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RISK MANAGEMENT AND ECONOMIC VALUE ADDED AMONG LISTED NON-FINANCE FIRMS IN NIGERIA AND KENYA

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Abstract

We investigate the effect of risk management on economic value added by employing samples from listed non-finance firms on the floor of the Nigerian Exchange Group and Nairobi Stock Exchange from 2012 to 2021. The study employs causal and longitudinal research designs on a population of 154 non-finance firms listed on the floor of the Nigerian Exchange Group (NGX) and Nairobi Stock Exchange (NSE) as of December 31st, 2021. However, the sample size of the study consists of 74 listed non-finance firms in Nigeria and 25 listed non-finance firms in Kenya. These firms were selected based on the purposive sampling technique and data was collected through the secondary method. Specifically, the study conducts pre regression analysis which includes descriptive statistics, correlation matrix, and normality of residua analysis. Basically, the panel Ordinary Least Square Regression analysis was first conduct and diagnostic tests were carried out to check if it violates the basic Gauss Markov Theorem and assumptions. These post regression test includes test for multicollinearity, test for homoscedasticity as well as test for fixed and random effect. The study found that liquidity risk management has a statistically insignificant effect on economic value added of listed non-finance firms in Nigeria and Kenya combine. The findings also reveal that market risk management has a statistically significant effect on economic value added and equity risk management has a statistically significant effect on economic value added of listed non-finance firms in Nigeria and Kenya combine. Based on the findings of the study, we concluded that risk management is crucial in improving economic value added and enhancing the survival of listed firms in Nigeria and Kenya. Generally, the study recommends that management of non-finance firms and regulatory authorities in Nigeria and Kenya should pay more attention to companies' compliance to relevant provisions of the law and prudential guidelines with respect to risk management. It is recommended that for the stability of firm performance and adaptability to risk, worthy trade debtors should be properly identified, prioritized, assessed, and well managed to avoid any form of vulnerability that can give rise to insolvency arising from risk default.

Keywords: Economic value added, risk management, liquidity risk, market risk, financial risk

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Introduction

There is little doubt that businesses operating on any market are exposed to rising levels of both domestic and international risk in today's world of legally ambiguous tariffs and the looming threat of uncertainties (Fidanoski, Choudhry, Davidović & Sergi, 2018). Risk exposure is a difficult topic to navigate, as there are numerous ways of both defining and delimiting risk, which heavily impacts how to respond to this increasing danger. But responding to these increasing levels of risk, is a risk in itself, as the emergence of the Internet and social media means that companies are constantly under scrutiny from the public and are exposed to heavy criticism and backlash. However, Onyefulu, Okoye, and Orjinta, (2020) identify three types of corporate risks - systematic or market risk, operational risk, and legal risk. Crouhy, Galai and Mark (2006) also made another classification of corporate risk to include market risk, credit risk, liquidity risk, operational risk, legal risk, business risk, strategic risk, and reputation risk. The focus of this study is on operational risk, credit risk, market risk, equity risk, and liquidity risk. This is in line with Onyefulu, Okoye, and Orjinta, (2020) who maintains that non-finance firms have long viewed the problem of risk management as the need to control six of the likely risk they can possibly face. Fidanoski, Choudhry, Davidović and Sergi, (2018) noted that these risks make up most, if not all, of risk face by corporate institutions.

In recent years a significant shift of thought towards preferring the market value of the company has occurred in the area of evaluation of the effectiveness of business activities. The creation of value for its owners has become the ultimate objective of firms. Young and O'Byrne (2021) aptly note that every useful performance metric attempt to measure changes in shareholder value. Young and O'Byrne (2021) argue that economic value added (EVA) is the best metric available. EVA measures residual income, which means that it measures the difference between a firm's return and cost of capital. The other metrics have significant drawbacks, because one can easily manipulate traditional income measures. Market-based measures such as market value added, excess return and future growth value make sense in publicly traded entities. Cash flow from operations and cash flow return on investment do not account for the cost of equity or debt. Hence, Young and O'Byrne (2021) believe that EVA includes debt financing and equity financing costs and, therefore, is the best metric in relation to risk management.

Non-financial firms in Nigeria and Kenya provide a unique opportunity for use in this study, thus meeting the need to capture a larger firm observation unlike previous studies since most firms in the Nigeria and Kenya are classified under the non-finance sectors. The choice of Nigeria and Kenya is based on the need to have a regional coverage in Africa which most studies failed to put into consideration, hence, the present study covers a more geographical scope. Furthermore, these countries have large markets which has aided economic development in a variety of ways, including facilitating long-term capital mobilization, providing alternative investment opportunities, attracting foreign capital inflows, and serving as a signal of economic performance (Kumo, 2009). Specifically, according to World Bank Report of 2021, Nigeria is the largest economy in West Africa as contributes more than 41% of the GDP of West Africa in general. On the other hand, it has been noted that the Kenyan government has been actively taking measures and implementing reforms to improve investment opportunities, as a result it was ranked 56th in the world bank ease of doing business.

Furthermore, various studies conducted have failed to establish a definite relationship between financial risk and the performance of firms. Akong'a (2014), explored the effect of financial risk on

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financial performance and showed that there is a significant positive relationship between financial performance and financial risk management. In Pakistan, Tanveer, Muhammad and Sadaf (2017), found a significant positive relationship between financial risk and performance. On the other hand, Muriithi (2016), studied the effect of financial risk and performance of firms in Kenya and found a significant negative relationship between financial risk and performance. In the same vein Adinde (2014), found a significant negative relationship between financial risk and performance. Also, Uwalomwa, Uwuigbe and Oyemo (2015), studied the relationship between credit risk management and banks performance of listed banks in Nigeria and found that credit risk management has a significant negative effect on the performance of banks in Nigeria, while Khalaf (2012), found no relationship between financial risk management and financial performance of listed firms in Jordan. This study therefore seeks to address these research problems by first ensuring the inclusion of less employed variables of market and equity risk management as some of the proxies for risk management in addition to liquidity risk management. Second, we employ a panel regression technique of within effect estimators that can capture the heterogeneity effect present by pooling different firms together.

