

**THE EFFECT OF ENTERPRISE RISK MANAGEMENT ON THE
STRATEGIC PERFORMANCE OF I&M BANK LIMITED, KENYA**

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D61/74408/2014

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**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT
OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE
OF MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF
BUSINESS, UNIVERSITY OF NAIROBI**

NOVEMBER, 2016

DECLARATION

I, the undersigned, declare that this research project is my original work and has not been submitted for examination to any other university.

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This research proposal has been submitted for examination with my approval as the University supervisor.

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DEDICATION

This research project is dedicated to my supervisor Mr. Kibisu, and to my close friends who provided invaluable support throughout the duration of this research study.

ACKNOWLEDGEMENT

I would like to appreciate all those who assisted me through my research study. Special acknowledgements to my family for motivating me, my supervisor whose guidance during this period was immense, and my close friends to whom I could voice my ideas to and who gladly proof-read my work.

I would also like to appreciate the input from the interviewees at I&M Bank who availed time to enable me to complete my data collection and analysis. Moreover, I'd like to thank the academic and non-academic staff at University of Nairobi for their support during the course of my study.

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ABBREVIATIONS AND ACRONYMS

BCP – Business Continuity Planning

CBA – Cost Benefit Analysis

CBK – Central Bank of Kenya

CRO – Chief Risk Officer

ERM – Enterprise Risk Management

IMHL – I&M Holdings Limited

KPI – Key Performance Indicator

KRI – Key Risk Indicator

MIMS – Main Investment Market Segment

NSE – Nairobi Stock Exchange

RCSA – Risk Control Self Assessment

SRM – Strategic Risk Management

SWOT – Strengths, Weaknesses, Opportunities and Threats

ABSTRACT

Risk events are a regular occurrence in any form of business, with the extent of risks faced differing only by the nature of business carried out. The financial sector handles a large amount of funds on behalf of clients, making the argument for it being prone to higher risk viable. Risk management forms an important aspect of controlling the likelihood and impact of negative events. If risk management is indeed the effect of uncertainty on objectives, then there is need to consider risk management and strategy in conjunction. In what way does risk management affect strategy and strategic performance? To answer this question, this study investigated the effect of enterprise risk management on the strategic performance of I&M Bank Limited, Kenya. The researcher opted to use a case study, such that the study unit was a single firm. The data collection technique sought to obtain detailed qualitative data, thereby, the researcher used an interview guide with both open-ended and closed-ended questions. The study targeted 30 employees at assistant manager or manager positions at I&M Bank Limited. To analyze the information obtained, content analysis approach was used, which enabled the data to be presented in continuous prose format allowing detailed explanation of the outcome of the responses from the interviews. To recognize the level of enterprise risk management within the bank, the researcher made use of a number of risk factors such as: depth of risk management in an organization, risk awareness and participation, risk appetite, risk assessment and the organizational “risk” structure which includes an element of communication. The study established that risk management techniques, communication and culture is ingrained within the bank such that employees are able to identify its various aspects and quantify its majorly positive effect on their performance. Since risk activities form part of the strategy activities, the two are shown to be inter-linked to achieve the desired performance. To enforce this conclusion further, the balance sheet size and profit figures show a year-on-year growth that has been sustained over the years. Employees were also seen to have a positive attitude towards risk management and what it sets out to achieve: sustainable strategic performance. The main recommendations of this study included continued enforcement of risk management and associated processes as well as achievement of a balance between risk control procedures and the inflexibilities and bureaucracy that may set in while enforcing them. The study also recommended the uptake of technology to improve the quality and efficiency of strategy and risk processes within the bank and industry-wide.

CHAPTER ONE: INTRODUCTION

1.1. Background of the Study

According to Hui (2014), risk and strategy are major topics and yet, risk management and strategic planning have been conventionally treated as two separate activities. Risk management and the performance of a firm against its strategic objectives are terms that should be used hand-in-hand. Key “risk” indicators and key “performance” indicators are re-phrased and/or used interchangeably to suit the context, but they certainly scale down to the same underlying theory: measurement of performance against set thresholds to obtain the variance. Risk impacts the ability of a firm to achieve its’ overall strategic objectives. Strategic performance is impacted by a number of risk factors, comprising of the depth of risk management in an organization, risk awareness and participation, risk appetite, risk assessment and the organizational “risk” structure which includes an element of communication.

