

Enterprise Risk Management Implementation and Corporate Performance of Nigerian Consumer Goods Firms

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Abstract

The study investigates the linkage of Enterprise Risk Management (ERM) implementation maturity and the performance of listed Consumer Goods companies in Nigeria, an industry that is faced with high levels of foreign exchange volatility, inflation and supply chain disruptions. A quantitative, longitudinal panel data design was used in this study involving five high capitalization consumer goods companies (BUA Foods Plc, Nigerian Breweries Plc, Nestlé Nigeria Plc, Guinness Nigeria Plc, and Champion Breweries Plc) over five years (from 2019 to 2023). By content analysis of annual reports and corporate governance disclosures, a Composite ERM Implementation Index was developed, which included three elements: Risk Identification (RI), Risk Assessment (RA), Risk Monitoring & Control (RMC). The three dimensions for determining the corporate performance were market capitalization, Return on Assets (ROA) and Earnings per Share (EPS). The panel fixed effects regression models were estimated after adjusting for firm size and financial leverage. The composite ERM index exhibits significant positive effects on market capitalization ($\beta = 0.342, p < 0.01$), ROA ($\beta = 0.287, p < 0.05$), and EPS ($\beta = 0.315, p < 0.01$). The individual components that most significantly influence the test variables are Risk Monitoring & Control, with the positive effect of $\beta = 0.408 (p < 0.01)$ for EPS and consistent with Agency Theory; Risk Assessment with the positive effect of $\beta = 0.376 (p < 0.01)$ for ROA, and moderated by firm size, and on market capitalization there is a positive effect of Risk Identification, with $\beta = 0.298 (p < 0.05)$. The relationship between financial leverage and RA-EPS is negative and statistically significant ($\beta = -0.189$ at 5% level of significance), suggesting that debt restrictions weaken the RA-EPS relationship. The integrated ERM index accounts for between 47.3% and 62.4% of the variance in performance within firms. The study findings were that the managers should focus on implementing integrated ERM instead of standalone ERM, in addition to monitoring the risk continually and controlling them to keep earnings stable and to boost the shareholder's value. Moderating effect of leverage indicate that high leverage firms might require customized ERM practices.

Keywords: Enterprise Risk Management, Corporate performance, Consumer goods sector, Composite ERM Index, Nigeria.

Introduction

The Nigerian consumer goods industry is one of the most complex and economically important industries in the nation's economy. The sector directly supports a population of over 220 million in total, with estimates reaching over 260 million by 2030 (World Bank, 2023), and includes companies involved in manufacturing, processing and distributing fast-moving consumer goods (FMCG), durable goods and food and beverages. The flagship companies like Nigerian Breweries Plc, Nestlé Nigeria Plc, Dangote Sugar Refinery Plc and Unilever Nigeria Plc together make up a significant part of the Nigerian Exchange Group (NGX) market capitalization and are considered as indicators of the industrial and macroeconomic activities of Nigeria (Adeoye & Amasuomo, 2022).

The Nigerian consumer goods industry has a strategic significance, but struggles with chronic and multidimensional risks. Operational planning and margin management are limited by macroeconomic instability as manifested in foreign exchange (FX) volatility, double-digit inflation and inconsistent monetary policy. The inflation head rate in Nigeria as at December 2023 was recorded at 28.92%, the highest in 27 years, which is having a significant impact on the consumer purchasing power and reducing the real sales volume of the sector (National Bureau of Statistics [NBS] 2024). Meanwhile, a shortage of foreign exchange has driven up the prices of imported raw materials, and machinery, which has increased the margin compression of import dependent producers (Eze et al., 2023). Additionally, logistical inefficiencies and infrastructure gaps in power supply and transportation add to the high operational costs and logistics difficulties.

But it was the Nigerian companies who used to deal with these risks in isolated and reactive ways, generally called Traditional Risk Management (TRM). In this model, the financial risk is managed by the treasury teams, operational risk is managed by production teams, and compliance risk is managed by regulatory affairs teams, without a centralized risk aggregation, correlation or communication to the strategic decision makers (COSO, 2017). The outcome is a governance system that is risk-blind to systemic interdependencies and thus leaves firms vulnerable to the cascading shocks that cross functional boundaries.

Fragmented risk governance has been replaced by Enterprise Risk Management (ERM). The Committee of Sponsoring Organizations of the Treadway Commission (COSO, 2017, p. 7) defines ERM as: The culture, capabilities and practices, integrated with the organization's strategy-setting and performance, that the organization depends upon to manage risk in creating, preserving and realizing value. ERM is holistic, forward-looking, enterprise wide and helps to identify, assess, respond, monitor and control enterprise-wide risks in a systematic and strategic way, unlike TRM. Empirical evidence from developed and emerging markets confirms that ERM-adopting firms have lower earnings volatility, better capital allocation and greater confidence among stakeholders (Florio & Leoni, 2022; Grace et al., 2022; Hoyt & Liebenberg, 2011). Despite the international level findings, empirical evidence of ERM and performance in the non-financial sector in Nigeria is still sparse, sector specific and limited in methodological approach. Most Nigerian studies are either conceptual but with no empirical testing or use primitive measure like the presence of a Chief Risk Officer, which does not measure sophistication of ERM (Bello & Suleiman, 2023). The consumer goods industry, in particular, is a sector which is especially vulnerable to FX risk, supply chain disruptions, inflationary shocks and regulatory uncertainty, none of which received any attention in this literature. This study fills this gap by creating a Composite ERM Implementation Index, which operationalizes ERM as a multidimensional construct comprising of three components: Risk Identification, Risk Assessment, and Risk Monitoring & Control, and empirically testing the individual and combined effects of these three on three dimensions of corporate performance – market capitalization, return on assets (ROA), and

earnings per share (EPS) among listed Nigerian consumer goods firms between 2019 and 2023. The moderating variables are tested as firm size and financial leverage.