Literature Review

Conceptual Clarification

Economic Value Added

One professedly recent innovation in the field of internal and external performance measurement is a trade-marked variant of residual income (net operating profits less a charge for the opportunity cost of invested capital) known as economic value-added (EVA). The EVA of the company is just a measure of the incremental return that the investment earns over the market rate of return. In simple terms, it can be stated that EVA measures the profitability net of cost of capital. As someone has aptly remarked, 'you only get richer if you invest money at a higher return than the cost of money to you'. EVA is the spread between the rate of return on capital and the cost of capital, multiplied by the economic book value of the capital employed to produce that rate of return (Barbera & Coyte 1999). However, this methodology presents an upgrade to then already existing measure of residual income, which is defined as operating profit subtracted by capital charge. The roots of the measure go back as far as 1890, when residual income was defined by Alfred Marshall as total net gains less the interest on invested capital at the current rate (Barbera & Coyte 1999). Mathematically EVA gives exactly the same results in valuations as Discounted Cash Flow (DCF) or Net Present Value (NPV), which are long since widely acknowledged as theoretically best analysis tools from the stockholders' perspective (Brealey & Myers 1991).

Risk Management

Management of risk does not only involve reduction of chance of bad happenings but also ensuring the likelihood of good things occurring. Kithinji (2010), added that good management is both a defensive mechanism and offensive weapon that is used by firms depending on the corporate governance. Risk management is undoubtedly crucial in every business activities and it calls for keen attention from shareholders, regulators, practitioners, and scholars since many huge losses are witnessed as result of poor risk management an organization (Imane, 2014). Risk management culture should percolate from the first line employee to the board level. Many corporate governance principles provided regulation and strategy with a sound risk management

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mechanism. There is a need to understand information regarding the portfolio of risks which can be segmented as: first, eliminable or avoidable risks through simple business practices; secondly, transferable risks like through insuring; and lastly, risk that call for active management at all levels. Poor credit administration reduces firm profitability and leads to firm distress and/or failure (Osuka & Amako; 2015). Corporate risks are classified into credit risk, market risk, and operational risk. However, Santomero, (1997) identify three types of risks - systematic or market risk, operational risk, and legal risk. Crouhy, Galai and Mark (2006) also made another classification of firm risk to include market risk, credit risk, liquidity risk, operational risk, legal risk, business risk, strategic risk, and reputation risk. The focus of this study is on operational risk, credit risk, market, equity and liquidity risk.

Liquidity Risk Management

Liquidity risk is the possibility of negative effects on the interests of owners, customers and other stakeholders of the firm resulting from the inability to meet current cash obligations in a timely and cost-efficient manner (Muriithi, 2016). Iwoye, (2012) defined credit risk as the possibility of losing the outstanding loan partially or totally, due to credit events (default risk). Liquidity of firm may be defined as the ability to meet anticipated and contingent cash needs. Liquidity in firms refers to a situation where they can manage sufficient funds either by increasing liability or converting their assets to cash at a reasonable cost in a short span of time (Abdelrahim, 2013). It is the ability of firms to fund all short-term obligations when they fall due. These short-term obligations may include lending, deposit withdrawals, investment commitments, and liability matures (Amengor, 2010). Liquidity risk is the situation whereby the financial institutions have to make payment, but the available assets are long-term and can only be converted quickly with capital loss (Burton, Nesiba, & Brown, 2015). This situation can arise when depositors withdraw their funds unexpectedly and raising further deposits becomes impossible to do. To avoid such a condition, a financial institution can hold highly liquid assets which can then be converted quickly into the required amount of fund to reduce their liquidity risk (Burton *et al.,* 2015).

Market Risk Management

Market risk is measured in terms of foreign exchange (also known as FX risk, exchange rate risk or currency risk) and is a financial risk that exists when a financial transaction is denominated in a currency other than the domestic currency of the company. It also refers to possible losses in international financial transactions caused by currency fluctuations. It describes the possibility that the value of the investment may decline due to changes in the relative value of the currencies involved. When a company engages in financial transactions denominated in currencies other than the company's location, foreign exchange risks arise. Exchange rate risk will arise when there is a risk of adverse exchange rate changes between the local currency and the denominated currency before the completion of the transaction. Foreign exchange risk also exists when the foreign subsidiary of a firm maintains financial statements in a currency other than the domestic currency of the consolidated entity. Investors and companies that export or import goods and services, or make foreign investments have exchange rate risks, but they can take measures to manage them. Any appreciation/devaluation of the base currency or any devaluation/appreciation of the quote currency will affect the cash flow generated by the transaction.

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Equity Risk Management

Equity risk, at its most basic and fundamental level, is the financial risk involved in holding equity in a particular investment. Although investors can establish equity in a variety of ways, including paying for real estate transactions and establishing real estate equity, equity risk usually refers to the company's equity acquired through the purchase of common stock or preferred stock. Investors and traders consider stock risks to minimize potential losses in their stock portfolios. Stock risk is defined as the difference between the expected return and the actual return provided by the investment. Equity risk usually refers to the company's equity acquired through the purchase of stocks, rather than the risk of paying real estate or establishing real estate equity. Investing in cash to buy company stocks is usually riskier than investing in so-called "risk-free" investments (such as government bonds). This is called equity risk. The risks of investing in stocks include falling stock prices, not receiving dividends or receiving dividends whose value is lower than expected. They also include the risk that company restructuring may reduce its profits. Or the company may go bankrupt. If this happens, you may be at the end of a series of creditors, so you may not be able to recover the value of your investment.

