

RISK MANAGEMENT STRATEGIES AND BANKS' FINANCIAL SUSTAINABILITY IN THE ACE OF THE RECENT GLOBAL PANDEMIC

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ABSTRACT: *The present study empirically investigated the concept of risk management strategies as strong indicators of a financial sustainable banking system in the face of the recent global pandemic, (COVID 19). Specifically, the study addressed the effectiveness of product/service diversification strategies, risk hedging strategy, and corporate governance strategy on financial sustainability of the Nigerian banking industry in the face of COVID 19. Primary data via the use of research questionnaire administration served as the estimation technique while the data was analyzed using both the Pearson Correlation matrix (PCM) and multiple regression technique. Findings from the Pearson Correlation matrix (PCM) revealed that, banks' financial sustainability exert positive (direct) but weak linear relationship with corporate governance strategy while banks' financial sustainability exerts positive and strong linear relationship with product and service diversification strategies. However, risk hedging strategy was found to be negative but strong. The result further attest to the fact that, for the Nigerian banking to remain afloat, resilient, highly competitive, and financial sustainability in the midst of the recent global pandemic, it must have to put in place sound credit risk management strategies vis-à-vis product and service diversification strategy, and corporate governance strategy and that there should be reduction in banks' risk hedging strategy as reported by the multiple regression result analysis. Most importantly, bank management should train and re-train all their staff on risk asset management mechanism, risk identification, risk control and monitoring on a regular basis.*

KEYWORDS: Product diversification strategy, service diversification strategy, risk hedging strategy, corporate governance strategy, financial sustainability, and global pandemic (COVID 19)

INTRODUCTION

For a bank to remain afloat, resilient, and highly competitive, the bank must ensure that it strike a balance between its credit risk tolerance and most paramount goal of achieving maximum financial sustainability. To do this, banks must have to formulate and implement policy measures, tactics,

approaches, and techniques that ensure that all lost credits extended to borrowers in terms of interest rate and principal repayments are fully recovered with a view to reducing the quantum of non-performing bank assets as well as recover same in due course. As such, one factor banks consider lie in their awareness of the efficacy of credit risk management as well as the implementation of solid risk management strategies – such as product/service diversification, hedging, and adoption of quality corporate governance strategies– so as to guide against financial inflexibility which could eventually lead to operational cataclysm. Thus, the banking industry must ensure that its policy measures are not only centered on managing credit risk only but must also ensure that such policy measures are geared towards a financially sustainable banking industry. By way of definition, financial sustainability in its simplest term refers to the ability of a financial institution (especially a bank) to continue in operations both now and in the near future without causing the financial obligations of the financial institution to rise consistently and persistently irrespective of the recent global pandemic, COVID 19 (Financial Stability Board, 2020).

In a bid to ensure that the Nigerian banking sub-sector is devoid of financial inflexibility and operational catastrophe, the CBN since its establishment in 1958 have put in place various policy measures ranging from merger and acquisitions (M & As), bank recapitalization exercise, series of rescue operations of different banks, sacking of Chief Executive Officers (CEOs) of financially indisposed banks, to the recent seizure of operating license of Skye bank in 2018 yet the Nigerian banking industry over the last four (4) decades has witnessed series of bank distress, outright failure in discharge of its core mandate, and liquidation (Agbada & Odita, 2019). One of the most outstanding reasons for these financial maladies may not be unconnected to poor risk management strategies coupled with competence meltdown inherent in the Nigerian banking industry.

Again, given that customers taste and preference are becoming more sophisticated and that the banking industry is becoming more competitive by the day coupled with the series of global economic meltdown alongside the recent global pandemic (COVID 19) which is currently badly affecting even mighty nations under check, there is need to put in place sound risk management mechanism that would be able to balance both a bank's credit risk tolerance and most paramount goal of achieving maximum financial sustainability (FSB, 2020).

More so, to provide lasting solution to the effect of the recent global pandemic (COVID 19) on the financial sustainability of the Nigerian banking industry, banking scholars are now looking beyond bank restructuring and are attempting to focus more on risk management strategies vis-à-vis product diversification strategy, service diversification strategy, risk hedging strategy, and corporate governance strategy. Soludo (2020) averred that, with the current global epidemic which redefined the state of both the world economy and that of Africa, there is need for firms to come up with authentic sustainable solution to this menace otherwise they will feel the scourge of poverty which the lockdown brought.