Statement of the Problem

ERM as a strategic element of corporate resilience is very superficial and sporadic in the Nigerian consumer goods industry. The majority of companies treat risk in functional silos, with the functional treasury, operations and compliance teams working at odds without a collaborative enterprise-wide risk strategy and approach that incorporates whole-of-organization risk exposure (Akinola & Yusuf, 2024). The lack of empirical evidence in the sector to measure the financial impact of ERM has compounded this structural issue.

Some controversial questions have yet to be answered: Is there an improvement in market capitalisation with a sophisticated ERM system (as measured by a composite index)? Are the individual elements of ERM Risk Identification, Risk Assessment and Risk Monitoring & Control different with respect to accounting performance (ROA) and investor returns (EPS)? Are the effects of ERM moderated by some of its firm-specific attributes (e.g., size, leverage)? The present study aims at bridging the gap in managerial practices and academic knowledge arising from these questions that remain unanswered.

Research Objectives

The general objective of this study is to evaluate the association between the organizational Maturity of implementation of ERM and corporate performance of listed Nigerian consumer goods companies.

Conceptual Review

The Evolution of Risk Management

In the last 30 years, organizational risk management has gone from being a specific insurance and loss-prevention function to a strategic discipline for the entire organization. Traditional Risk Management (TRM) defined the boundaries of risks separately from one another, financial risk in treasury, operational risk in production management and compliance risk in regulatory affairs—an organization's logic of functional specialization that was prevalent for most of the twentieth century (Fraser & Simkins, 2022; Mikes & Kaplan, 2022). This siloed architecture was unable to view interdependencies in risk, leaving systemic blind spots that facilitated correlated shocks crossing functional boundaries unchecked.

The limitations of TRM were clearly revealed by a series of global shocks that included the financial crisis of 2008, the Covid-19 pandemic, geopolitical wars and climate-related supply chain shocks, all of which showed that risks are not confined within functional and technological borders, and that "breakdowns" (Beasley et al., 2023) occur when responses are reactive and compartmentalized. The crises created a new paradigm of governance, known as Enterprise Risk Management.

ERM, as defined by the Committee of Sponsoring Organizations of the Treadway Commission (COSO, 2017), redefines risk management as a proactive risk management capability, embedded in an organization's strategy and performance, and one that creates value rather than simply minimizes losses. COSO (2017, p. 7) defines ERM as 'the culture, capabilities and practices, that are integrated into strategy-setting and performance, on which the organization relies to manage risk in creating, preserving and realizing value'. This definition captures the paradigmatic change – rather than being seen as an adversarial aspect of the problem to be avoided, risk is now viewed as a navigable aspect of strategic decision-making (Hoyt & Liebenberg, 2011; McShane et al., 2011).

The results of the empirical studies are consistent with the benefits of this transition. Eckles, Hoyt and Miller (2014) showed that companies with advanced ERM systems have less

earnings volatility and better downside risk coverage. Florio and Leoni (2022) conducted a meta-analysis of more than 80 studies, which they found to have a robust positive correlation between ERM adoption and profitability (ROA, ROE) and firm value (Tobin's Q), especially among non-financial firms facing high uncertainty conditions. In emerging economies, the macroeconomic, political and institutional risks are higher, which leads to higher marginal benefits from ERM (Umar and Sun 2023).

Risk Identification

The first step in a successful ERM program is risk identification. It is a systematic, ongoing activity of identifying and recording internal and external events that can positively or negatively impact the organization's ability to meet its objectives and goals at strategic, operational, financial, compliance, environmental and reputational levels (ISO 31000:2018). Effectiveness in all other ERM processes is directly related to the comprehensiveness and quality of risk identification; if the risks aren't identified, they can't be assessed, controlled, and monitored (Fraser & Simkins, 2022).

In Nigeria, consumer goods companies face significant macroeconomic volatility, regulatory uncertainty and competition from both large multinational companies and nimble local competitors when it comes to risk identification. One of the most noteworthy risks is the foreign exchange rate instability, especially because the sector is heavily reliant on imported raw materials, packaging materials, and capital equipment (Eze et al., 2023). In this context, risk identification demands the use of a combination of methodologies such as SWOT and PESTEL analysis, risk registers, scenario planning, stress tests, and others, which can reveal both typical and tail risks (Kraus et al., 2022).

The literature highlights that the identification of good risks should not be an ad hoc process, but should become an institutionalized and integrated process into strategic planning, operational review and monitoring of environmental conditions (Adegbite et al., 2022). The firms that integrate the identification of risk into their performance and strategy reviews have better adaptive capacity and risk cognisance (Umar & Sun, 2023). In investor perception terms, a firm's proven ability to identify systematic risk demonstrates that it is "governance-mature" and that management is "future-oriented" and this can improve market valuation (Baxter et al., 2013).

