



OPERATIONAL RISK MANAGEMENT PRACTICES AND PERFORMANCE: EVIDENCE FROM NON-INTEREST LISTED DEPOSIT MONEY BANK IN NIGERIA

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Abstract

Operational risk exposure in the banks has been the major problem faced by the banking industry in Nigeria, ineffective in the management of this risk has negatively affected their performance in term of profitability and efficiency. Several measures such as Basel framework and CBN prudential guideline have been put in place to eradicate this risk exposure. Yet, exposure of banks to this risk seems to be significant and have effect on their performance. Thus, this formed the reason for carrying out this study, as this study seeks to determine the effect of operational risk management practices on the performance in term of profitability and efficiency of non-interest bank. This study adopted Expo facto research design and data used for this study is between 2018 -2023 using Jaiz Bank plc. Newey- West Standard errors was used as a method of data analysis. Thus, result showed that there exist a positive effect and not significant influence between operational risk management practices and profitability (beta value at 0.00803, p-value 0.101). Also, there is negative and significant linkage between operational risk management and efficiency (beta value -0.049, p-value 0.06). Thus, operational risk management practices has a significant but negative influence on the performance of non-interest bank Nigeria. Non -interest banks are advised to focus less in using operational risk management for the improvement of their efficiency as any attempt to will cause negative effect on the performance in term of efficiency.

Keywords: *Operational risk management practices, Performance, G32*

INTRODUCTION

Globally, ineffective in the operational risk management practices such as failure in the internal process, poor adoption of technology, personnel risk and high operational cost have remained an important issue that affect banking system and their performance (Grimwade, 2025). Operational risk has been identified as the major setback that caused the inefficient and reduction of banks 'performance (Helbok & Wagner, 2006; Arho, Akpotu & Onuorah, 2024). Exposure of operational risk by these banks has significantly influenced their performance in term of reduction in profitability and efficiency.

Several measures and procedures have been put in place by government and regulatory agencies to eradicate this risk exposure and build effective operational risk management practices. For instance, Basel committee on banking supervision issued out guideline on management of risk. This guideline is called Basel accord and are three; Basel i, ii and iii . Also, Central bank of Nigeria followed the same suit and adopted this framework in lieu with some other guild line to ensure effective operational risk management visa vis performance (Basel Committee on Banking Supervision {BCBS}, 1988; Central Bank of Nigeria, 2005; CBN, 2013).

Yet, exposure of bank on this risk seems to persist and on increase to the extent it affects bank performance in term of profitability and efficiency. In addition, the variable adopted to measure operational risk management practices and performance by previous studies were not efficient enough to generate robust result. This could be major rationale why the studies provide different findings in their result. Earliest literature used return on asset and return on earning to measure performance. This indicator only measured financial aspect of performance while the non-financial performance remained unanswered (Okeke *et al.*, 2018; Maulana, Dwita, Fitriyani, Sunaryo & Adiyanto, 2024; Irawan *et al.*, 2025). Using this can lead to inaccurate measure of performance and performance not being response to the operational risk management practice. Thus, there will be lack of true picture of performance in short run and long run and it will be difficult for bank to understand the behavior of performance in lieu with operational risk management in long and short run.

Thus, the level of influence of operational risk management practice in lieu with performance need to be determined. Therefore, this study aims to determine the effect of operational risk management practices on the performance of non-interest listed deposit money bank in Nigeria.