Hypotheses Development

Liquidity Risk Management and Economic Value Added

Liquidity risk commonly refers to a low financial ability of a company to meet its commitments as they remain outstanding or become due, without having an adverse effect on their operations. Managing liquidity enables a company to meet its obligations and increase the viability position through a reduction in the probability of adverse financial misfortune. Otekunrin *et al.,* (2018) observed that liquidity management is principally a cost-benefit trade-off, in that financial institution in its analytical process will evaluate their funding capacity provided the prevailing market prices will not hinder their ability to pay, or the decision to sell its assets. They further contended that companies in their capacity can hold stock of liquid assets so as to enhance adequate liquidity, although at the expense of little yields. The availability of liquid assets attracts opportunity cost that the company will stand to benefit, as the return on asset is lesser than the productive return on investment, but transaction cost may exist as the company engages in the sale or purchase of financial assets which are tax disadvantageous. Hence, we hypothesized that:

$H0_1$: Liquidity risk management has no significant effect on the economic value added of listed non-finance firms in Nigeria and Kenya.

Market Risk Management and Economic Value Added

Market risks are of financial nature which occurs owing to fluctuations in the financial market and are caused by a mismatch between the assets and liabilities of a business. The mismatch on compositions of assets and liabilities of any organization will determine the kind of exposure it has to various kinds of market volatilities (Abhay, 2019). Market risks can also be described as the risk of losses in liquid portfolio arising from the movements in market prices. Fluctuations of the market cause losses of income generated from the assets held for investment and lead to the poor financial performance of the organization (Aykut, 2016). In times of global financial crisis like in 2007, market risks affected the operation of the whole market and could not be avoided or mitigated by holding a certain portfolio (Ahmet, 2016). Market risk is financial in nature and is caused by fluctuations in the financial markets which results to mismatch between the

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organization's assets and liabilities (Abhay, 2019). Market risk is inherent in every business and thus proper risk management strategies must be put in place to balance off risk and returns minimizing negative effects on financial performance (Mudanya and Muturi, 2018). Hence, we hypothesized that;

$H0_2$: Market risk management has no significant effect on the economic value added of listed non-finance firms in Nigeria and Kenya.

Equity Risk Management and Economic Value Added

The agency's cost theory is premised on the idea that the interests of the company's managers and its shareholders are not perfectly aligned. In their seminal paper Jensen and Meckling (1976) emphasized the importance of the agency costs of equity arising from the separation of ownership and control of firms whereby managers tend to maximize their own utility rather than the value of the firm. These conflicts may occur in situations where managers have incentives to take excessive risks as part of risk shifting investment strategies. This leads us to Jensen's (1986) "free cash flow theory" whereas stated by Jensen (1986) "the problem is how to motivate managers to disgorge the cash rather than investing it below the cost of capital or wasting it on organizational inefficiencies." Thus, high debt ratios may be used as a disciplinary device to reduce managerial cash flow waste through the threat of liquidation (Grossman and Hart, 1982) or through pressure to generate cash flows to service debt (Jensen, 1986). Hence, we hypothesized that:

$H0_3$: Equity risk management has no significant effect on the economic value added of listed non-finance firms in Nigeria and Kenya.

Theoretical Foundations

Moral Hazard Theory

Moral hazard by Arrow (1963) is the risk that a party to a transaction has not entered into the contract in good faith, has provided misleading information about its assets, liabilities or credit capacity, or has an incentive to take unusual risks in a desperate attempt to earn a profit before the contract settles. Moral hazards can be present any time two parties come into agreement with one another. Each party in a contract may have the opportunity to gain from acting contrary to the principles laid out by the agreement. A moral hazard occurs when one party in a transaction has the opportunity to assume additional risks that negatively affect the other party. The decision is based not on what is considered right, but what provides the highest level of benefit, hence the reference to morality. This can apply to activities within the financial industry, such as with the contract between a borrower or lender, as well as the insurance industry.

Prior to the financial crisis of 2008, certain actions on the parts of lenders could qualify as moral hazard. For example, a mortgage broker working for an originating lender may have been encouraged through the use of incentives, such as commissions, to originate as many loans as possible regardless of the financial means of the borrower. Since the loans were intended to be sold to investors, shifting the risk away from the lending institution, the mortgage broker and originating lender experienced financial gains from the increased risk while the burden of the aforementioned risk would ultimately fall on the investor. Borrowers who began struggling to pay their mortgage payments also experienced moral hazards when determining whether to attempt to meet the financial obligation or walk away from loans that were difficult to repay. As property values decreased, borrowers were ending up underwater on their loans. The homes were

worthless than the amount owed on the associated mortgage. Some homeowners may have seen this as an incentive to walk away, as their financial burden would be lessened by abandoning the property. In walking away, the borrowers assumed a risk where some of the penalty would fall back on the financial institutions holding the loans.

Empirical Review

Syrová and Špička (2023) respond to the lack of empirical evidence on how enterprise risk management (ERM) and the financial performance of small and medium-sized enterprises (SMEs) are related. Structural equation modeling is used to explore new mediators in the relationship between ERM and SME financial performance. The results show that organizational culture (mission dimension) and strategic risk management performance are full and positive mediators between ERM and financial performance. The research results highlight the fact that the implementation of ERM in an enterprise does not by itself generate the expected effects without the existence of a mature organizational culture and the monitoring of strategic risk management performance.

AL-Mamari, AL-Ghassani, and Ahmed (2022) test the relationship between risk management practices and a bank's financial performance. The study was a quantitative study, where the quantitative data was collected via secondary data. Data collection from the annual reports of eight banks listed on the Muscat Stock Exchange (MSX). In the study, data collected was analyzed using Structural Equation Modelling (SEM) with Partial Least Square PLS Software. The findings revealed that risk management is positively meaningful while avoiding risk. The findings pointed out that risk management has a significant relationship with the return of assets (ROA). The result indicates that management has a significant influence on banks performance (ROA). Furthermore, the findings found that risk management has no significant relation to return of equity (ROE).