The study is anchored on a number of risk-related theories. Decision Theory, as defined by Parmigiani & Inoue (2009), provides a formal framework for making logical choices in the face of uncertainty. Given a set of alternatives, a set of consequences, and a correspondence between those sets, decision theory offers conceptually simple procedures for choice. Another theory is the Prospect Theory, which is a behavioral economic theory that describes the way people choose between probabilistic alternatives that involve risk, where the probabilities of outcomes are known (Kahneman & Tversky, 1979).

Bringing the study into perspective, the financial industry is fraught with risks of various kinds, from strategic risks down to specific operational risks. Stricter regulation and procedures apply to financial companies holding large amounts of money. On the international front, the 2007-08 financial crisis had a ripple effect globally bringing to the fore an unprecedented emphasis on the integration of the risk-based approach to strategic planning and/or management. Closer to home, recent failures of Blue Shield Insurance Company, Dubai Bank and Imperial Bank all link to inadequate/failed risk management practices, albeit not specifically strategic risk. The motivation of this study, thus, is to bring to light the importance of enterprise risk management, not only to operational procedures, but to the top-level strategy setting of an organization. The choice of the case study has to do with the proximity of the researcher to I&M Bank, which is a part of the banking industry that has been troubled with recent risk events leading to failure of some banks.

1.1.1. Enterprise Risk Management (ERM) Concepts

Risk, in its' basic definition, is “the effect of uncertainty on objectives” (ISO, 2009). Risk Management forms the backbone of most financial organizations worldwide and forms a basis upon which important operational and strategic decisions are made. The overall risk management concept of a financial organization delves deeper into specific risk areas such as market risk, liquidity risk, credit risk and the much broader operational risk, which affects each and every aspect of an organization.

“Enterprise risk management is a process, effected by the entity’s board of directors, management, and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within the risk appetite, to provide reasonable assurance regarding the achievement of objectives.”

(COSO, 2004). It would be practical to conclude that enterprise risk management in itself is a strategy applicable in a firm's top-level to basic objectives, affecting all levels of the organization with varying degrees of severity and risk classification labels. Risk management, on the other hand, will be applicable to the specific objectives applicable to the different lower levels of the organizational structure.

1.1.2. Concept of Strategy

According to Johnson, Scholes, and Whittington (2005), "Strategy is the direction and scope of an organization over the long term, which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations." As such, strategy operates over a long time frame and should be adequately set to achieve the intended outcome. It encompasses a wide range of activities, all of which should be inter-linked to work in cohesion toward the objective(s).

As postulated by Mintzberg (1978), Strategies can be distinguished in two ways: Deliberate Strategies set by organizations that are intended to be achieved and, Emergent Strategies that were not initially intended, but are actualized with the passage of time. Further theorized, the Realized Strategy (influenced by both intended and emergent strategy) is the final strategy that is observed. Strategic risk, once classified into its three main components (Decision Risk, Execution Risk and Delivered Risk), can easily be linked to Mintzberg's set of Strategies. Decision Risk is the risk of making sub-optimal decisions concerning strategic matters of the organization therefore impacting the intended strategy; Execution Risk is realized during the actual implementation of intended strategies, thereby impacting the emergent strategy; Delivered Risk, on the other hand, is the risk to the business once the strategy has been executed, working on the link to the realized strategy.

A case in perspective – the diversification strategy from the Ansoff Growth Matrix (Ansoff, 1965) is a means of risk control. It minimizes specific risk (over-exposure) that a firm would otherwise be exposed to if it was to undertake a single activity in a single market space. This is an example of the breadth of risk activities underlying the strategic management framework of a firm.

1.1.3. Firm Performance

A firm's performance can be attributed to many factors, highly ranked of which is the achievement of corporate strategic objectives. Standard practice is to align the Functional (Strategic Business Unit) Strategy to the Business Strategy, which is in turn aligned to the Corporate Strategy of a firm. Functional strategies form the basic strategies of operational level strategies; these front-line strategies are the basis on which Key Performance Indicators (KPI's) of individual employees are set. According to Rozner (2013), in order to be of value to a firm's decision makers, KPI's must form part of the strategic framework. To this end, successful KPI structuring begins with proper strategic planning.

