Chapter 6
Risk Governance and Bank Performance:
Do Risk Committee Activism and Finance Experts on the Risk Committee Matter?

John Agyekum Addae
https://orcid.org/0000-0002-6374-5195
Ghana Communication Technology University, Ghana & University of Aveiro, Portugal

Emmanuel Numapau Gyamfi
https://orcid.org/0000-0002-9829-3977
Ghana Institute of Management and Public Administration, Accra, Ghana

ABSTRACT

Global discourse is geared towards greater accountability and regulatory oversight of banks to promote sound financial systems and charter value. The authors applied dynamic pool panel analysis to investigate the relationship between risk governance and financial performance among African global banks spanning the years 2015 to 2020. They find significant positive association between financial experts on risk committee and bank profitability. The results further reveal that risk committee activism as a proxy for risk committee effectiveness significantly increase bank profitability. Therefore, stakeholders must prioritize regular risk committee meetings and attach importance to risk committee compositions with finance experts on the majority. Additionally, this study offers policy implications for regulators and bank mangers to clearly define risk committee financial experts and minimum financial experts required to serve on the risk committee.

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INTRODUCTION

Risk Governance has been introduced as another layer to solidify corporate governance. Latent studies have bemoan that the global financial crisis was caused by weak risk governance (Chen et al., 2021). According to Bley et al., (2019), the global financial crisis exploded due to unwarranted risk build-up. Global financial crisis aftermath lessons place premium on risk governance. To forestall future global financial crisis, The Committee of Sponsoring Organizations of the Treadway Commission (COSO) recommended robust risk oversight at the board level (COSO, 2010). On the regulatory front, financial firms are subject to stricter risk governance through Pillar 3 Basel II (Nahar et al., 2016). Moreover, International Financial Reporting Standard (IFRS) 7 was also promulgated to strength risk governance reporting(Nahar & Azim, 2020). The Dodd-Frank Act 2010 also mandates financial holding companies to establish a stand-alone risk committee (Chen et al., 2021; Erin et al., 2020).

Plethora of studies on risk governance and bank performance abound in the developed economics to the neglect of emerging markets (Jia & Bradbury, 2021). However, Agoraki, Delis, and Pasiouras (2011) opine that empirical results from developed market may not be applicable to transition economies because their system, institutional setting and regulatory regime is quantitatively and qualitatively different (Agoraki et al., 2011, p. 39). African context evidence is critical because corporate governance practices is weak in emerging economies(Nahar et al., 2016; Nahar & Azim, 2020; Oradi & E-Vahdati, 2021). African banking system contextualization study have become imperative for several reasons. First, Banks predominately remain the source of fund in Africa. Africa financial system is dominated by banks due to underdeveloped capital market(Nahar & Azim, 2020). Secondly, ineffective rules and regulations, higher levels of corruption and political exploitation are pervasive in developing countries (Nahar et al., 2016, p. 251). Third, financial liberalization fashioned out in the 80s has breeze competition and open up the continent for more bank with some underlying cooperate governance challenges. To fill the African banking sparse studies, prior research examines Africa banking system in Nigeria (Erin et al., 2018, 2020; Kakanda et al., 2018); and Tunisia (Moussa, 2019). Cross-country evidence is the missing link in the literature that merit this studies. Therefore, this research contributes to knowledge with cross-country evidence to evaluate the association between risk governance and performance among African banks.

Financial acumen of board membership and board committee is important especially highly regulated financial intermediation industry (Apergis, 2019, p. 243). According to Malik et al., (2021), Board members that are more financially savvy are better placed to understanding company's risk profile. Moreover, Huang & Zhang, (2020) show that CEO with financial expert sign-up to better disclosure practices. Empirical evident exist for CEO financial expert (Custódio & Metzger, 2014; Gounopoulos & Pham, 2018); audit committee financial expert (Abbasi et al., 2020; Bilal et al., 2018; Defond et al., 2005; Hsu et al., 2018; Krishnan & Lee, 2009; Sultana & Mitchell Van der Zahn, 2015; Tanyi & Smith, 2015; Zalata et al., 2018); board members financial expert (Adams & Jiang, 2020; Apergis, 2019); male financial expert (Abbasi et al., 2020; Zalata et al., 2018) and female financial expert (Abbasi et al., 2020; Oradi & E-Vahdati, 2021; Zalata et al., 2018). However, studies on the role of finance expert on the risk committee are rarely and remain unexplored. Finance expert matter because tapping into financial expertise help to comply with financial policies; better position to handle sophisticated transactions; better able to raise external funding. (Apergis, 2019). According to Oradi & E-Vahdati, (2021) finance expert on audit committee establish more mechanism for effective internal control; and prudently manage risk and improve better monitoring.

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