Bailey (2022) examines expertise in the chief risk officer (CRO) role. The author examines seven individual expertise areas, as well as broad-based expertise measures. Results show that supervisory and industry expertise of the CRO, as well as an MBA degree and internal promotion are associated with higher ERM quality. Risk and actuarial expertise are associated with higher levels of return on assets (ROA), whereas financial expertise, supervisory expertise, and an MBA degree are associated with higher levels of Tobin's Q. Broad-based CRO expertise measures are also associated with ERM quality and firm value. Additional results show that expertise in the CRO role was particularly important during the financial crisis. Findings inform investors and regulators of the importance of the individuals occupying key risk management roles within the firm and help further understanding of the determinants and benefits of high-quality ERM.

Horobet, Curea, Popoviciu, Botoroga, Belascu, and Dumitrescu (2021) proposes a new approach toward understanding the financial performance dynamics in the EU retail sector (pre-pandemic); they focus on the connection between indebtedness and solvency risk and other areas of corporate performance (e.g., liquidity, assets efficiency, and profitability). Its contribution resides in identifying the drivers behind solvency risk in a sector that went through significant transformations in recent decades, as well as the links between the various areas of performance of retailers, and their impacts on solvency risk, using the machine-learning random forest methodology. The results indicate a declining trend for solvency risk of EU food retailers after the global financial crisis and up until the beginning of the pandemic, which may reflect their maturity on the market, but also an adjustment to legal changes in the EU, meant to equalize the tax

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advantages of debt versus equity financing. Solvency risk accompanied by liquidity risk is a mark of the retail sector, and their results indicate that the most critical trade that EU retailers face is between solvency risk and liquidity but is fading over time. The volatility of liquidity levels is an important predictor of solvency risk; hence, sustaining a stable and good level of liquidity supports lower risks of financial distress, and may mitigate the shock impacts for EU retailers. A higher solvency risk was accompanied by increased efficiency of asset use, but reduced profitability levels, which led to higher returns available to shareholders for high solvency risk retailers.

Otekunrin, Eluyela, Nwanji, Faye, Howell, and Tolu-Bolaji (2021) examined the significance of enterprise risk management and listed manufacturing firms' financial performance in Nigeria using both the book-based approach and the market-based approach. Relevant ERM theories in relation to financial performance such as Agency Theory, Stakeholders Theory, and Enterprise Risk Management Theory were examined. A panel data analysis was employed on time series and cross-sectional data of thirty listed manufacturing firms in Nigeria from 2010 to 2018. The random effect of the Hausman test was found to be more appropriate and hence adopted in interpreting the results of the analysis. The results confirm the a priori expectations that profitability ratio, liquidity ratio, market-based ration to risk board committee, the board size, firm size, and directors' ownership all have varied impact on the firm's profitability with varied statistical significance levels.

Methodology and Data

Research Design and Methodology

This study employs causal and longitudinal research designs. The causal research design become necessary because the study seeks to examine the cause-effect of operational as well as credit risk management and economic value added. Specifically, the study seeks to provide evidence on the cause effect of the independent variable on the dependent variable. Similarly, the longitudinal research design will be employed because the study seeks to examine the effect of risk management on economic value added of 74 listed non-finance firms in Nigerian and 25 non-finance firms in Kenya from 2012 – 2021. The population of this study is made up of 154 non-finance firms listed on the floor of the Nigerian Exchange Group (NGX) and Nairobi Stock Exchange (NSE) as of December 31st, 2021. This covers firms in all the non-finance Global Industry Classification (GIS) which includes healthcare, energy, industrial, consumer stapples, consumer discretionary, information technology, material, communication, and real estate. Specifically, as of 31st December 2021 there were 109 listed non-finance firms in Nigeria and 45 listed non-finance firms in Kenya, the total of 154 forms the population of this study. The sample size for this study will consist of 74 listed non-finance firms in Nigeria and 25 listed non-finance firms in Kenya. These firms are selected based on the purposive sampling technique. Succinctly, 14 and 12 newly listed non-finance firms after the study period of 2012 are dropped from the population of Nigeria and Kenya respectively, 21 and 8 firms that have been suspended by the exchange because of non-availability of annual reports are also dropped from the population of Nigeria and Kenya respectively. However, the study further employs the stratified random sampling technique to ensure that all sectors from the individual country stock exchanges are represented in the sample. Based on theoretical exposition, this study modifies the model of Li and Zou (2014) to express the econometric form of the model as:

$$ECVA_{it} = \beta_0 + \beta_1 LRSK_{it} + \beta_2 MRSK_{it} + \beta_3 ERSK_{it} + \beta_4 MCAP_{it} + \mu_{it}$$

Where:

ECVA = Economic Value Added

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LRSK	=	Liquidity Risk
MRSK	=	Market Risk
ERSK	=	Equity Risk
MCAP	=	Market Capitalization
β_0	=	Constant
β_1- β_4	=	Slope Coefficient
μ	=	Stochastic disturbance
i	=	i^{th} firm
t	=	time period

Thus, our apriori expectations are stated as; X_1-X_4><0: which means that a rise in the determinant variables of liquidity risk, market risk, and equity risk will lead to a rise or fall in economic value added of listed banks in Nigeria and Kenya.

Data and Measurement

The study obtained data from the secondary source. The data are sourced from the related companies' annual financial reports for the periods as well as the Nigerian Exchange Group and Nairobi Stock Exchange Websites. In this study, the explanatory variable of risk management is measured in term of liquidity risk management (LRSK), equity risk (ERSK) and market risk (MRSK). The dependent variable of this study is economic value added (ECVA). Furthermore, in line with related extant literature, the study controls the model goodness of fit by employing the variable of market capitalization (MCAP). The table below shows the measurement of the variables.

Empirical Results and Discussion

This section of the study presents the pre-regression analysis which includes descriptive statistics. This section of the study also shows the association or level of relationship between the variables through the correlation analysis. The multiple regression estimation technique is also discussed in this chapter.

Descriptive Statistics Analyses

In this section, the study examines the descriptive statistics for both the explanatory and dependent variables of interest. Basically, each variable is examined in terms of the mean, standard deviation, maximum and minimum. Table 1 displays the descriptive statistics for the study.