Based on the foregoing submissions, the present study sought to elicit information from the research respondents with a view to determine their perceptions and beliefs on the efficacy of bank risk management strategies on banks' financial sustainability in the face of the recent global pandemic, COVID 19. To this end, the study sought to specifically address the effectiveness of

product and service diversification strategy, risk hedging strategy, and corporate governance strategy on financial sustainability of the Nigerian banking industry in the face of the recent global pandemic, COVID 19.

Additionally, the present study is significant in that it would aid regulatory authorities in the Nigerian banking industry to take appropriate risk management measures with a view to keep the Nigerian banking industry afloat irrespective of the recent global pandemic, COVID 19. Again, the study would contribute to the extant studies on the subject matter as it would clear prior assumptions and arguments with regards to the subject matter.

LITERATURE REVIEWS

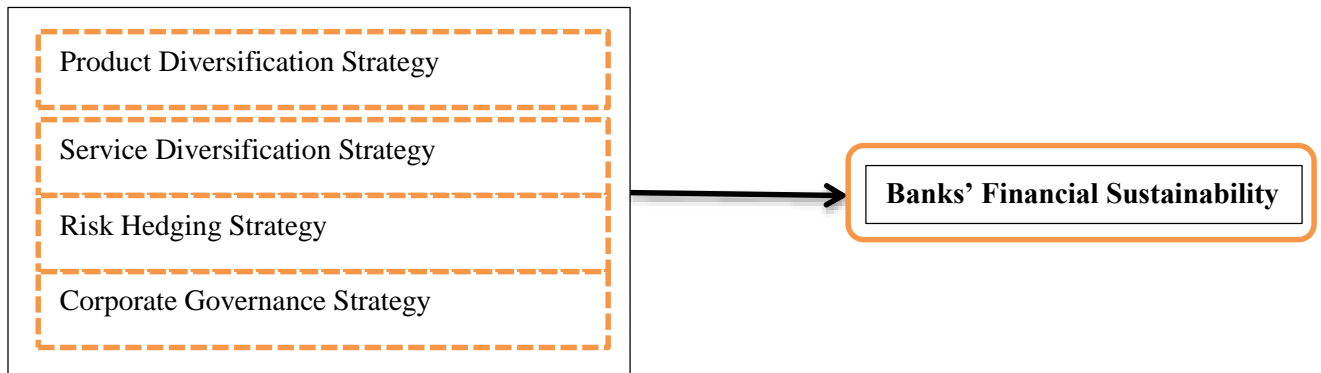
Conceptual Clarifications

Conceptual Linkages Using Schematic Model

Normally, risk is seen as a threat to a bank's financial sustainability. As such, the best rational approach or step a bank can take is at least to restrict her credit exposure or possibly avoid such risk entirely. However, evading such risk may also deny the bank the prospective gains that she might have accrued if she had either accepted or retained such risk (CBN, 2014). In such instance, the best strategy the bank can adopt is to manage such risk. Thus, risk management in its broadest term refers to the identification, assessment, and prioritization of all bank's relevant risk vis-à-vis operational risk strategic risk, capital risk, market risk, liquidity risk, non-performing loan risk, and the likes thereby ensuring that such risk is not insidious to both the banking industry and the Nigerian economy as whole (CBN, 2014; Wikipedia, 2020). On the other hand, risk management strategies therefore refer to those policy measures, techniques, and approaches put in place to manage all bank's relevant risk taking into consideration the risk appetite of the bank as well the risk-based incentives and compensation in place while ensuring that all conflict of interest among different stakeholders of the banks are eliminated. In other words, risk management strategies provide a well-organized and coherent approach to identifying, appraising, and managing all banks' relevant risk. When these policy measures are well articulated the banking industry would be financially sustainable.

Fundamentally, our explanatory variable is bank risk management strategy parameterized by product/service diversification strategies, risk hedging and corporate governance strategies while the explained variable is banks' financial sustainability (see figure 2.1 below).

Figure 2.1: Relationship between Bank Risk Management Strategy and Bank's Financial Sustainability



Source: Researcher's Conceptual Model (2020)

Linkages of Variables

Product Diversification Strategy and Banks' Financial Sustainability: For the Nigerian banking industry to manage her credit portfolio risk efficiently as well as remain financially sustainable, there is need for her to diversify her product with a view to meet the diverse product needs of her customers. As such, product diversification reduces bank credit portfolio risk, creates an ample opportunity for the bank to excel, brings about sustainable competitive advantage, and increased profitability which in turn leads to a financially sustainable banking system (Turkmen & Yigit, 2015).

