, 1994). They should participate in some sense in decisions that substantially affect their welfare (Bloomfield, 2010). The stakeholder theory is at the opposing end of the agency theory on which preface most organisations abide. The stakeholder theory argues that the organisation should not only have the interests of the shareholders at heart but all parties who have a stake in the organisation (Donaldson & Preston, 1995). Arguments against a stakeholder approach generally fall between the precinct of the morality of the approach; its efficiency; and the extent to which it can be implemented in practice (Kaler, 2006). It should redefine the purpose of the firm (Freeman, 1994). It sets the tone on how the organisation performs activities daily. Stakeholder theory describes how organisations operate and help predict organisational behaviour (Donaldson & Preston, 1995). Indeed, stakeholder theory is less of a formal unified theory and more of a broad research tradition, incorporating philosophy, ethics, political theory, economics, law and organizational science. It finds its justification in the pragmatic approach to management (Freeman et al, 2004). Stakeholders are not only affected by the corporation but can also have an effect on its activities as well (Shankman, 1999). Freeman (1994) identified several principles by which stakeholders may choose to guide themselves. They include;

- Principle of entry and exit
- Principle of governance
- Principle of externalities
- Principle of contracting costs
- The agency principle
- Principle of limited immortality

In conclusion, stakeholder theory enables an organisation to more committed to all stakeholders in an organisation and try as much as possible to reduce conflict of interest. It is argued that maintaining an appropriate balance between the interests of all stakeholder groups is the only way to ensure survival of the firm or the attainment of other performance goals (Shankman, 1999 p.322). For example, most organisations align their interests with that of their suppliers and establish basic principles which both would adhere to and how they interact with the local environment also some organisations give back by engaging in corporate social responsibility (CSR) activities.

2.2.4 Transaction Cost Theory

Unlike the agency theory which views a firm from a legal point of view and a nexus of contracts, transaction cost theory views the organisation from an economic point of view. It offers potentially useful insights into describing managerial behaviour in respect to trade-off personal gain against interest

Nigerian Journal of Management Studies
Vol. 18, No. 2, 2018, 35-44
of the shareholders (Bloomfield, 2010 p.23). Transaction cost theory was developed by Oliver Williamson (Ghoshal & Moran, 1996)
The view of transaction cost theory is that an organisation comprises of people with different views and objectives (Abdullah & Valentine, 2009) and as such are motivated by rational intentions of seeking to maximize their own economic advantage (Bloomfield, 2010).
The theory applies mainly to large corporations in that they effect substitute for the market in determining the allocation of resources (Abdullah & Valentine, 2009). It seeks to explain and influence managerial practice (Masten, 1993).

2.3 Importance of Corporate Governance

It has been earlier stated that most corporate failures have been linked to some or major failures of corporate governance. Governance is seen as very influential in various economic aspects of the social landscape (Abdullah & Valentine, 2009). It is especially important in the financial sector because of the economic significance of the sector (Bloomfield, 2010). Effective corporate governance is critical to all economic transactions especially in emerging and transition economies (Dharwardkar et al, 2000 in Nworji et al, 2011). This is so because corporate governance in developing and under-developed economies where corporate governance is not developed or non-existence has been held responsible for the diversion of funds and assets of many privatised organisations (Shleifer & Vichny. 1997). For example Nworji et al (2011) in their study concluded that though the corporate governance code in Nigeria was adequate, corruption curtailed its effectiveness. Corporate governance is important in today's economic clime and complexities involved in managing organisation. There is the need for accountability by shareholders and stakeholders of organisations hence the intense call for better corporate governance. Generally, good corporate governance plays a vital role in underpinning the integrity and efficiency of financial markets (OECD, 2004). Ultimately investors seeking to invest in businesses need to have confidence that the business is being properly managed and will continue to be profitable. Also shareholders and stakeholders need to have confidence that their interests are being properly managed and the answer is in corporate governance, A lack of effective corporate governance causes corporate failures whilst good corporate governance aside from preventing such failures restores investor confidence (Mallin, 2013). Effective governance enables the implementation and success of organisational objectives.