Risk Assessment

After identifying risks, risk assessment involves converting these risk factors into a systematic understanding of how likely they are and how much impact they may have, and allowing management to priorities risks according to their strategic importance. The risk assessment process can be broken down into two main parts: risk analysis and risk evaluation. Risk analysis involves the assessment of the likelihood and severity of risk impacts, while risk evaluation involves comparing the estimated risks with the organizational risk appetite and tolerance levels to decide on the risk response (Akinola & Yusuf, 2024).

There are a variety of assessment methods in the literature, ranging from qualitative expert-judgment methods (e.g., risk matrices, probability-impact grids) to quantitative methods (e.g., value-at-risk, scenario analysis, sensitivity analysis) (Eckles et al., 2014). Qualitative techniques are useful in situations when data is limited, but quantitative techniques are objective, comparable and have a certain amount of time precision, which helps to better support strategic decisions. Given the scarcity of capital and managerial resources in Nigeria, a careful risk assessment is essential to achieve the optimal use of resources and ensure that investments in risk mitigation are focused on risks with the maximum overall effect on the performance of the firm (Umar & Sun, 2023).

As far as performance is concerned, a comprehensive risk assessment allows the management to ensure the continuity of operations, to preempt vulnerabilities of the supply chain, and to ensure the productivity of the assets directly impacting ROA. Companies that have a formalized risk assessment system exhibit better earnings stability and more stable asset utilisation, especially when the macroeconomic environment is stressed (Florio & Leoni, 2022). In addition, the governance aspect of risk assessment plays a crucial role: consistent risk assessment and documentation boost board accountability and strengthen the quality of the strategic options at the disposal of senior management (Beasley et al., 2023).

The risk monitoring and control

The dynamic and adaptive aspect of ERM is Risk monitoring and control, which involves ongoing monitoring of identified and assessed risks and maintaining effective management responses as conditions change and risks evolve. Monitoring and control can be ongoing rather than identification and assessment, which can occur at specific times. Monitoring and control will involve real-time or near real-time surveillance of risk indicators, emerging risks and the effectiveness of current controls (COSO, 2017).

Adopting effective risk monitoring allows companies to move beyond crisis management to risk governance, where the company becomes proactive and is able to identify the risk in the early stages before it becomes operational problems. Policy procedures, process controls, operational hedging and insurance instruments are all important controls that need to be regularly reviewed and updated to mitigate for the 'active obsolescence' of controls that may become ineffective due to changing risk drivers (Fraser & Simkins, 2022).

Effectiveness of ERM is at the heart of the governance dimension of monitoring and control. The formation of dedicated risk committees, formal risk reporting systems and the inclusion of risk management at board level brings risk management to the top of the organisational decision-making process, which enhances accountability and investor confidence (Florio & Leoni, 2022). Given Nigeria's volatility in macroeconomic policy: exchange rate fluctuations, inflation episodes, and policy changes, the need for adaptive monitoring mechanisms to safeguard earnings and EPS stability is crucial (Umar & Sun, 2023).

Corporate Performance

Current studies of management and finance have pointed to the fact that the performance of a company is a multi-dimensional phenomenon and reliance on any single measure will lead to an incomplete and possibly incorrect appraisal of organisational results (Richard et al., 2009; Truong & Dong, 2022). This study translates the concept of corporate performance into three synergistic dimensions.

Market Capitalisation (valued at share price times outstanding shares) represents the forward-looking valuation given to a firm's risk adjusted future earnings by capital market participants. It is especially sensitive to the quality of governance, the transparency of risk management and strategic credibility. The Nigerian capital market is a market of information asymmetry with fluctuating investor confidence, thus, the market capitalisation is a complete measure of perceived quality of a firm as it is determined by firm disclosure as well as macroeconomic signals (Adegbite et al., 2022; Truong & Dong, 2022).

Return on Assets (ROA) is an accounting ratio of net income to average total assets, which measures the ability of the company's managers to use its assets to create net income, regardless of the ways the capital structure is configured. The ROA is an important measure of operational effectiveness and cost discipline (Chukwu & Agu, 2023) in industries that require significant capital investment like the production of consumer goods in which asset productivity is a direct determinant of the competitive position.

An investor-oriented performance measure, Earnings Per Share (EPS) is most directly linked to the equity valuation and dividend policy decisions. However, in the Nigerian capital market, which is characterized by high information asymmetry, an increase in EPS indicates managerial competency and financial sustainability, making it an attractive investment to long term investors (Folami & Adegbite, 2022). The combination of market capitalisation, ROA, and EPS offers a comprehensive assessment of company performance, encompassing market valuation, operational efficiency, and profitability.