Service Diversification Strategy Banks' Financial Sustainability: In the light of dynamic but highly competitive banking environment, banks are faced with customer whose desires for banking services are highly sophisticated yet they are saddled with other regulatory obligations and increasing default risk. To ensure that the sophisticated needs of their customers are meant, there is need for the banking industry to diversify their services. As such, service diversification reduces bank credit portfolio risk, creates an ample opportunity for the bank to excel, brings about sustainable competitive advantage, and increased profitability which in turn leads to a financially sustainable banking system (Turkmen & Yigit, 2015).

Risk Hedging Strategy Banks' Financial Sustainability: According to Investopedia (2020), hedging is a set of risk management strategy adopted by financial institutions usually a bank to reduce the adverse movement in the value of bank asset or liabilities by taking an offsetting position in a related asset or liabilities. By reducing risk of uncertainty, there is every tendency that future profit would also be reduced. As such, by hedging against risk a bank may be able to reduce its credit portfolio risk and at the same time remain financially sustainable (Rehman, Muhammad, Sawar, & Raz, 2019).

Corporate Governance Strategy Banks' Financial Sustainability: Major financial woes in the Nigerian banking sub-sector have been attributed to inept board management otherwise resulting from competence meltdown (Agbada, 2013; Agbada & Odita, 2019). However, if there are efficient corporate governance strategies inherent in the banking industry alongside adherence to good corporate governance principles of honesty, transparency, accountability, fairness, independency, and social responsibility, the Nigeria banking industry would be able to reduce its credit portfolio risk as well as remain financial sustainable.

Theoretical Undertone

The theoretical undertone of this study is tied to the Modern Portfolio Theory and the Agency Theory of Management. The modern portfolio theory was popularized by Harry Markowitz in 1952. According to Harry Markowitz, the best way to mitigate or hedge against risk exposure is to diversify such risk (Ojo, 2013). By way of application, if the Nigerian banking industry must remain financially sustainable amidst the current global pandemic, there is for product/service diversification, and risk hedging. As such, modern portfolio theory (MPT) therefore provides the solid theoretical ground when dealing with the issue of diversification and risk hedging strategy. However, this theory did not deal with the issue of corporate governance strategy study but the agency theory of management does (Olajide, 2012). Agency theory of management emphasize that the installation of efficient board members in a firm will bring about the introduction of sound corporate governance strategy which will result to a financially sustainable banking system (Adeoye & Amupitan, 2015).

Empirical Studies/Literature Gaps

Thorough investigation on the extant empirical studies in relation to the subject-matter revealed that most empiricists both in developed and developing countries only focused on either on the efficacy of risk management on financial sustainability or on bank profitability. However, did not focus on the efficacy of risk management strategies on financial sustainability. Comparably, even studies that were conducted within the parlance of risk management strategies married it against credit risk. For example, Rehman, Muhammad, Sawar, and Raz (2019) examined the effectiveness of credit risk management approaches on credit exposure in Pakistan. Qualitative data were sourced from 250 commercial bank's employees in Pakistan to conduct multiple regression techniques that were used for the data analysis. The result reported that product and service diversification, hedging and corporate governance help banks to resolve their credit expose.

In another related study Manchun, Sanghyo, and Jaejun (2019) examined the efficacy of diversification strategy on financial sustainability of construction companies in Korea Republic using the Beery-Herfindal Diversification index. The study covered from 2001 to 2017. The result revealed that diversification strategy is the only predictor that can make a firm to be financial sustainable. However, the researcher did not examine if corporate governance strategy and risk hedging strategy can serve as a predicting factor of firm financial sustainability.

Conversely, Kanini, Patrick, and Muhanji (2019) examined the correlation between product diversification and the Kenyan manufacturing sector performance from 2007 to 2016 using a sample of forty nine (49) companies. The researchers discovered that product diversification does not exert significant effect on the financial performance of manufacturing entities in Kenya when

proxied by EBITTS and ROA. However, the researcher did not examine if service diversification, corporate governance strategy and risk hedging strategy can serve as a predicting factor of firm financial sustainability.