Majority of the objective measures of a firm's performance relate to quantification of the strategies. Performance measurement is the process of quantifying the efficiency and effectiveness of past actions (Neely, Adams, & Kennerley, 2002). However, given that the ultimate beneficiaries are the shareholders of a firm, it may be necessary to use qualitative judgement to arrive at an overall performance measure. This will serve as an easier approach of communication to shareholders too. Using a multi-dimensional model, Santos & Brito (2012) identified at least five dimensions: customer satisfaction, employee satisfaction, financial performance, social performance and environmental performance to represent different facets of performance, and concluded that only using a measure of

profitability performance, as most often occurs, is insufficient as a demonstration of performance, and can signify flaws in experiential studies. The use of Enterprise Risk Management as an indicator provides both a qualitative and quantitative overview.

Well managed strategies form the foundation of a firm's performance indicators. Performance appraisal is an important review exercise aimed at culling any variances during the term of the strategy; milestone achievement gives a sense of purpose and direction to employees within an organization. In a research study, Tran & Tian (2013) concluded that a well formulated organizational structure stimulates success. It was further concluded that Businesses need an adequate structure be profitable and to grow. Moreover, it helps management to better identify resources that are required to supplement the firm's existing resources. It is reasonable to conclude that internal structures and corporate governance play a larger role in determining success of an organization, and in so doing, hints at the need for strategic management capabilities of the management team.

1.1.4. The Banking Sector in Kenya

The Banking Sector in Kenya is subject to regulation by the Central Bank of Kenya (CBK), which oversees adherence to the Banking Act and issues Prudential Guidelines and Regulations. The CBK issues fines and penalties for non-adherence, with the mandate to withdraw licenses and place banks under receivership. Currently, there are 42 licensed Commercial Banks and 1 Mortgage Finance Company in Kenya, of which 61.9% are locally owned private institutions, 7.2% are public institutions and 30.9% are foreign-owned. The CBK also regulates other players in the market such as Microfinance Institutions, Credit Reference Bureaus, Forex Bureaus, Money Remittance Providers, and any other Financial Institutions (Central Bank of Kenya, 2016).

In the Kenyan market, enterprise risk management adoption is comparatively highest within the banking sector as likened to other sectors, primarily due to the Central Bank initiative, and rightly so, given that the amounts of public finance handled by commercial banks are enormous. This started off as the sole reason for banks to have specialized risk divisions dedicated to operational risk, credit risk, market risk, and Asset-Liability Management (ALM or liquidity risk). Increasingly, risk management value is being appreciated industry-wide, leading to it being isolated from being a mere compliance requirement.

1.1.5. I&M Bank (Kenya) Limited

One of the licensed Commercial Banks in Kenya is I&M Bank Limited – a Tier II Bank with 35 branches across Kenya. It had an asset base of Shs. 147.84 billion, shareholders' equity valued at Shs. 26.19 billion and Profit after Tax of Shs. 5.81 billion as at, and for the period ended, December 2015. I&M Bank is a subsidiary of I&M Holdings Limited, whose shares are listed on the Nairobi Securities Exchange (NSE) as part of the Main Investment Market Segment (MIMS). I&M Holdings Limited (IMHL) is the holding company for I&M Bank Group, which includes I&M Bank Rwanda Limited, I&M Bank Kenya Limited, I&M Bank Tanzania Limited, and Bank One Limited in Mauritius.

I&M Bank encounters risks on a daily basis, as any organization would, and strives to manage these risks through its thorough risk awareness training programs, policies, procedures and various risk committee representations. With thorough risk assessment categorized into operational, market, liquidity and credit risk, the Bank is able to implement various Risk Control and Monitoring techniques to enhance the effectiveness of its risk management, all of which are commanded by a Risk & Compliance Department.