H0: There is no statistical linkage between operational risk management practices and performance of non-interest bank in Nigeria

LITERATURE REVIEW

Conceptual Review

Operational Risk Management practices

Operational Risk Management is the process of identifying, selecting, measuring and managing operational risks that take place in the banking environment. Operational risk includes loss of internal failure, break down of internal control, outdated technology, unskilled personnel, employee fraud, negligence and reputational risk (Okeke, *et al.*, 2018; Khan, 2025). Risk management can be looked from two perspectives; financial risk management and non-financial risk management (Moustafa & Mohamed, 2016; Guaranty Trust Bank, 2018; Access Bank, 2018; Ecobank, 2017; Maulana, *et al.*, 2024; Abdullah, Ali, & Fatah, 2025). Non-financial risk management consist of the management of operational risk. Operational risk is the risk which emanates as a result of failure in the internal processes, breakdown of internal control, non-compliance with regulatory guidelines and outdated technology. It management entails identifying, selecting, measuring and put regular provision and procedure in place to ensure bank exposure to this risk is reduced if not eradicated (United Bank for Africa, 2018; Unity Bank, 2018; Wema Bank, 2019; Jiang, & Ji, 2024).

Operational Risk Management Regulatory Framework: An Overview of Basel Accord

Basel accord is one of the most important frameworks used in management operational risk worldwide in banking industry. This is usually issued out by Basel Committee on Banking Supervision (BCBS). These frameworks are three namely; Basel I, II and III. The short coming of one led to the release of another. Though, all issue focused on effective and efficient managements of risk but Basel ii provides framework for operational risk in term of capital provision to reduce this kind of risk. This accord was released in 2004 and provided capital provision to be set aside by bank so as to offset this risk (Basel Committee on Banking Supervision {BCBS}, 2004). Based on this, this study will determine the effect operational risk management practices on the

performance of non –interest listed deposit money banks in Nigeria using Basel ii accord framework of operational risk.

Bank's Performance

Profitability and Efficiency are two main performance indicator which are used in this study to measure level of achievement of the bank in this study. Performance denoted the ability of bank to achieve its goal. It is defined as achievement of the bank. Performance can looked from two aspects; financial and non-financial performance. Financial performance is usually profitability of the bank. This is measured by Return On Capital Employed (ROCE). While non-financial performance is efficiency of the bank. This is measured by asset turn over (Maalim, 2017; Ngumo, Collins & David, 2017; Abdurrahman, Gustomo, & Prasetyo, 2024).

Theoretical framework

System Theory

System theory was propounded by Ludwig Von Bertalanffy and William Ross Ashby in 1940. This theory state a system is made up of parts or sub-systems which affect one another. Inefficiency of one part will affects others; all parts collectively work to achieve come goal (Nyaga, 2015). System theory explained bank as system that is made of different subsystem or unit, where activities undertaken by each unit have influence on level of the performance in term profitability and efficiency. This influence can be negative or positively (Cornell & Jude, 2015; Mele, Pels & Polese, 2010). This sub-system have different factors that affect its operation such as Internal factors such as employment risk, technology risk, weak internal control process, and external factors like legal risk, flood, and terrorist attack. These affect the activities of each sub-system and these factor are called operational risk which affect performance of bank.

The relevancy of this theory is that it looks at operational risk as a factor that affect activity carry out by sub system or unit or department. This sub systems or department have effect on the whole system which in turn affect the performance of the activity carry out by this system. Proper management of this operational risk will enhance the activity performed by each sub –system and thus improving the performance of a bank (Cornell *et al.*, 2015). This theory also suggest a positive linkage between operational risk management and performance. However, it does not proffer a direct relationship between operational risk management and performance.

Empirical Review

Empirical Literatures on the subject matter showed that management of operational risk exposure in the banking sector has enhanced their performance in term of profitability and efficiency. Also, studies revealed that operational risk management practices were positively linked while others establish negatively effect in lieu with performance. For instance, Annannab, Bakar and Khan (2022) supported the fact that, there exist a positive linkage between operational risk management and performance. In their study, operational risk management practices is independent variable and performance is the dependent variable. Survey research design was employed and Questionnaire was used as method of research instrument. Structural Equation Method of regression was used to analyze the data and result reviled that there exist a positive and significant influence on the subject matter.