Nwakoby and Hediwa (2018); Manyuru, Wachira and Amata, (2017); & Olajide (2013) in separate studies examined the nexus between product diversification and financial performance. However, major shortfall of these studies is that, they only focused on a particular aspect of this study.

Based on the foregoing developments, the following hypotheses were formulated:

H0₁: Product Diversification Strategy, Service Diversification Strategy, Risk Hedging Strategy, And Corporate Governance Strategy do not have significant effect on Banks' financial sustainability in the face of the recent global epidemic.

RESEARCH METHOD

Variable and Questionnaire Description

The present study sought to elicit information from the research respondents with a view to determine their perceptions and beliefs on the efficacy of bank risk management strategies on bank sustainability in the face of global pandemic. The study adopted the 'Descriptive Survey Research Design' through the instrumentation of a well-articulated research questionnaire. Succinctly, the Random Sampling Technique became amenable for the study since it gives a fairer view of the target population. Accordingly, our target population comprises of all DMBs' employees in the fourteen (14) quoted DMBs in the Nigerian stock exchange as at 31st December, 2019. Fifty (50) DMBs' employees who are at topmost, middle, and lower level of management in each of the fourteen (14) randomly selected DMBs strategically located in Lagos, Anambra, and Delta State formed our accessible population. Thus, a total of 700 DMBs' employees were investigated. The questions raised in the study were centered on how the perceptions and beliefs of the research respondents on the efficacy of bank risk management strategies vis-à-vis on bank financial sustainability in the face of economic downturn. The various answer options on the research questionnaire ranges from: strongly Agreed (SA), Agreed (A), Undetermined (U), Disagree (D), to Strongly Disagreed (SD) alongside their corresponding weighted average score ranking from: 5,4,3,2, to 1. For each of the bank risk management strategies and bank financial sustainability proxies, twenty (20) questions were raised to that effect. Sequel to the weights assigned to answer options, it therefore means that the both the minimum and maximum score for each respondent will be 20 and 100 respectively for each of the Bank Risk Management Strategies and Financial Sustainability proxies.

This further connotes that; the ‘Aggregate Mean Score’ for all the research respondents in particular Bank is gotten from each proxy to represent the ‘Bank Score’ for that proxy. In the same manner, all the ‘Average (Mean) Scores’ for all the 14 DMBs were computed. Creswell (2005) advocated for this method of scoring which he termed ‘Qualitative Data for empirical data analysis. According to the author, aggregate scores account for individual score of each respondent which is added over series of research questions that is used to measure the same variable. Agbada and Odita (2019) added that, it is advisable to add each item so as to arrive at an overall score for a particular variable/proxy.

Model Specification

The Model for the study gained its credence from the empirical study of Rehman, Sawar, & Raz (2019). The model for the study revealed a functional relationship between banks’ financial sustainability and product diversification strategy, service diversification strategy, risk hedging strategy, and corporate governance strategy. Thus, it is mathematically as:

$$\text{BFS} = f(\text{PDS}, \text{SDS}, \text{RHS}, \text{CGS}) \dots \dots \dots \text{Equation 1}$$

Econometrically, equation one was restated as:

$$\text{BFS} = \beta_0 + \beta_1 \text{PDS} + \beta_2 \text{SDS} + \beta_3 \text{RHS} + \beta_4 \text{RHS} + \epsilon_{it} \dots \dots \dots \text{Equation 2}$$

Where:

BFS	=	Banks’ Financial Sustainability
PDS	=	Product Diversification Strategy
SDS	=	Service Diversification Strategy
RHS	=	Risk Hedging Strategy
CGS	=	Corporate Governance Strategy
β_0	=	Constant Value
$\beta_1 - \beta_4$	=	Parameter Estimate

For a more accurate analysis, the Statistical Package for Social Science (SPSS 23.0) was used to run the regression due to its simplicity coupled with its global acceptability.

DISCUSSIONS OF RESEARCH FINDINGS

This segment dealt with the discussion of the research findings from the study area using Pearson correlation matrix and multiple regression techniques. Meanwhile, data from the study area were also well specified.