The Nigerian Consumer Goods Sector Risk Environment:

There are exceptional complexities in the Nigerian consumer goods sector operating in a risk landscape that encompasses the interweaving of macroeconomic volatility, infrastructure shortcomings, competitive pressures, regulatory uncertainty and socio-demographic complexity. The scarcity of foreign exchange and currency depreciation is a direct negative impact on the input costs of the import dependent manufacturing firms, and limits profit margins throughout the manufacturing sector (Eze et al., 2023). A lack of infrastructure in the power grid and transport systems forces companies to internalize the costs of their personal electricity generation and transport, thus diverting funds away from productive investments and innovations (World Bank, 2023). The competitive picture is split between the financial and technological strength of the big multinationals and price and local knowledge of the agile local players. This has resulted in ongoing margin pressure on mass market segments (Folami & Adegbite, 2022). Regulatory flux, which includes a myriad of changes to fiscal policies, import restrictions, product labelling standards, and tax regimes, can create compliance risks that could lead to supply chain disruptions, operational penalties, and reputational damage for companies without adequate monitoring systems (Akinola & Yusuf, 2024). The risk characteristics of these sectors highlight the need to go beyond TRM approaches and the strategic value of an integrated ERM framework that can address the interdependent risks that shape the sector operating environment.

Theoretical Review

The analysis of this study is supported by the theory of stakeholders, Resource Based View (RBV), and Agency Theory. The different frameworks shed light on a different aspect of the ERM-performance link.

Stakeholder Theory

Freeman's (1984) Stakeholder Theory suggests that sustainable performance of the firm is dependent on the proper management of relationships with all stakeholders, including employees, customers, suppliers, creditors, regulators, communities and shareholders. Recent developments of this theory emphasize salience, legitimacy and urgency of stakeholders as factors that influence the focal company's risk management agenda (Grace et al., 2022). ERM is fully aligned with stakeholder theory because it offers a governance mechanism for proactive management of risk exposures impacting multiple stakeholder constituencies. Disruptions in production chains from operational risks impact customers and suppliers, financial risks impact investors and creditors, while environmental and compliance risks impact regulators and communities. Systematically controlling these risks adds to the firm's reputation, prevents conflict among its stakeholders, and enhances the relational trust that underpins sustained success (Lai et al., 2022). Empirically, firms that are more likely to have a strong ERM are correlated with lower compliance friction, more favorable regulatory stance, and more stable market valuations in Nigeria, where institutional voids increase stakeholder sensitivities to corporate risk management practices (Adegbite et al., 2022).

Resource-Based View Theory

The Resource Based View (RBV) of Barney (1991) provides an explanation of the variation in inter-firm performance in terms of the strategic resources and capabilities that firms have. Sustained competitive advantage resources should be valuable, rare, inimitable and non-substitutable (VRIN criteria). The RBV approach has been adapted to incorporate organizational systems and managerial skills as strategic resources, thereby elevating a sophisticated and integrated ERM framework to a new level as a distinctive and valuable organizational capability (Florio & Leoni, 2022). The key elements of ERM as a strategic resource are its integration of organizational culture, governance, information systems and cross functional management routines. ERM is an inimitability that meets VRIN criteria due to its reliance on tacit knowledge, leadership capability and learning from past experience within the organization. Capability for ERM gives companies better asset protection, strategic flexibility, and capital allocation efficiency, which directly translates into better ROA performance and earnings stability, especially in volatile emerging markets like Nigeria where companies are exposed to macroeconomic shocks due to FX volatility, inflationary pressure, and regulatory uncertainty (Eckles et al., 2014; McShane et al., 2011).

Agency Theory

According to Agency Theory (Jensen and Meckling, 1976), conflicts can occur due to the separation of ownership and control in modern corporations where the managers (agents) may have self-interested goals that differ from maximizing the shareholder's value. Opportunistic behavior within firms such as risk aversion, earnings management, and underinvestment in value-creating activities occurs due to information asymmetry between principals (shareholders) and agents (management).

ERM acts like a housekeeping service for the governance process, helping to minimize principal-agent problems by automating risk reporting, establishing consistent risk appetite frameworks, and supplying risk intelligence to boards to help them effectively oversee risk. Formalized ERM processes limit information asymmetry between management and investors, increase the predictability of the earnings and prevent the manager's opportunism (Beasley et al., 2023). The use of ERM as an alternative to external institutional governance mechanisms is of special importance in a context like Nigeria where such mechanisms are not well developed. Research on companies from Africa also suggests that companies with robust internal governance frameworks (in practice, ERM) are valued by the market and experience lower equity risk premiums (Umar & Sun, 2023).

Empirical Review

Since Hoyt and Liebenberg's (2011) seminal paper, which found that US insurance firms that had ERM programmes had about a 20% premium on Tobin's Q compared to non-adopting firms, the international research literature already contains a wealth of evidence on the relationship between ERM and firm performance. This groundbreaking discovery led to ERM's positive market valuation premium and was backed up by Baxter, Bedard, Hoitash and Yezegel (2013) who showed that positive stock market reactions to the appointment of Chief Risk Officers support the view that investor responses constitute evidence of a value-enhancing governance mechanism that is perceived as ERM.

Their work by McShane, Nair and Rustambekov (2011) offered more sophisticated evidence that argues for the role of ERM as a stabilizing mechanism, and is more likely to have an impact on risk-adjusted performance and earnings stability than absolute returns. Likewise, Eckles, Hoyt and Miller (2014) confirmed this stabilization effect by comparing Earnings volatility and downside risk coverage of firms with sophisticated ERM systems. This evidence was built on by Callahan and Soileau (2017), who found that sophistication of ERM

has a positive impact on both accounting-based and market-based performance, and Gordon, Loeb, and Tseng (2009), who established a contingent relationship where the more sophisticated the ERM, the better the returns to the firm's performance.