Contrary, Chukwuemeka-Onuzulike, Peter Ifeanyi, Obi Nwosu and Charles (2024) examined the effect of operational risk management on the performance of Commercial bank in Anambra state of Nigeria. Survey research design was used and questionnaires as method of research design. Operational risk management is proxy with technology risk and system risk. Result showed that operational risk management practices has a negative relationship with performance. Also, Irawan *et al.* (2025) conducted a research on the impact of operational risk management practices on the profitability of Indonesian commercial banks using expo facto research design. Independent variable for the study is operational risk and this is proxy with two construct namely; efficiency ratio, and ratio of operating cost to operating income. The dependent variable is profitability and measured with return on asset. While the Ordinary least Square method of regression was used as a method of data analysis. The result reviled that operational risk has a negative and significant influence on the profitability of commercial banks in Indonesia.

METHODOLOGY

This study employed Expo facto research design as research design. Data are sourced from financial statement of non interest listed banks from 2018 to 2023 using Jaiz Bnak plc as population of study. Independent variable is the operational risk management practices .this is measured with the capital provision for it according to Basel ii accord framework. Performance is the dependent variable. This is measured with profitability and efficiency. Profitability is measured with return on capital employed and efficiency is measured with asset turnover ratio as seen in table 1. Newey-West Standard errors otherwise called robust standard error is used as a method of data analysis. The choice of this method is based on the fact that the data collected violated assumption of homoscedasticity and this method was used to correct the error has suggested (Gujarati, Porter,&Gunasekar,2013). Okeke *et al.*, (2018) model was adopted and subsequently modified. Based on this, this model is stated below. The adopted model is seen in equation 3.1 while remodified are 3.2 and 3.3.

$$PERF = \beta_0 + \beta_1 \text{Personnel Risk} + \beta_2 \text{Organizational risk} + \beta_3 \text{Technology risk} + \beta_4 \text{internal process risk} + e_i \text{-----} (3.1)$$

$$\text{Asset turnover}_t = \beta_0 + \beta_1 \text{LNORM} + e_t \text{-----} (3.2)$$

$$\text{ROCE}_t = \beta_0 + \beta_1 \text{LNORM} + e_t \text{-----} (3.3)$$

Table 1: Definition and Measurement of Variable			
Variable	Operational risk management	Performance	
Measurement	Basel ii Capital provision for operational risk	ROCE=EBIT/ Capital Employed	Asset turn over

RESULT AND DISCUSSIONS

Descriptive Statistics

Table 1: Descriptive Statistics

Variable	Observation	Mean	Standard deviation	Minimum	Maximum
LNOPM	6	16.75369	0.5677809	16.17042	17.61208
totalasset~r	6	0.0598643	0.0043915	0.0547809	0.0650834
ROCEPBITCa~d	6	0.0201589	0.0058961	0.0310785	0.0143604

Descriptive statistics of the subject matter is displayed below in table 1 in which ROCE and total asset turn over are the indicator used to measure Performance while Log of operational risk management is independent variable. From Table 1 below, there are six (6) observations, mean, standard deviation, minimum and maximum. The mean of LNOPM, Total asset turn over, and ROCE are 16.75369, 0.0598643; 0.020589. Their standard deviation are 0.5677809; 0.0043915 ; 0.0058961 .The result indicates that each value of standard deviation is low and below 1.This can be interpreted as low dispersion in their mean or average value. Their minimum value are 16.17042; 0.0547809 ; 0.0310785 and maximum value are 17.61208; 0.0650834; 0.0143604. The minimum and maximum value are less one except in the case of LNORM that gives higher value. Thus, there is low variation and standard of deviation and this is understood that there exist a low dispersion among variable under study.

From the table 2, 3 and table 4 below are the result from the test of multicollinearity using variance inflation factor, test of heteroscedasticity using Breusch-Pagan / Cook-Weisberg test for heteroscedasticity and test of serial correlation using Durbin-Watson d-statistic for Serial Correlation.