Table 1: Descriptive Statistics

VARIABLES	MEAN	STAN. DEV.	MIN.	MAX.	NO OBS
ECVA	-1.25	38.72	-1218.37	1.71	990
LRSK	1.63	2.44	-6.59	38.70	990
MRSK	10.87	3.78	4.69	16.95	990
ERSK	40.09	38.11	-422.78	183.81	989
MCAP	6.72	0.98	3.95	9.64	990

Source: Author (2023)

The results from table 1 shows the descriptive statistics of the study. In the case of the dependent variable, the table shows that the mean of economic value added (ECVA) is -1.25 with a standard

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deviation of 38.72. The result implies that the firms under study in Nigeria and Kenya were under performing. The table also shows that the minimum and maximum value of economic value added was -1218.37 and 1.71 respectively. In the case of the independent variables, the result from table 1 shows that liquidity risk management (LRSK) had a mean of 1.63 with a standard deviation of 2.44. This shows that on average, the listed non-finance firms under study had a current ratio of 1.63. This appears to be below the standard of 2:1 indicating that the firms under study in Nigeria and Kenya are faced with liquidity issues. The result from the descriptive statistics also shows that the mean of market risk (MRSK) was 10.87 with a standard deviation of 3.78 implying that on average, inflation rate for both countries was about 11% during the period under investigation. We also find that the mean of equity risk (ERSK) was 40.09 with a standard deviation of 38.11 showing that on average, the ratio of equity to asset was about 40% during the period under study. In the case of the control variable, the result shows that the mean of market capitalization (MCAP) was 6.72 and a standard deviation of 0.97.

Correlation Analyses

In this study, the Spearman rank correlation is employed since the data employed does not come from a normal distribution. The result obtain from the Spearman correlation is presented.

Table 3: Correlation analysis

VARIABLES	ECVA	LRSK	MRSK	ERSK	MCAP
ECVA	1.0000				
LRSK	0.2737	1.0000			
MRSK	-0.1258	-0.0811	1.0000		
ERSK	0.3179	0.5178	-0.1767	1.0000	
MCAP	0.3987	-0.0430	-0.0288	0.0210	1.0000

A**uthor's computation (2023)**

In the case of the correlation between the risk management variables employed in this study and economic value added of listed firms in Nigeria and Kenya, the results obtain from the Spearman rank correlation above shows that some of our risk management proxied exhibits negative association with the dependent variable of economic value added while some exhibit positive association with the dependent variable of economic value added during the period under study. Specifically, we find that there exists a negative association between the independent variable of market risk (-0.1258) and the dependent variable of economic value added during the period under study. However, the result shows that the independent variable of liquidity risk management (0.2737) has a positive association with the dependent variable of economic value added during the period under study. We also find that the independent variable of equity risk (0.3179) has a positive association with the dependent variable of economic value added during the period under study. In the case of the control variable, the result reveals that market capitalization (0.3987) has a positive association with the dependent variable of economic value added during the period under study. All associations are seen to be weak, hence, there is no room to suspect the presence of multicollinearity among the variables under study.

Multivariate Regression Analysis of Risk Management and Economic Value Added

This section of the study examines the regression analyses of the effect of risk management on the economic value added of listed non-firms in Nigeria and Kenya. Specifically, in order to test the

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hypotheses of the study, a combine regression estimation of both countries is carried out. This study employed the pool OLS results and proceeded to validate the estimates of the OLS results. The results obtained are presented in table 4.

Table 3: Multivariate Regression Analyses

Panel A: Combine Sample: Nigeria and Kenya				
	ECVA Model (Pool OLS)	ECVA Model (Fixed Effect)	ECVA Model (Random Effect)	ECVA Model (Hierarchical Regression)
CONS.	-0.404 {0.000} ***	-0.647 {0.000} ***	-0.409 {0.000} ***	-0.404 {0.000} ***
LRSK	0.002 {0.338}	0.001 {0.713}	0.002 {0.420}	0.002 {0.338}
MRSK	-0.004 {0.027} **	-0.004 {0.037} **	-0.004 {0.022} **	-0.004 {0.027} **
ERSK	0.001 {0.000} ***	0.001 {0.000} ***	0.001 {0.000} ***	0.001 {0.000} ***
MCAP	0.055 {0.000} ***	0.095 {0.000} ***	0.057 {0.000} ***	0.055 {0.000} ***
F-Stat/W-Stat	34.86 {0.0000}	15.67 (0.0000)	165.57 (0.0000)	34.86 {0.0000}
R- Squared	0.1759	0.0964	0.0911	0.1759
VIF Test	1.94			
Hettero. Test	724.95 {0.0000}			
FE/RE		YES {1.85 (0.0000)}	YES {1756.37 (0.0000)}	
Hausman		8.89 {0.0639}		

*Note: (1) bracket {} are p-values; (2) **, ***, implies statistical significance at 5% and 1% levels respectively*

Table 4 represents the result obtained from the multivariate regression analyses for this study. From the table it is observed from the pool OLS regression that the R-squared value of 0.1759 shows that about 18% of the systematic variations in economic value added of the pooled non-finance firms in Nigeria and Kenya were jointly explained by the independent and control variables in the model. This implies that about 82% of the changes in economic value added could not be explained by the variables. The unexplained part of economic value added can be attributed to the exclusion of other independent variables that can affect economic value added but were captured in the error term. Furthermore, the F-statistic value of 34.86 and the associated p-value of 0.0000 shows that the specified model for the non-finance's sample on the overall is statistically significant at 1% level. This means that the regression model is valid and can be used for statistical inference.

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However, the study conducts some post regression tests to further ascertain the validity of the pool OLS regression. These tests include multicollinearity and heteroscedasticity. Specifically, as indicated in the table above, a mean VIF value of 1.94 shows that the mean VIF is within the benchmark value of 10, this indicates the absence of multicollinearity, and this means no independent variable should be dropped from the model. The result obtained from the regression of the model as shown in the table above reveals that the probability value of the heteroscedasticity test is significant at 1% level {724.95 [0.0000]}. This result indicates that the assumption of homoscedasticity has been violated. However, the study re- specifies the model to control for this violation by employing the panel fixed and random effect regression as recommended by Greene (2009).