Florio and Leoni (2022) conducted a meta-analysis of more than 80 empirical studies, summarizing this evidence base and finding a positive relationship between ERM adoption and profitability (ROA, ROE) and firm value (Tobin's Q), especially in non-financial firms in high uncertainty environments. Wang and Lin (2019) replicated these results across countries, showing that ERM implementation improves operational efficiency and the valuation of the firm, especially in companies in which ownership was spread across a large number of shareholders. Importantly, Mikes and Kaplan (2022) cautioned against the implementation of ERM as a 'box-ticking' exercise, as they state this can only be harmful to the value attributed by ERM. Critically, Mikes and Kaplan (2022) warned against ERM being implemented as a 'box-ticking' exercise as this will only be detrimental to the value of ERM.

Findings from the African and other emerging market contexts validate ERM's positive performance association and the presence of institutional moderators affecting the ERM-performance association. Mkhize and Msweli (2021) reported that integrated risk reporting in South Africa's King IV Code is significantly positively correlated with firm valuation, thus reinforcing the positive effect of governance structures on the effectiveness of ERM. In line with this, Ntim, Lindop and Thomas (2017) also determined that good disclosure of risks leads to higher investor confidence, firm valuation and stock liquidity among South African companies. With regards to listed firms in East Africa, Owusu and Osei (2022) concluded that ERM adoption has a significant effect in improving operational effectiveness and quality of internal control in listed companies in Kenya, and Agyemang and Ansong (2017) found that the quality of internal control and profitability of the listed firms in Ghana is significantly affected by the degree of risk management organisation. Saud and Marchand (2019) showed that ERM can benefit ASEAN firms' strategic decision-making and financial stability in Asian and Latin American markets; and Quon, Zeghal and Maingot (2012) confirmed that ERM is related to corporate performance in emerging markets context with moderation effects of firm size and governance quality. To justify emerging market evidence, Umar and Sun (2023) theoretically justified that ERM is particularly useful in emerging markets due to the high baseline risk levels of macroeconomic, political, and institutional risk, as this makes the task of managing risk more valuable and strategic. This was also supported by Horvey and Odei-Mensah (2024) in the South African insurance market where they observed that the adoption of ERM has a positive relationship with the underwriting performance and ROA, and their corporate governance attributes have an impact on the effectiveness of ERM.

There is increasing empirical evidence — albeit still limited — on ERM and performance in Nigeria, which are mostly found in the financial sector. The study by Okoro & Ibe (2021) showed that the implementation of ERM significantly improves profitability and risk adjusted returns for Nigerian banks, while a study by Adebayo, Yusuf & Olatunji (2020) revealed that the adoption of integrated risk management has a positive effect on the financial stability and earnings sustainability of deposit-money banks in Nigeria. Bamigboye, Fakunle and Erin (2024) noted that ERM implementation has a significant positive effect on the earnings stability and ROA of the financial firms in Nigeria, and that the financial firms' post-ERM years saw a measurable reduction in earnings volatility. The implications of these banking-sector results are potentially problematic, however, when applied to non-financial firms. Sanusi and Izedonmi (2014) found that manufacturing and consumer goods companies have qualitatively distinct risk profiles that are not captured in designs used in research that is limited to the banking sector, such as FX exposure, vulnerability to supply chain disruptions, and volatility of consumer demand. However, both Adeoye and Amasuomo (2022) and

Onyeka and Nwakoby (2021) had offered the theoretical ERM framework for Nigerian companies, but did not empirically test the ERM for the companies.

Empirical analysis in non-financial sectors in Nigeria has been weak where it has been undertaken, with regards to the selection of proxies. Bello and Suleiman (2023) analyzed ERM as merely the existence of risk committees without examining the depth and integration of ERM processes. Akinola and Yusuf (2024) argued the need for integrated ERM frameworks, and they offered limited econometric evidence. More importantly, there has been no study based on the composite ERM implementation index in Nigeria and its relationship with the multi-dimensional performance measurement based on market based (market capitalisation), accounting based (ROA) and investor based (EPS) across the consumer goods sector.

Methodology

The research design used in this study is quantitative, explanatory research with a positivist epistemological perspective which is suitable for research that aims to describe the relationship of causality between measurable constructs that are processed with statistical analysis (Creswell & Creswell, 2018). The objective of this study is to discuss the effects of ERM implementation on corporate performance, to test the moderating effects of this study, and to give empirically based conclusions that advance theory, so that the explanatory approach is worthy of consideration. The study design is a longitudinal panel data, which is analysed across five highly capitalised consumer goods listed companies in the Nigerian Exchange Group (NGX) within 5-year period from 2019 to 2023. Panel data designs are more methodologically appealing than the cross-sectional designs because they allow for the control of unobserved firm-specific heterogeneity, the ability to account for temporal dynamics in the ERM-performance relationship, and superior efficiency of parameter estimation (Saunders et al., 2022).

Study population

The study population is made up of all Consumer goods companies listed on NGX as at 2025, according to the NSE Sectoral Report (2025), which is 24 companies across the two broad sub-sectors of the Consumer goods industry, namely: Food and beverage and Household products and Personal care. This population has been chosen for being homogenous with respect to regulatory framework, reporting requirements and market access in order to allow the consistent analysis of the results and the generalization of the analysis at sector level.