2.4 Risk Management

Risk is ever present because the future is unforeseeable; it is a widely used concept in everyday life (Hopkins, 2014). Human nature tends to push boundaries and thus dare or take chances, in all these actions, risk is inherent (Bernestein, 2009). Risk is multidimensional and cuts across different levels and sectors. People define risk differently based on anticipated outcomes and as such is a value focused exercise (Fischhoff & Kadvany, 2011). Sobel & Reding (2004) define business risks as "uncertainties that can impinge on a company's ability to achieve its objectives and can result in many interdependent outcomes that may be positive or negative". Once risks can be properly defined, its causes can be understood and its magnitude estimated (Fischhoff & Kadvany, 2011).
Risk management is the planning, arranging and controlling of activities and resources in order to minimize the impact of uncertain activities (Diacon & Carter, 1992). According to The Institute of Risk Management (IRM), risk management can be defined as the process whereby organisations methodically address the risks attached to their activities with the goal of achieving sustained benefit within each activity and across portfolios of all activities. It is the systematic process of handling an organization's risk exposure to achieve its objectives in a manner consistent with public interest, human safety, environmental factors, and the law (Raber, 2003). Risk management is a continuous process of the identification and treatment of risks associated with the running of the activities of an organisation. The art of risk management is to identify risks specific to an organisation and to respond to them in an appropriate manner. It is the formal process of identifying, assessing, planning and implementing responses to manage risks (Merna & Al-Thani, 2008). According to Hopkin (2014), evaluating the range of risks responses available and deciding the most appropriate option is the heart of risk management.

2.5 Enterprise Risk Management

According to Desender & Lafuente (2014), the desirability for a corporate-wide, all-encompassing view of risk management as opposed to the traditional fragmented or silo based risk management gave birth to modern risk management commonly referred to as Enterprise Risk Management (ERM).

Nigerian Journal of Management Studies
Vol. 18, No. 2, 2018, 35-44
The COSO Enterprise Risk Management – Integrated Framework (2004) provides a benchmarking tool to help organisations develop a road map toward full ERM implementation.
COSO, 2004 in its integrated framework defined ERM as a process effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity and manage risks to be within its risk appetite to provide reasonable assurance regarding the achievement of entity objectives. The components of ERM as specified by COSO are listed below;

- Internal environment
- Objective setting
- Event identification
- Risk Assessment
- Risk Response
- Control Activities
- Information and communication
- Monitoring (Ward, 2005)

It categorizes risks into two broad areas: core risks which a firm should have a competitive advantage to handle in their business model and non-core risks which could be hedged by the business or transferred through risk management techniques.
ERM, emphasizes on an integrated, firm-wide coordinated and continuous process that addresses all possible financial, business and strategic risks and opportunities (Jalilvand & Malliaris, 2014).
ERM targets overall corporate strategy and, when implemented correctly, can manage a corporation's risk appetite and exposure. When ignored or underutilized, it can contribute to a corporation's demise (Harner, 2010).

3.0 Critique of Corporate Governance Theories and Implications for Risk Management

Corporate governance theories are concerned with how organisations are being managed (Mallin, 2013) which implicitly is to preserve in the long-term wealth creation, distribution and treatment of all stakeholders accordingly (Bloomfield, 2013). Each gives insight into the operation of the company and how the processes of governance are determined (Bloomfield, 2013). Arguments around how these theories are applied in corporate governance and its implications on organisations, supremacy of one theory over the others and converging all theories for effectiveness and efficiency have been debated in several studies for example (Heath, 2009); (Davis et al, 1997); (Shankman, 1999); (Eisenhardt, 1989); (Roe, 2003) etc. Arguments such as whose interests should be better served (Bloomfield, 2013), their relevance to countries they are operating in (Mallin, 2013), conflict of interest and change of interest over time (Davis et al, 1997b), motivation and compliance (Shankman, 1999), ethical considerations (Kaler, 2006), remuneration, measure of performance (Broubakri, 2011) and so on. For example a principal's understanding or preference of risk may differ from the agent's perspective so also risk behaviour tend to differ (Heath, 2009); (Lovallo & Kahneman, 2003).
Risk management takes into consideration all these arguments and concerns itself in consideration of the significance of competing claims for resources for different stakeholders (Bloomfield, 2013). This enables the prioritisation in form of allocation of values at risk to issues the board will have to deal with (Bloomfield, 2013). The point of risk management is inevitably a trade-off because organisations can never completely eliminate risks (Drennan, 2004). These risks that may occur based on the underlying theory of the organisation need to be addressed and harnessed with the organisational objectives. Risk management may influence organisational processes while taking into cognisance the dynamics of the organisation, organisational perception and control of risk (Broubakri, 2011).
The risk management function will amongst other things provide the principle that would enhance good governance (Bloomfield, 2013).