Panel Fixed and Random Effect Regression

Specifically, in this study, the F-statistic and Wald-statistic value {15.67 (0.0000) and 165.57 (0.0000)} for fixed and random effect regression respectively shows that both models are valid for drawing inference since they are both statistically significant at 1%. Furthermore, in the case of the coefficient of determination (R-squared), the results from the panel regression shows that the R-Squared value of 0.0964 and 0.0911 for fixed and random effect regression respectively shows that about 10% and 9% of the systematic changes in economic value added of the pooled non-finance firms in Nigeria and Kenya was jointly explained by the independent variables in both models respectively. The unexplained part of economic value added can be attributed to the exclusion of other independent variables that can affect economic value added but were captured in the error term. The study also conducted the Hausman specification test to decide which of the models is most preferred statistically for interpretation in this study.

Hausman Specification Test

The Hausman is based on the null hypothesis that the random effect model is preferred to the fixed effect model. Specifically, a look at the p-value of the Hausman test {8.89 [0.0639]} implies an insignificant result at neither 1% nor 5% level of significance. This implies that the study should adopt the random effect panel regression results in drawing the conclusion and recommendations. This also implies that the random effect results tend to be more appealing statistically when compared to the fixed effect. Following the above, the discussion of the random effect results became imperative in testing the hypotheses. However, random effects in itself are a problem due to the presence of effects arising unobserved heterogeneity. Hence, the study employs Hierarchical Regression to control the unobserved heterogeneity in the random effect regression.

Hierarchical Regression

Researchers are often interested in testing theoretical assumptions and examining the influence of several predictor variables in a sequential way, such that the relative importance of a predictor may be judged on the basis of how much it adds to the prediction of a criterion, over and above that which can be accounted for by other important predictors. As Cohen, (2008) and Wampold & Freund, (1987) noted, hierarchical regression has been designed to test such specific, theory-based hypotheses. In hierarchical regression, the focus is on the change in predictability associated with predictor variables entered later in the analysis over and above that contributed by predictor variables entered earlier in the analysis. Change in R^2 (ΔR^2) statistics are computed by entering

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predictor variables into the analysis at different steps. A predetermined, theoretically based plan for the order of predictor variable entry, held at the discretion of the researcher, is imposed on the data. Statistics associated with predictor variables entered in later steps are computed with respect to predictor variables entered in earlier steps. Thus, ΔR^2 and its corresponding change in F (ΔF) and p-values are the statistics of greatest interest when using hierarchical regression (Wampold & Freund, 1987). The corresponding ΔF value for ΔR^2 would allow a researcher to determine if the ΔR^2 statistics significantly improve the model's ability to predict the effect of the independent variable on the dependent variable. With a focus on ΔR^2, rather than on β or structure coefficients (Courville & Thompson, 2001; Thompson & Borrello, 1985), less attention is given to how predictor variables are re-evaluated on the basis of their corresponding βs and structure coefficients when other predictors are added to the analysis, as was often done in stepwise regression. Based on this, the study employed the hierarchical regression for policy interpretation regarding the effect of risk management on economic value added of listed non-finance firms in Nigeria and Kenya. Before testing the study's hypotheses, we test for the robustness of our results to the different country samples, and the result is presented in table 5.

Specific Country Regression Analyses

Specifically, to examine the sensitivity of the regression estimates, the study splits the samples into specific countries in order to investigate the cause-effect relationships between the dependent variables and independent variables. This study employed the pool OLS results and proceeded to validate the estimates of the OLS results. The result obtain are presented below.

Table 4: Specific Country Regression Results

Panel B: Nigeria					Panel C: Kenya			
	ECVA Model (Pool OLS)	ECVA Model (Fixed Effect)	ECVA Model (Random Effect)	ECVA Model (LSDV Regression)	ECVA Model (Pool OLS)	ECVA Model (Fixed Effect)	ECVA Model (Random Effect)	ECVA Model (LSDV Regression)
CONS.	-0.361 {0.000} ***	-0.367 {0.095}	-0.357 {0.000} ***	-0.212 {0.273}	-0.546 {0.000} ***	-1.433 {0.000} ***	-0.644 {0.000} ***	-0.212 {0.000} ***
LRSK	0.005 {0.158}	0.001 {0.689}	0.003 {0.264}	0.001 {0.689}	-0.006 {0.232}	-0.012 {0.155}	-0.005 {0.404}	-0.012 {0.155}
MRSK	-0.005 {0.052} **	-0.005 {0.028} **	-0.005 {0.039} **	-0.005 {0.028} **	0.004 {0.482}	0.009 {0.092}	0.005 {0.363}	0.009 {0.092}
ERSK	0.002 {0.000} ***	0.001 {0.000} ***	0.001 {0.000} ***	0.001 {0.000} ***	0.001 {0.000} ***	0.001 {0.009} **	0.001 {0.001} **	0.001 {0.009} **
MCAP	0.049h {0.000} ***	0.054 {0.088}	0.050 {0.000} ***	0.054 {0.088}	0.073 {0.000} ***	0.203 {0.000} ***	0.087 {0.000} ***	0.203 {0.000} ***

F-Stat/W-Stat	24.46 {0.0000}	11.30 (0.0000)	120.49 (0.0000)	3.56 (0.0000)	15.39 {0.0000}	10.11 (0.0000)	65.98 (0.0000)	6.59 (0.0000)
R-Squared	0.1672	0.0934	0.0898	0.2996	0.2762	0.2176	0.1749	0.4757
VIF Test	1.93				1.22			
Hettero. Test	565.88 {0.0000}				62.56 {0.0000}			
FE/RE		YES {1.70 (0.0004)}	YES {1007.71 (0.0000)}			YES {3.46 (0.0000)}	YES {751.71 (0.0000)}	
Hausman		10.70 {0.0301}				26.11 {0.0002}		

Note: (1) bracket {} are p-values; (2) **, ***, implies statistical significance at 5% and 1% levels respectively

The table above represents the results obtained from the country-specific regression for this study. In the case of Nigeria (panel B), it is observed from the pool OLS regression that the R-squared value of 0.1672 shows that about 17% of the systematic variations in economic value added of the pooled non-finance firms in Nigeria were jointly explained by the independent and control variables in the model. This implies that about 83% of the changes in economic value added could not be explained by the variables. The unexplained part of economic value added can be attributed to the exclusion of other independent variables that can affect economic value added but were captured in the error term. Furthermore, the F-statistic value of 24.46 and the associated p-value of 0.0000 shows that the specified model for the non-finance's sample on the overall is statistically significant at 1% level. This means that the regression model is valid and can be used for statistical inference.