Generally, I&M Bank's performance has improved substantially over the years, and with the recent announcement of the proposed acquisition of all the issued share capital of Giro Commercial Bank by IMHL and the recent acquisition of 65% shareholding in Burbidge Capital Limited, the prospects of growth are even more profound. I&M Bank strategic objectives are bound to encompass growth, and, according to a web article by Lundmark (2015-2016), at least 84% of CEOs are assured about their own organization's projections for growth of revenue in the year 2016, and 61% of CEOs are convinced that there are more alternatives and opportunities now as compared three years ago; with the reasons cited for this positivity being that CEO's are depending less on worldwide economic development and exceedingly on their businesses' resourcefulness, adaptability and management of change in addition to a greater appetite for risk.

1.2. Research Problem

It is often opined that the biggest aspect of developing any strategic approach is to consider implementing a thorough risk program that entails an analysis of context and environment of the organization. On the other hand, it is a generally accepted fact that the ultimate goal of most organizations is shareholder wealth creation. By mere transitivity, if risk drives strategy and strategy drives performance then, risk management drives and/or influences strategic performance. The process of connecting risk and reward starts at strategy setting. According to Protiviti Risk & Business Consulting (2011), corporate strategy is administered by readiness of a firm to embrace risk in the quest of value creation, as well as its ability to manage the risk.

I&M Bank, being one of the larger Tier II Banks in Kenya, plays a vital role in the Banking Industry. Having a set strategy, it will be necessary for a risk-based approach to be undertaken to align individual objectives to foster achievement of overall strategic objectives and further development of strategies. I&M Bank, as a subset of the Kenyan Banking Industry is prone to a variety of risks, from fraud (operational risk) to interest rate risk (market risk) to asset portfolio deterioration (credit risk), as well as the risk of inability to achieve strategic objectives (strategy execution risk). Analysis of a Tier II Bank may provide readers with a typical scenario in the banking industry to gauge the effects on Tier I and Tier III Banks accordingly.

ERM has not only grown in organizations, it has indeed become a popular research subject too. Locally, there are quite a large number of strategy-risk related studies done, with a wider concentration in various industries. Magoiya (2010) focused on risk assessment as a component of corporate strategy in selected life insurance firms in Kenya, while Cheruiyot (2013) considered Enterprise Risk Management on the Strategic Management Process of Kenya Power (Formerly, Kenya Power and Lighting Company Limited). Perhaps a more banking industry representative study was that done by Kiama (2014), which analyzed the effect of Risk Management Strategies applied at National Bank of Kenya, with the difference of the study's dependent variable being "Corporate Image" compared to this study's dependent variable "Strategic Performance". Internationally, Pagach & Warr (2010) studied the effect of adoption of Enterprise Risk Management (ERM) principles on a firms' performance in the long run; however, made use of financial analysis rather than achievement of strategic objectives to measure performance. A study by Andersen (2009) analyzed the effectiveness of risk management on the ability to take advantage of

opportunities and circumvent adverse economic impacts as well as have a significant positive relationship to performance. All of these studies showed a positive impact of risk management on performance in all the contexts in which it was considered.

There is a clear gap on research studies considering the impact of enterprise risk management on the firm performance in terms of strategy and/or consequently the general performance, more so in the Kenyan Banking Industry. Strategic performance ultimately embodies stakeholders' goals such as, good wages for employees, brand for the community, management and owners and the ultimate goal of wealth creation (through good financial performance) for shareholders, etc. On the studies likened to this research study, a conceptual gap exists. The dependent variable in this study is firm performance, whereas other related studies sampled focus on corporate image and financial performance. Magoiya (2010) and Cheruiyot (2013) had a similar conceptual framework to this study, however, there exists a contextual gap, with the two studies focusing on non-bank firms. Gaps in this area are many, both in the local and international markets, thereby backing the need to specifically address the gaps in the Kenyan banking sector. The study is, therefore, designed to answer the following research question: What is the effect of Enterprise Risk Management on the strategic performance of I&M Bank Limited, Kenya?

1.3. Research Objective

The study was intended to achieve the objective of determining the effect of Enterprise Risk Management on the Strategic Performance of I&M Bank Limited, Kenya.

1.4. Value of the study

The results of this study are anticipated to be of importance to Banks in Kenya that are considering the best approach to their strategic objective achievement techniques in association with their risk management strategies. Use of available resources to achieve risk-based strategic performance management will be better appreciated once put into perspective with a specific case study like the one discussed in this study. In addition, the ability to link enterprise risk management to performance management by tools such as key performance indicators and variance analysis can be explored by Banks in the Kenyan Banking sector. Not only will it be of importance to Banks, it will also be an important input to other firms seeking to enhance their enterprise risk management focus.