Table 2: Multi-Collinearity Test – Variance Inflation Factors

Variable	VIF	1/VIF
LNOPM	1.00	1.000000
Mean VIF	1.00	

Table 2 revealed there no multi collinearity as mean VIF which is 1.0 is below 10. The rule of thumb states that, if Variance Inflated factor (VIF) of a variable is not up to 0.90, such variable has not violated the assumption of multicollinearity.

Table 3 : Breusch-Pagan / Cook-Weisberg test for heteroskedasticity

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
Ho: Constant variance
Variables: fitted values of ROCEPBITCapitalemployed
chi2(1) = 2.29
Prob > chi2 = 0.1302

Table 3 showed the test of heteroscedasticity and result revealed that there is presence of heteroscedasticity and thus the data do not meet the assumption of homoscedasticity as p value is less than 0.5.

Table 4: Durbin-Watson d-statistic for Serial Correlation

Durbin-Watson d-statistic(2,	6) =	2.326074
. newey totalassetturnover	LNOPM,	lag(0)	

Table 4 which test for serial correlation showed that there is an absence of serial correlation. The value is less than 2.5 threshold of rule thumb.

Interpretation of Result

The results were analysis with Newey- West Standard errors otherwise called robust standard error. This method was chosen based on the fact that the data collected violated assumption of homoscedasticity and this method was used to correct the error identified.

These result are presented in two table 5a and Table 5b. Table 5a showed the regression result of operational risk management practices in lieu with performance. Performance is measured by profitability and efficiency. Profitability was proxy with ROCE while efficiency of the bank is being measured with the use of asset turn over.

The null hypotheses was rejected at 10 percent level of significant influence and result of this study is presented below.

Table 5a: Operational Risk Management and Asset turnover

Number of obs = 6					
Maximum lag: 0					
F(1, 4) = 4.50					
Prob > F = 0.1013					
ROCE	Coefficient	Std.Err	t	p> t	95% Conf. interval

Operational risk management	.0080381	.0037904	2.12 0.101	-.0024858 .0185619
Cons	-.1145084	.062222	-1.84 0.140	-.2872644 .0582476

Table 5a displayed the result of regression of operational risk management practices and efficiency which is measured by asset turn over. Operational risk management practices has a negative and significantly influenced the level of efficiency of non interest based bank at coefficient value - 0.0049253at .0.006 p- value. Also, overall result showed that operational risk management practices has impacted negatively on the level of efficiency of Jaiz bank. The level of significant is at 10%.

Table 5b: Operational Risk Management and ROCE

Number of obs = 6					
maximum lag: 0					
F(1, 4) = 6.63					
Prob > F = 0.0616					
Newey-West					
Total Asset turnover	Coefficient	Std.Err	t	p> t	95% Conf. interval
Operational risk management	-.0049253	.0019124	-2.58	0.062	-.0102349 .0003844
Cons	.1423809	.0330109	4.31	0.013	.0507278 .234034

Contrary, table 5b provide positive and not significant on the subject matter. The coefficient of operational risk management practices in lieu profitability measured by ROCE is 0.008 and found not significant at 10% with p- value of 0. 101.

This result is in line with the work of some studies which found negative relationship between the subject matter (Chukwuemeka-Onuzulike et al.,2024; Irawan *et al.* (2025). While is in contrary with other studies that established positive effect (Annannab, *et al.*, 2022). Also, this finding is not in line with the theoretical framework.

CONCLUSION AND RECOMMENDATIONS

Based on the result discussed above it can be seen that operational risk management practices have a negative and significantly influence performance in term of efficiency while there is not significant linkage between operational risk managements practices and profitability. Though it has positive value. This can be concluded that operational risk management has a negative effect on the level of efficiency of jaiz bank in Nigeria. Thus, non –interest banks are advised not to use operational risk management practices to boost their efficiency rather as it will cause down fall in their efficiency and reduce performance.

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