4.0 Risk Management and Corporate Governance as Siamese Twins

Risk management has become a critical dimension of corporate policy, particularly in light of the recent global financial and economic crisis. It is widely appreciated that companies can enhance their values if they are able to mitigate some of the costly aspects of risk (Gamba & Triantis, 2009) such as liquidity, loss of reputation, liability law suits etc. It has also been noted that organizations need to adopt a

Nigerian Journal of Management Studies
Vol. 18, No. 2, 2018, 35-44
methodical approach to risk management which thus protects the interests of their stakeholders, ensures that the Board of Directors and executive management discharges its duties to direct strategy, build value and monitor performance of the organization and ensures that management controls are in place and are performing adequately (www.theirm.com).

In line with this, regulatory bodies advocate that boards should assume responsibility for the identification of the principal business risks of the corporation's business, ensuring the implementation of appropriate systems in place to manage risks. Recently many policy documents include and outline comprehensive risk management frameworks in addition to recommended governance structures (Aebi et al, 2011).

Recent studies have concluded that efforts in managing an organisation's overall risk creates shareholders' value for example Stultz (2008) and Smithson & Simkins, (2005).

Corporate governance and risk management practices have both being linked to enhancing organisations' competitive advantage either through lower capital costs or higher stock prices (Zeidan, 2014). Rating agencies such as Standard and Poor's, Moody's have also included the risk management function as a factor in their ratings methodology for financial and insurance companies (Simkins & Ramirez, 2008).

Principles and practices of sound and responsible corporate governance must be well understood and this understanding is an important factor in successfully managing risk, observing corporate compliance and preserving and enhancing reputation. Areas which need to be specifically understood in terms of opportunities and risks which may arise are;

- The role and responsibilities of the board of directors and audit committees
- The basic codes of conduct and conflict of interest rules;
- The role of corporate compliance
- The role of public accountants and legal counsel and
- The complex interdependencies between corporate governance and other institutions such as stock exchanges and regulatory bodies (Jalilvand & Malliaris, 2014).

According to Dickinson, 2001, the more closely aligned are a corporate objectives that are set by management to those of its shareholders' interest, the closer enterprise risk be to the stock market's own risk assessment of the company.

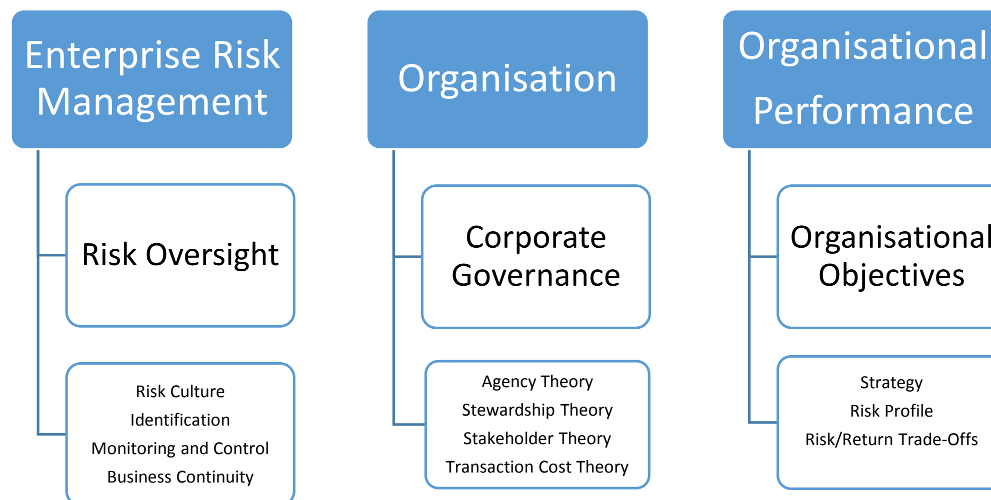
Studies such as Simkins & Ramirez, (2008) and Kleffner et al (2003) reconfirm the importance of enterprise risk management to the firm financial performance. It can be concluded that good risk management practice enhance good corporate governance. Corporate governance concerns now encourage board of directors to develop more clearly defined audit functions including an overview of their top management teams.