Via this study, and other similar studies, risk management practices value addition can be better understood by policy makers and used to design appropriate policies which can focus on encompassing risk within the strategic performance management process. The study will also be an informational tool for the Central Bank of Kenya, with its specific focus on strategy and risk, CBK may well implement measures for strategy-related risk management if it is indeed viewed as a value additive in the performance of the Banking Sector in Kenya.

Research on enterprise risk management strategies can be furthered by future researchers by making use of this study as a reference point. The study will form part of the existing limited literature on the subject. Risk Management is currently a growing phenomenon. The knowledge on it is limited compared to the knowledge on other departments in companies. Further, only operational risk is considered to have a major impact on business, thereby limiting the scope for other enterprise risk management practices and their effect on strategic performance, which is what this study is focused on.

CHAPTER TWO: LITERATURE REVIEW

2.1. Introduction

This chapter expounds on issues associated with ‘strategic’ risk management in the banking industry. It develops theoretical framework essential to justify the requirement for this study and explores various literatures that have been used to explain enterprise risk management concepts. These relate to the generic risk management process adopted by many companies worldwide, strategic risk management practices, as well as the link between strategic practices, risk management and strategic performance.

2.2. Theoretical Foundation

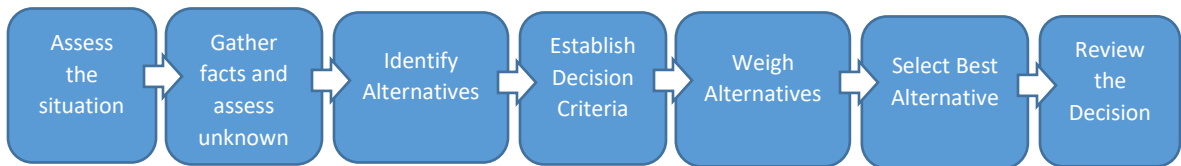
Theories are understandings that develop from extensive observation, experimentation, and creative reflection. “A theory can be described as a set of concepts and the relationships among them” (Ayres, 2008). Past theories can be a basis upon which further theories can be developed and conceptualized. This study intends to use the theories defined herein to further explain the underlying concepts for this research and link them to form a coherent process flow.

2.2.1. Decision Theory

According to Ben-Haim (2001), decision theory is based on the utility function of payoffs which is a derivative of economics. The main suggestion of the theory is that decisions ought to be made by calculating the probability and the utility of the ranges of options to come up with strategies for effective decisions (Ben-Haim, 2001). Thereby, decision theory is that part of probability theory dealing with revealing the consequences of uncertain decisions which are affected by environmental factors.

The classical decision-making method is easy to understand and is applicable to the belief of reasonableness. The method is relatively well-known and managers are at ease with it. Conversely, Nichols (2005) and Li (2008) give a criticism of the classical decision making process, stating that is chronological and centered on the rationality/reasonableness assumptions. The model, as is, makes the assumption of certainty conditions which encompass the decision-making framework and passes through three activities including: intelligence, design and choice activities. In reality, these assumptions may not hold true.

Figure 1: The Classical Decision-Making Process



Source: Nichols, 2005

The resemblance between risk management and decision theory, as discussed by Versluis (2015) is due to the presence of uncertainties. Risk management assesses uncertainties and prioritizes them, while decision theory acts as an uncertainty assessment tool. Risk management is thus a decision-making tool to manage uncertainty, whilst decision theory acts to recommend the right action to deal with uncertainty, as long as there is adequate data on the risk appetite of the decision maker.

Cost Benefit Analysis is one of the methodologies used for rational decision making, given a set of choices. “It is a technique that is used to determine options that provide the best approach for the adoption and practice in terms of benefits in labor, time and cost savings” (Rodreck, Ngulube, & Dube, 2013). This is applicable in a strategic risk assessment aspect, taking into consideration that setting strategic objectives requires a Cost Benefit Analysis

to be done. Further, Cost Benefit Analysis, as applied to risk management, measures the contribution that a risk management control or action makes to the risk management process. It does this by considering the cost used to implement the control or action to obtain the net benefit by determining whether and by how much the technique benefits exceed the cost to implement it. Cost Benefit Analysis acts as an input to the decision-making process by calculating the net present value of a policy or project. Including risk and uncertainty into the process enhances the dependability of the expected net present value (Institut for Miljovurdering: Environmental Assessment Institute, 2006).