Sample/sampling technique

A purposive sampling technique was used to pick five companies based on the following: companies that reported annually, companies that were market cap leaders, and companies that had complete disclosure of environmental, social, and governance (ESG) and risk information during the study period. The five Nigerian consumer goods companies considered: BUA Foods Plc, Nigerian Breweries Plc, Nestlé Nigeria Plc, Guinness Nigeria Plc and Champion Breweries Plc are among the largest companies, most disclosure-compliant and most analytically accessible in the Nigerian consumer goods sector.

BUA's market capitalization is one of the highest in the consumer goods sector on the NGX, and the company has the largest market share for sugar, flour and edible oils. Nigerian Breweries Plc being the biggest brewing company in Nigeria has robust performance and governance data for the study period. The disclosure quality of ERM documentation is superior in the case of Nestlé Nigeria Plc, a food and beverage manufacturing multinational with high disclosure standards, and whose standards are aligned with its parent company (the International organisation). The case of Guinness Nigeria Plc shows how it has performed,

recovered and remunerated its shareholders under changing ownership, while that of Champion Breweries Plc is a testimony to the operational turnaround and the generation of returns for its shareholders.

Sources of data

As in line with the quantitative, longitudinal research design and the objective of replicability and comparability across firms and years, the study uses only secondary data sources. The following are primary data sources:

(i) Audited Annual Reports and Financial Statements (2019–2023): Providing financial metrics such as market capitalization, ROA, EPS, total assets and leverage ratios. (ii) Risk Management Reports and Corporate Governance Disclosures: Reporting of ERM elements such as the methodologies and practices used for the identification of risks, assessment of risks and monitoring and control. (iii) Sustainability and Integrated Annual Reports: Enhancing Governance disclosures with ERM policy statements, risk appetite and board risk committee reports. (iv) NGX Publications & Fact Books: Market data relating to share price & outstanding shares for market capitalization calculation.

It was decided that the 2019-2023 period would be used to observe the evolution of ERM practice in the wake of the COVID-19 pandemic and the fallout, the foreign exchange reform cycle in 2022-2023 and the implementation of the enhanced disclosure requirements by the NGX.

Measurement of variables

It was decided to operationalize ERM maturity as a multi-dimensional construct by building a Composite ERM Implementation Index. The Index consists of three sub-components:

Risk Identification (RI) is judged in terms of the existence of risk registers, documentation of scenario analysis, reports of external environmental scanning and the extent to which internal risk reporting systems are comprehensive. Items are rated on a binary or a Likert scale, and summed together to form a composite sub-index.

Risk Assessment (RA) is assessed by the formality of risk evaluation processes, the existence of probability-impact matrices, the explicitness of risk appetite statements and the integration of risk assessments into strategic planning processes.

Risk Monitoring & Control (RMC) is determined by the presence of board level risk committees and the activity of these committees, the frequency and content of management risk reporting, the level of integration of ERM in management decision making processes and the existence of formal risk escalation procedures.

The Index was developed using content analysis of corporate governance documents and the annual reports of companies, based on the ISO 31000:2018 and COSO ERM (2017) frameworks. The content validity was achieved through expert review by the risk management and corporate governance experts from Nigeria. In terms of construct validity, Exploratory Factor Analysis (EFA) was used to confirm that the items were valid, with coefficient of 0.82 (RI), 0.85 (RA), and 0.87 (RMC) which all surpassed the threshold of 0.70 as recommended by Nunnally and Bernstein (1994). On the other hand, reliability was assessed using Cronbach's alpha, which yielded coefficient of 0.82 (RI), 0.85 (RA), and 0.87 (RMC) respectively, that exceeds the threshold of 0.70 (Nunnally and Bernstein, 1994).

Market Capitalization is determined by multiplying share price with number of shares in circulation which are sourced from NGX publications and audited financial statements. ROA is derived from audited income statements and balance sheets, and expressed as net income divided by average total assets. The formula for calculating EPS is as follows: net income - preferred dividends / weighted average outstanding shares of the common shares as reported in the audited financial statements.

As in the literature on corporate governance and ERM, Firm Size is measured as the natural log of total assets (Adegbite et al., 2022). Financial Leverage is defined as the total debt/total equity ratio, which reflects financial risk and capital structure limitations that may limit the impact of ERM.

Model Specification

The basic regression model is as shown:

$$CP_{it} = \beta_0 + \beta_1 RI_{it} + \beta_2 RA_{it} + \beta_3 RMC_{it} + \beta_4 (RI \times Size) + \beta_5 (RA \times Leverage) + \epsilon_{it}$$

CP denotes corporate performance (Market Capitalisation, ROA, EPS for separate estimations of the model); RI, RA and RMC are the three ERM sub-components; Size and Leverage are control variables and moderating variables; and ϵ is the error term. Separate models are fitted for each of the performance measures and joint models for the integrated ERM Index effect.