Data Presentation**Questionnaire Administration, Retrieval and Mean Score Computation**

S/N	Banks Under Study	Questionnaire Administered	Questionnaires Retrieved	Risk Management Strategies Mean Scores			
				Product Diversification Strategy (PDS)	Service Diversification Strategy	Risk Hedging Strategy (EHS)	Corporate Governance Strategy (CGS)
1	ACCESS	50	39	65	60	67	80
2	ECO	50	39	65	66	68	72
3	FCMB	50	40	80	67	67	64
4	FIDELITY	50	34	55	65	52	64
5	FIRST	50	38	60	75	66	76
6	GTB	50	41	79	75	65	68
7	POLARIS	50	38	57	62	75	70
8	STANBIC	50	35	69	55	58	64
9	STERLING	50	36	56	69	58	70
10	UBA	50	37	65	62	64	68
11	UNION	50	38	76	64	66	62
12	UNITY	50	36	56	59	67	67
13	WEMA	50	36	67	53	68	62
14	ZENITH	50	42	70	64	74	85
Grand Total		700	527 (75.35%)				

Source: Researcher's Computation Based on Field Study (2019-2020)

Table above revealed that, a total of 700 questionnaires were shared in the study area. However, 527 questionnaires were retrieved with a mean score of 75.35% which served as the cumulative mean scores for all risk management strategies adopted by the banks under study.

Data Analysis**Pearson Correlation Matrix**

Pearson Correlation Coefficient deals with the degree or extent of linear relationship between the explained and explanatory variables under study. The linear relationship may either be strong, weak, or moderate depending on the magnitude of the coefficient. Table 4.4 shows the Pearson Correlation Coefficient matrix for all the variables:

Table 4.2: Estimated Pearson Correlation Matrix

Variables	BFS	PDS	SDS	RHS	CGS
BFS	1				
PDS	.985	1			
SDS	.818	.725	1		
RHS	.794	.755	.823	1	
CGS	.396	.368	.406	-.695	1

Source: Regression Estimation Report Using SPSS Version 23.0 (2020)

From the Pearson correlation matrix table above, it is observed that most of the correlation coefficients exhibit positive signs. The positive signs connote that there is a positive correlation between the variables. Indeed, most of the variables also reported a strong linear relationship while only one reported weak linear relationship. For instance, Product Diversification Strategy denoted by PDS stood at .985,

Service Diversification Strategy denoted by SDS stood at 81.8%, and Risk Hedging Strategy denoted by RHS stood at 79.4% implying a strong linear relationship while Corporate Governance Strategy denoted by CGS stood at 39.6% implying a weak linear relationship. Based on the findings from the Pearson correlation matrix, we conclude that Product Diversification Strategy, Service Diversification Strategy, Risk Hedging Strategy, and Corporate Governance Strategy are relevant for policy formulation against the current global pandemic, COVID 19.

Regression Parameter Estimates

To test the hypotheses formulated in the first section, we considered various regression estimation parameters which are presented in table 4.3-4.5. However, table 4.7 was used to test each of the hypotheses formulated in chapter one.

4.3.1: Adjusted Coefficient of Determination and Durbin Watson Statistics

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.997 ^a	.995	.991	.05135	.995	292.145	4	6	.000	1.549
a. Predictors: (Constant), PDS, SDS, RHS, CGS										
b. Dependent Variable: BFS										

Source: Regression Estimation Report Using SPSS Version 23.0 (2020)

Table 4.3.1 above reported that, the correlation coefficient denoted by 'R' stood at 99.7% signposting a strong linear relationship between the independent variables and the dependent variable of the study. This result further re-affirms the Pearson Correlation Coefficient result specified in table 4.2 above. Also, the adjusted Coefficient of Determination (R^2) stood at .991. This implies that having considered the loss in the degree of freedom, about 99.1% total variation in banks' financial sustainability is caused by changes in product diversification strategy, service diversification strategy, risk hedging strategy, and corporate Governance Strategy collectively while the remaining 9% is attributed to the error term. To further buttress this, the Durbin Watson Statistics which account for either the presence or absence of serial-correlation stood at 1.549. The result therefore revealed that the model is not serially correlated since the Durbin Watson test statistics value is approaching 2 being the benchmark. This further revealed that the model attained its optimal property of Best Linear Unbiased Estimate (BEST) property.

Fisher-Snedcors (F-statistics): The Analysis of Variance (ANOVA) parameter-The F-statistics measure the whole statistical significance of the estimated model. In other words, it indicates the overall effect of all the explanatory variables on the explained variables under investigation. However, cannot tell which of the independent variable is statistically significant or not. Notably, the alternative hypothesis of the F-statistics states that at least one (1) of the explanatory variables is different from zero (0) significantly. It further determines if the model is fit for prediction or not.