In the case of Kenya (panel C), it is observed from the pool OLS regression that the R-squared value of 0.2176 shows that about 22% of the systematic variations in economic value added of the pooled non-finance firms in Kenya were jointly explained by the independent and control variables in the model. This implies that about 78% of the changes in economic value added could not be explained by the variables. The unexplained part of economic value added can be attributed to the exclusion of other independent variables that can affect economic value added but were captured in the error term. Furthermore, the F-statistic value of 15.39 and the associated p-value of 0.0000 shows that the specified model for the non-finance's sample on the overall is statistically significant at 1% level. This means that the regression model is valid and can be used for statistical inference. However, to further validate the estimates of the pool OLS results for both models in both countries, this study also tests for multicollinearity and heteroscedasticity.

The result from the VIF test shows a mean value of 1.93 and 1.22 for the sample countries in Nigeria and Kenya respectively. Specifically, the result shows that the mean VIF is within the benchmark of 10 in line with the position of Gujurati (2004) indicating the absence of multicollinearity and further show that none of the independent variables should be dropped from the models respectively. The test of the assumption of homoscedasticity of the pool OLS is conducted using the Breusch Pagan module in Stata 14. The result shows a chi2 value of 565.88 with a p-value of 0.0000 as well

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as 62.56 with a p-value of 0.0000 for the sample in Nigeria and Kenya respectively. The result shows a significant p-values indicating that the assumption of homoscedasticity of the pool OLS regression results have been violated. Hence, the study re- specifies the model to control for this violation by employing the twin panel regression of fixed and random effects as recommended by Greene, (2003).

For the sample firms in Nigeria, the F-statistic and Wald-statistic value {11.30 (0.0000) and 120.49 (0.0000)} for fixed and random effect regression respectively shows that both models are valid for drawing inference since they are both statistically significant at 1%. Furthermore, in the case of the coefficient of determination (R-squared), the results from the panel regression shows that the R-Squared value of 0.0934 and 0.0898 for fixed and random effect regression respectively shows that about 9% and 9% of the systematic changes in economic value added of the pooled non-finance firms in Nigeria was jointly explained by the independent variables in both models respectively. The unexplained part of economic value added can be attributed to the exclusion of other independent variables that can affect economic value added but were captured in the error term. For the sample firms in Kenya, the F-statistic and Wald-statistic value {10.11 (0.0000) and 65.98 (0.0000)} for fixed and random effect regression respectively shows that both models are valid for drawing inference since they are both statistically significant at 1%. Furthermore, in the case of the coefficient of determination (R-squared), the results from the panel regression shows that the R-Squared value of 0.2762 and 0.2176 for fixed and random effect regression respectively shows that about 28% and 22% of the systematic changes in economic value added of the pooled non-finance firms in Nigeria was jointly explained by the independent variables in both models respectively. The unexplained part of economic value added can be attributed to the exclusion of other independent variables that can affect economic value added but were captured in the error term. However, to decide on the regression technique to rely on for interpretation and policy recommendation between the fixed and the random effect regression for the respective countries, the Hausman Specification test is employed.

Specifically, a look at the p-value of the Hausman test implies a 5% level of significance. This implies that the study should adopt the fixed effect panel regression results in drawing the conclusion and recommendations. This also implies that the fixed effect results tend to be more appealing statistically when compared to the random effect. Following the above, the discussion of the fixed effect results became imperative in testing the hypotheses for the specific country sample. However, fixed effect in itself is a problem due to the present of time and cross sectional effect that leads to unobserved heterogeneity. Hence, the study employed the Least Square Dummy Variable Regression to control for the unobserved heterogeneity in the fixed effect regression.

Discussion of Findings

Our findings shows that liquidity risk management has a statistically insignificant effect on economic value added of listed non-finance firms in Nigeria and Kenya combine. The result implies that liquidity risk management has a positively statistically insignificant effect on economic value added of listed non-finance firms in Nigeria and Kenya during the period under study. Furthermore, the result from the country specific regression shows that liquidity risk management has a statistically insignificant effect on economic value added of listed non-finance firms in Nigeria and a statistically insignificant effect on economic value added of listed non-finance firms in Kenya implying that liquidity risk management insignificantly improve the economic value added of listed non-finance firms in Nigeria and insignificantly decrease economic value added for our sample firms in Kenya. Otekunrin *et al.,* (2018) observed that liquidity management is principally a cost-