Results and discussion

Table 1: Descriptive Statistics

Variable	Mean	Median	Std. Dev.	Minimum	Maximum
Market Capitalisation (₦ billion)	487.32	312.45	412.67	48.20	1,845.60
Return on Assets (ROA) (%)	8.74	7.92	5.63	-2.45	21.30
Earnings Per Share (₦)	6.42	5.18	4.87	-1.20	18.45
Risk Identification Index (0-10)	6.28	6.50	2.14	2.00	9.50
Risk Assessment Index (0-10)	5.94	6.00	2.31	1.50	9.00
Risk Monitoring & Control Index (0-10)	6.05	6.00	2.42	1.00	9.50
Composite ERM Index (0-30)	18.27	18.50	6.45	5.50	28.00
Firm Size (Log of Total Assets)	7.84	7.92	0.56	6.85	8.76
Financial Leverage (Debt/Equity)	1.24	1.08	0.78	0.15	3.20

The average Composite ERM Index (18.27 out of 30, c. 61% of maximum maturity) suggests that the level of ERM implementation has various degrees in the sampled firms, and there is notable dispersion (SD = 6.45). The market capitalisation is highly variable (CV = 0.85) due to the large size differences and market valuations of the individual firms. The average ROA is 8.74%, and there are firm-years with negative ROA, suggesting that there are profitability problems. The leverage range is sufficiently broad (0.15 to 3.20) for a moderation analysis.

Table 2: Pearson Correlation Matrix

Variable	MC	ROA	EPS	RI	RA	RMC	ERM	Size	Lev
Market Cap (MC)	1.00								
ROA	0.42*	1.00							
EPS	0.58**	0.67**	1.00						
Risk Identification	0.51**	0.38*	0.44*	1.00					
Risk Assessment	0.48*	0.52**	0.49*	0.72**	1.00				
Risk Monitoring	0.55**	0.46*	0.63**	0.68**	0.65**	1.00			
Composite ERM	0.56**	0.51**	0.58**	0.86**	0.85**	0.88**	1.00		
Firm Size	0.71**	0.21	0.35*	0.41*	0.38*	0.44*	0.46*	1.00	
Leverage	-0.32	-0.48*	-0.41*	-0.29	-0.35*	-0.38*	-0.37*	0.18	1.00

***p < 0.01, **p < 0.05 (two-tailed)**

There are a number of interesting correlations seen in the correlation matrix. Market Capitalisation has strong positive relationships with Composite ERM ($r = 0.56$, $p < 0.01$) and Firm size ($r = 0.71$, $p < 0.01$), this implies that larger firms with advanced ERM systems have a higher market valuation. Risk Assessment ($r = 0.52$, $p < 0.01$) shows the highest correlation

with ROA, as expected since stringent risk assessment should improve operational efficiency. The correlation between EPS and the other variables determined and tested was the highest with Risk Monitoring & Control ($r = 0.63$, $p < 0.01$), which reflects the stabilisation role of on-going risk monitoring. There is a moderate negative correlation with leverage with performance measures, meaning that firms with a high leverage ratio perform worse. The high inter-correlations between the ERM components (from 0.65 to 0.72), indicate that the components are related but different dimensions of a single construct.

Table 3: Fixed Effects Regression Results (Dependent Variable: Market Capitalisation)

Variable	Coefficient	Std. Error	t-statistic	p-value
Constant	-2.845**	1.124	-2.53	0.019
Risk Identification (RI)	0.298**	0.112	2.66	0.014
Risk Assessment (RA)	0.215*	0.118	1.82	0.081
Risk Monitoring (RMC)	0.367***	0.109	3.37	0.003
Firm Size	0.524***	0.156	3.36	0.003
Leverage	-0.145	0.098	-1.48	0.152
RI $\times$ Size	0.156**	0.068	2.29	0.031
RA $\times$ Leverage	-0.089	0.072	-1.24	0.228

R-squared = 0.624 | Adj. R-squared = 0.573 | F-statistic = 12.18

The model explains 62.4% of within-firm variation in Market Capitalisation. Risk Monitoring & Control exhibits the strongest effect ($\beta = 0.367$, $p < 0.01$), indicating that a one-unit increase in RMC maturity is associated with a 0.367 standard deviation increase in market capitalization, holding other factors constant. This finding supports Stakeholder Theory: continuous risk monitoring signals governance credibility to capital market participants, reducing information asymmetry and enhancing valuation. Risk Identification also demonstrates significant positive effects ($\beta = 0.298$, $p < 0.05$), consistent with the proposition that systematic risk recognition improves investor confidence. The positive moderation of firm size on the RI-market capitalization relationship ($\beta = 0.156$, $p < 0.05$) suggests that larger firms derive greater valuation benefits from risk identification activities, possibly due to their greater complexity and stakeholder scrutiny.

Table 4: Fixed Effects Regression Results (Dependent Variable: ROA)

Variable	Coefficient	Std. Error	t-statistic	p-value
Constant	-1.234	1.456	-0.85	0.405
Risk Identification (RI)	0.184	0.145	1.27	0.218
Risk Assessment (RA)	0.376***	0.128	2.94	0.008
Risk Monitoring (RMC)	0.256**	0.118	2.17	0.041
Firm Size	0.312	0.198	1.58	0.129
Leverage	-0.342**	0.146	-2.34	0.029
RI $\times$ Size	0.089	0.082	1.09	0.289
RA $\times$ Leverage	-0.124*	0.069	-1.80	0.085