Table 4.3.2: ANOVA^a

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	3.082	4	.770	292.145	.000 ^b
	Residual	.016	6	.003		
	Total	3.098	10			

a. Dependent Variable: BFS

b. Predictors: (Constant), PDS, SDS, RHS, CGS

Source: Regression Estimation Report Using SPSS Version 23.0 (2020)

The F value or the coefficient of the model is estimated at 292.145 with a significance level less than 5% significance level. This indicates that the model is fit for prediction since its falls below the 5% generally acceptable level of significance. Again, the result further attests to the fact that, on the overall bank risk management strategies has high statistical impact on banks' financial sustainability in Nigeria.

T-Test Coefficient: in regression estimation, the t-test statistics or coefficient attests to the statistical significance of each of the independent variables-beta parameters.

Table 4.3.3.: Coefficient

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.298	.177		1.680	.144
	PDS	.876	.049	.849	17.762	.000
	SDS	.118	.026	.257	4.509	.004
	RHS	-.055	.052	-.084	-1.049	.335
	CGS	.060	.074	.037	.809	.449

a. Dependent Variable: BFS

Source: Regression Estimation Report Using SPSS Version 23.0 (2020)

From coefficient table above, the Unstandardized Coefficients of Product Diversification Strategy (PDS) is 0.876. The positive sign of the Product Diversification Strategy (PDS) variable indicate that Product Diversification Strategy (PDS) exert positive or direct impact on the Banks' Financial Sustainability in the face of the recent global financial epidemic such that a unit rise in Product Diversification Strategy will result to 87.6% rise in the Banks' Financial Sustainability of DMBs

in Nigeria. This result conforms to the apriori expectation of the study. By rule of thumb, a t-test of 17.762 suggests that Product Diversification Strategy (PDS) passed the test of statistical significance very well. To further buttress this, its corresponding significance level was found to be less than 5% significance level. On the other hand, the result above revealed that a linear positive relationship exists between Service Diversification Strategy and Banks' Financial Sustainability in the face of the recent global financial epidemic as it is confirmed by the regression coefficient of .118. Table 4.3.3 above also revealed that the t-value (4.509) is highly statistically significant, as reported by the probability value of 4.509. This shows the importance of mobile banking in predicting a sustainable banking industry in the face of the current global epidemic. The low standard error of 0.026 as can be seen in table 4.6 above confirms that the coefficients are not equal to zero. However, Risk Hedging Strategy (RHS) was found to be negative but statistically insignificant due to the negative regression coefficient estimated at -0.055, a low t-statistic value estimated at -1.049 coupled with P-value estimated at .335. This means that Risk Hedging Strategy (RHS) is not a strong predictor of Banks' Financial Sustainability in the face of the recent global financial epidemic. Lastly, Corporate Governance Strategy was found exert positive but statistical insignificant impact on Banks' Financial Sustainability. This was confirmed by the positive regression coefficient estimated at .060, a low t-statistic value estimated at 0.809 coupled with a P-value estimated at 0.449. This means that Risk Hedging Strategy (RHS) is not a strong predictor of Banks' Financial Sustainability in the face of the recent global pandemic.

CONCLUDING REMARKS

Several deposit money banks in Nigeria have failed in time past as they were unable to strike a balance between their credit risk tolerance and most paramount goal of achieving maximum financial sustainability. Sequel to the findings of the study, we conclude that product and service diversification is important to the banking industry as it allows DMBs to provide their customers with various financial services and products. Emphasis was also placed on adopting sound corporate governance policies as it was found to impact positively on the financial sustainability of the Nigerian banking industry in the face of the recent development. However, it was not significant. More so, the study found that Risk Hedging a strong predictor of Banks' Financial Sustainability in the face of the recent global pandemic.

RECOMMENDATIONS

To this end, we advocate that,

1. Sound risk management strategies vis-à-vis product/service diversification strategies, and corporate governance strategy are the only options that would bring about a financially sustainable banking industry in the face of the recent global pandemic.
2. There is need to reduce risk hedging strategy.
3. Most importantly, bank management should train and re-train all their staff in the areas of risk asset management mechanism, risk identification, risk control and monitoring on a regular basis.
4. Further researches should be conducted on the subject matter in the area of credit monitoring and credit recovering strategies in a bid of more comprehensive study on the subject matter than the present study.

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