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benefit trade-off, in that financial institution in its analytical process will evaluate their funding capacity provided the prevailing market prices will not hinder their ability to pay, or the decision to sell its assets. They further contended that companies in their capacity can hold stock of liquid assets so as to enhance adequate liquidity, although at the expense of little yields. The availability of liquid assets attracts opportunity cost that the company will stand to benefit, as the return on asset is lesser than the productive return on investment, but transaction cost may exist as the company engages in the sale or purchase of financial assets which are tax disadvantageous. Our finding is against those of Shenir, Sum, Shaorong, Atta and Hussain (2019), Tafri et al. (2009) and Khouri (2011) who documented positive and significant result and also in disagreement with the findings of Sattyamoorthy et al (2020), Shen, Chen, Kao and Yeh (2009), Dimitropuolos, Asteriou and Koumanakos (2010), Tabari, Ahmadi and Emami (2013), Al-Khouri (2011), Li yugi (2007) who found negative effect but agrees with the results of Tumin (2011) that recorded insignificant result. Our empirical Findings shows that market risk management has a statistically significant effect on economic value added of listed non-finance firms in Nigeria and Kenya combine. The result implies that market risk management has a negatively statistically significant effect on economic value added of listed non-finance firms in Nigeria and Kenya during the period under study. Furthermore, the result from the country specific regression shows that market risk management has a statistically significant effect on economic value added of listed non-finance firms in Nigeria and a statistically insignificant effect on economic value added of listed non-finance firms in Kenya implying that market risk management significantly decrease the economic value added of listed non-finance firms in Nigeria and insignificantly improve economic value added for our sample firms in Kenya. Market risk is inherent in every business and thus proper risk management strategies must be put in place to balance off risk and returns minimizing negative effects on financial performance (Mudanya & Muturi, 2018). Fluctuations of the market cause losses of income generated from the assets held for investment and lead to the poor financial performance of the organization (Aykut, 2016). In times of global financial crisis like in 2007, market risks affected the operation of the whole market and could not be avoided or mitigated by holding a certain portfolio (Ahmet, 2016). An increase in exchange rate leads to an increase in interest rates, which results in an increase in borrowing costs. In this instance, cash sales are preferred over forward sales. Hence, the rise in prices of imported goods negatively affected firms' financial status. Not only rise in the exchange rate but also inflation increased the interest rates, which resulted in an increase in loan utilization fees (Pabuçcu & Ayan, 2017).

Finally, we show that equity risk management has a statistically significant effect on economic value added of listed non-finance firms in Nigeria and Kenya combine. The result implies that equity risk management has a positively statistically significant effect on economic value added of listed non-finance firms in Nigeria and Kenya during the period under study. Furthermore, the result from the country specific regression shows that equity risk management has a statistically significant effect on economic value added of listed non-finance firms in Nigeria and a statistically significant effect on economic value added of listed non-finance firms in Kenya implying that equity risk management significantly improve the economic value added of listed non-finance firms in Nigeria and significantly improve economic value added for our sample firms in Kenya. The agency cost theory is premised on the idea that the interests of the company's managers and its shareholders are not perfectly aligned. In their seminal paper Jensen and Meckling (1976) emphasized the importance of the agency costs of equity arising from the separation of ownership and control of firms whereby managers tend to maximize their own utility rather than the value of the firm. These conflicts may occur in situations where managers have incentives to take excessive risks as part of risk shifting investment strategies. This leads us to Jensen's (1986) "free cash flow theory" whereas stated by Jensen (1986) "the problem is how to motivate managers to disgorge the cash rather than investing it below the cost of capital or wasting it on organizational inefficiencies." Thus, high debt ratios may be used as a disciplinary device to reduce managerial cash flow waste through the threat of liquidation (Grossman and Hart, 1982) or through pressure to generate cash

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flows to service debt (Jensen, 1986). In these situations, debt will have a positive effect on the value of the firm. Agency costs can also exist from conflicts between debt and equity investors. These conflicts arise when there is a risk of default. The risk of default may create what Myers (1977) referred to as an "underinvestment" or "debt overhang" problem. In this case, debt will have a negative effect on the value of the firm.

Conclusion and Recommendation

The economies of Sub-Saharan African countries are characterized by market-friendly trends such as privatization, reorganization of enterprises, price and currency liberalization, trade liberalization, reforms, and the expansion of the banking and financial sector. Hence, companies in Sub-Saharan Africa are distinguished by their substantial market size and advantageous geographic location. Due to the low cost of labor, the prospect of generating new markets, and the ability to increase their competitive position through foreign production, business environments in the Sub-Saharan African region are becoming increasingly attractive for investment. We investigate the effect of risk management on economic value added by employing samples from listed non-finance firms on the floor of the Nigerian Exchange Group and Nairobi Stock Exchange from 2012 to 2021. We conclude that liquidity risk management has a statistically insignificant effect on economic value added of listed non-finance firms in Nigeria and Kenya combine. Furthermore, the result from the country specific regression shows that liquidity risk management has a statistically insignificant effect on economic value added of listed non-finance firms in Nigeria and a statistically insignificant effect on economic value added of listed non-finance firms in Kenya. We also conclude that market risk management has a statistically significant effect on economic value added of listed non-finance firms in Nigeria and Kenya combine. Furthermore, the result from the country specific regression shows that market risk management has a statistically significant effect on economic value added of listed non-finance firms in Nigeria and a statistically insignificant effect on economic value added of listed non-finance firms in Kenya. Finally, we conclude that equity risk management has a statistically significant effect on economic value added of listed non-finance firms in Nigeria and Kenya combine. Furthermore, the result from the country specific regression shows that equity risk management has a statistically significant effect on economic value added of listed non-finance firms in Nigeria and a statistically significant effect on economic value added of listed non-finance firms in Kenya.

Generally, the study advocates that management of non-finance firms and regulatory authorities in Nigeria and Kenya should pay more attention to companies' compliance to relevant provisions of the law and prudential guidelines with respect to risk management. However, based on the specific objectives, the following recommendations are made in this study. We recommend that since liquidity risk management is principally a cost-benefit trade-off, management of listed non-finance firms should evaluate their funding capacity provided the prevailing market prices will not hinder their ability to pay, or the decision to sell its assets. Companies in their capacity can hold stock of liquid assets so as to enhance adequate liquidity, although at the expense of little yields. We recommend that firms should ensure that proper market risk management strategies is put in place to balance off risk and returns minimizing negative effects on financial performance, since fluctuations of the market cause losses of income generated from the assets held for investment and lead to the poor financial performance of the organization. Firms should devise strategies on how to motivate managers to disgorge the cash rather than investing it below the cost of capital or wasting it on organizational inefficiencies. Thus, high debt ratios may be used as a disciplinary device to reduce managerial cash flow waste through the threat of liquidation or through pressure to generate cash flows to service debt.

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