R-squared = 0.538 | Adj. R-squared = 0.476 | F-statistic = 8.67

Consistent with the Resource Based View, Risk Assessment is the most important predictor of ROA ($\beta = 0.376$, $p < 0.01$); firms that systematically review the risks they identify and the impact of those risks on them enjoy higher Asset Productivity and/or operational efficiency. The discovery is especially significant for capital-intensive consumer goods manufacturing, where asset usage directly impacts profitability. Risk Identification does not make a significant positive contribution ($\beta = 0.256$, $p = 0.218$) and Risk Monitoring & Control is statistically significant ($p < 0.05$), indicating that the identification of risks without proper monitoring and control does not lead to better operational performance. The theoretical

expectation that debt would have a negative effect on operational flexibility is supported by the findings of the present study: Leverages significantly and negatively affect the performance of a company (see $\beta = -0.342$, $p < 0.05$). The operational benefit of risk assessment (RA-ROA) was slightly dampened by the inclusion of leverage, as it had a negative coefficient ($\beta = -0.124$, $p < 0.10$) meaning that the positive effect of risk assessment is less pronounced in firms with high leverage.

Table 5: Fixed Effects Regression Results (Dependent Variable: EPS)

Variable	Coefficient	Std. Error	t-statistic	p-value
Constant	-1.987	1.234	-1.61	0.122
Risk Identification (RI)	0.212*	0.118	1.80	0.085
Risk Assessment (RA)	0.298**	0.124	2.40	0.025
Risk Monitoring (RMC)	0.408***	0.106	3.85	0.001
Firm Size	0.287*	0.164	1.75	0.094
Leverage	-0.412***	0.134	-3.07	0.006
RI $\times$ Size	0.118	0.074	1.59	0.125
RA $\times$ Leverage	-0.189**	0.084	-2.25	0.035

R-squared (within) = 0.658 | Adj. R-squared = 0.612 | F-statistic = 14.32

Risk Monitoring & Control demonstrates the strongest effect on EPS ($\beta = 0.408$, $p < 0.01$), providing robust support for Agency Theory: continuous risk surveillance and adaptive control mechanisms reduce information asymmetry between managers and shareholders, constrain earnings management, and enhance earnings predictability. The stabilisation function of RMC is particularly valuable in Nigeria's volatile macroeconomic environment, where FX shocks and inflationary episodes create significant earnings variability. Risk Assessment also contributes positively ($\beta = 0.298$, $p < 0.05$), while Risk Identification shows marginal significance ($\beta = 0.212$, $p < 0.10$). Leverage exerts a strong negative effect on EPS ($\beta = -0.412$, $p < 0.01$), confirming that financial risk amplifies earnings volatility. The significant negative moderation of leverage on the RA-EPS relationship ($\beta = -0.189$, $p < 0.05$) indicates that the shareholder value benefits of risk assessment are substantially diminished in highly leveraged firms, where debt covenants and interest obligations may constrain strategic flexibility.

Table 6: Fixed Effects Regression with Composite ERM Index

Dependent Variable	Composite Coefficient	ERM	Firm Size	Leverage	R-squared (within)
Market Capitalisation	0.342*** (0.098)		0.498*** (0.142)	-0.156 (0.102)	0.587
ROA	0.287** (0.112)		0.298* (0.168)	-0.378*** (0.132)	0.473
EPS	0.315*** (0.095)		0.268* (0.148)	-0.435*** (0.118)	0.562

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$

The composite ERM index exhibits significant positive effects across all three performance dimensions, with the strongest effect on Market Capitalisation ($\beta = 0.342$, $p < 0.01$), followed by EPS ($\beta = 0.315$, $p < 0.01$) and ROA ($\beta = 0.287$, $p < 0.05$). The R-squared values indicate that the integrated ERM index, together with control variables, explains 58.7% (Market Cap), 47.3% (ROA), and 56.2% (EPS) of within-firm performance variation. Notably, the composite index explains more variance than any individual component model (compare R-squared: 0.587 vs 0.624 for Market Cap; 0.473 vs 0.538 for ROA; 0.562 vs 0.658 for EPS),

confirming that ERM's systemic, integrated logic generates value beyond the sum of its individual components.

Conclusion

The empirical results provide robust support for the study's theoretical framework. First, consistent with the Resource-Based View, the composite ERM index functions as a valuable, rare, and inimitable organizational capability that generates superior performance across all three metrics. The finding that the integrated index explains more variance than individual components confirms that ERM's value derives from systemic integration rather than isolated practices, a critical insight for managers contemplating piecemeal ERM adoption. Second, the differential effects of ERM components align with theoretical expectations. Risk Monitoring & Control's strong effect on EPS supports Agency Theory: continuous surveillance reduces managerial opportunism and earnings manipulation, enhancing shareholder value. Risk Assessment's pronounced effect on ROA validates the operational efficiency logic of the Resource-Based View. Risk Identification's effect on Market Capitalisation, moderated by firm size, reflects Stakeholder Theory's emphasis on credibility signals to capital markets. Third, the negative moderation of leverage on ERM effectiveness suggests that financial risk constrains the performance benefits of sophisticated risk management. Highly leveraged firms may face debt covenant pressures that prioritise short-term debt servicing over long-term ERM investments, or may have fewer discretionary resources to devote to risk management system development. Finally, the overall moderate level of ERM maturity (61% of maximum) in sampled firms indicates significant room for improvement, suggesting that Nigerian consumer goods firms have not yet fully captured the performance benefits associated with comprehensive ERM implementation.

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