According to Bloomfield (2010), the central function of good governance is the effective management of corporate risk and should be an activity carried out on a daily basis from top to bottom and bottom to the top. Risk oversight allows the board to be well informed about the organisation's risk profile. It enables the board to determine the level of risk acceptable to the organisation and thus make informed strategic decisions which is then cascaded to all levels of management. For instance, how much resource must go to improving production processes in any new given set of market condition (Bloomfield, 2010). Even when all processes have been put in place, some 'surprises' happen in businesses for example an outbreak of a war in a country where raw materials are being sourced. In this instance the risk management function within the organisation steps up to provide proactive measures to deal with risks that may arise.

In summary, as risk has emerged a serious issue in recent times (Vasudev, 2014), the importance of risk management practices throughout an organisation cannot be over-emphasized, the risk function should be vested within the necessary authority and organisational powers (Mulbert, 2014). Vasudev (2014) further identified weaknesses in developing appropriate risk models as a factor of a weak corporate governance structure. Harner (2010) supports this in his statement "Citigroup under Mr Prince's leadership took a bullish approach to the crisis and firm risk management and its stakeholders paid the ultimate price". The figure below outlines the inter-relationship.

Figure 1.1:

Nigerian Journal of Management Studies
Vol. 18, No. 2, 2018, 35-44



Source: The Author, 2016

Risk management will continue to strengthen the role within the strategic planning process (Dickinson, 2001). Risk appetite translates risk metrics and methods into business decisions, reporting and day-to-day business discussions.

It helps to note that: profit is the reward for risk; all organisations are exposed to varying degrees of risks; management should choose the best action which reduces these risks and balances interests of all stakeholders; and good governance contributes to the longevity of the organisation (Bloomfield, 2013). By understanding this, it sets the boundaries which form a dynamic link between strategy, target setting and risk management (Zeidan, 2014).

5.0 Discussions and Conclusion

The relationship between corporate governance and risk management cannot be over emphasized. It is so inter-related it is becoming increasingly difficult to differentiate. There is a growing acknowledgement of the need for boards to understand the full risk profile of their organization (Ingley & van der Walt, 2008), as opposed to financial risk and concerns of the role of audit in the governance process only (Raber, 2003). Risks associated with legal, compliance, operating, vendor, customer, product, political, supply, reputation, human resources, technology, and insurance issues have emerged as organisations have become more dynamic (Ingley & van der Walt, 2008). This is reflected in couple of major cases such as Texaco in 1984, where the board failed to understand litigation risk; Barings Bank in 1996, which exposed the slack in internal controls; Texaco in 1984 exposed human resources mismanagement; Enron in 2001 exposed accounting fraud and weak corporate governance (Simkins & Ramirez 2008) and the 2007 financial crisis have all been attributed such failures to the failure of both corporate governance and risk management. Nworji et al (2011) in their study of Nigerian banks also attributed bank failures in the country to weaknesses of corporate governance and improper risk management. This may attributed to the fact that corporate governance in Nigeria is still in its primary phase (Adelopo et al, 2015).

An interesting view to this is Harner's (2010) study which argues that corporate governance may be a subset of enterprise risk management which integrates behavioural risk management for example corporate governance with technical or purely financial risk management such as financial modelling and stress testing. This view is also shared by Poster and Southworth (2012) who believe that though financial modelling techniques may be important in a firm's governance programme, embracing a holistic enterprise risk management approach may be more beneficial to the organisation.

In this paper, we have reviewed corporate governance and risk management in organisations focusing on the relationship between them. We have argued based on theoretical evidence that both complement each other and aid in the efficiency and effectiveness of any organisation.

Board decision making capabilities are further strengthened when adequate information about overall firm strategy and risk exposures are available. However both cannot work independent of the other that is a strong risk management focus is always further strengthened by the board's backing and vice versa. If risk management, becomes a box-ticking exercise then the potential for real management of risk - for the benefit of the organisation, its staff, clients and the public will decline (Drennan, 2004). Effective

Nigerian Journal of Management Studies
Vol. 18, No. 2, 2018, 35-44
risk management therefore provides an important bridge between the two dimensions of compliance and performance in corporate governance (Ingley & van der Walt, 2008).
It is therefore recommended that organizations in Nigeria involve the risk management function at the board level in order to incorporate it into the overall organizational strategy. It will enable a more efficient and effective risk management function as well as providing the board of directors a view of the organization's overall risk profile and risk strategy which will in turn reflect on organizational performance.
In addition, researchers and academics need to conduct further research to support the efficiency of corporate governance and risk management in contributing the organisational performance especially in developing countries where it has been noted that research in this area is not advanced.

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Nigerian Journal of Management Studies
Vol. 18, No. 2, 2018, 35-44

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