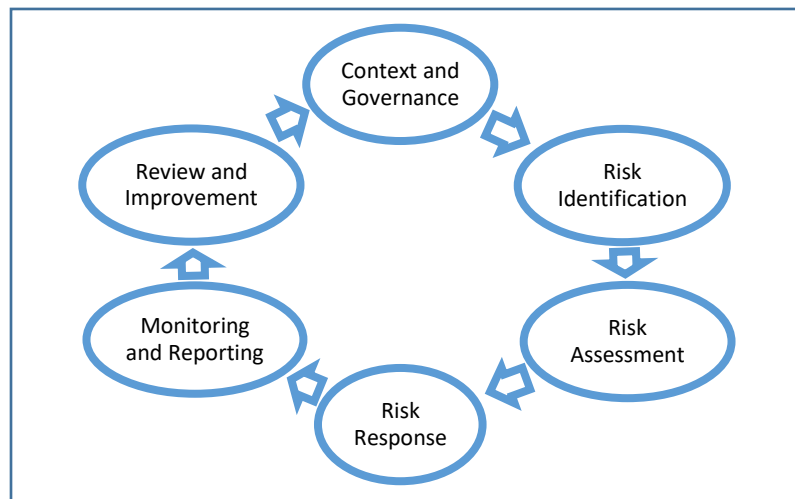
2.2.2. Prospect Theory

“Prospect Theory is a theory of decision making under conditions of risk. Decisions are based on judgements, which are based on assessments about the external state of the world” (McDermott, 2001). Decision-making to set the correct objectives, which are bound by the risk appetite of the organization, would make use of the prospect theory to optimize the process. According to the initial theory proposition by Kahneman & Tversky (1979), Prospect Theory predicts the tendency to be risk averse in a sphere of gains and comparatively risk seeking in a sphere of losses. In the business scenario, if losses have been made, the tendency would be to take more risk by setting more aggressive objectives and higher targets, and vice versa. The theory can thereby be used to aid decision-making in setting the strategic risk appetite of a company. By balancing out risk and reward, this theory can be used to set out the strategy relative to the appropriate risk management techniques in place. It can act as a prerequisite to strategy creation as a strategic risk management tool.

2.3. The Enterprise Risk Management Process

The enterprise risk management process is theorized in several literatures, with the same underlying concept. Risk management is depicted as cyclical and iterative in nature; it is a continuous process as opposed to a one-off assignment. The most common approach is depicted below, beginning at “Context and Governance” and ending at “Review and Improvement”, at which point the cycle restarts as a continuous improvement process.

Figure 2: ERM Process Cycle



Source: <https://www.soa.org>

2.4. Strategic Risk Management

Strategic Risk is a risk (opportunity or threat) that significantly affects the capability of a firm to survive (STRATrisk, 2005). In a research study, Allan & Beer (2006) investigated how managers view their risk environment and how their knowledge of environmental risk factors contributes to the strength of an organization to resist strategic risk. This study was done on the synopsis that, in spite of the significance of strategic risk, current risk management practices deal with them poorly because they count on quantitative approaches that are built on historical statistics that offer no warning of future happenings.

Frigo & Anderson (2011) highlighted five critical steps for Strategic Risk Management, citing that the maturity of a firm's Enterprise Risk Management process acts as an initial measure. Strategic Risk Assessment with inclusion of internal and external risks is the second step; thirdly, processes of strategy setting should be reviewed, to ensure they are based on the risk assessments; fourthly, measurement and monitoring of the performance (Key Performance Indicators) and, finally, on-going updating, reporting and review.

All in all, a mature Enterprise Risk Management Model, as implemented by a firm, advances the approaches to strategic risk management. According to (Bugalla & Lauria, 2016), Strategic Risk Management (SRM) is a progression of Enterprise Risk Management (ERM), which is built on recognized, customary methods of risk management in silos. Thereby, ERM sets the platform for curtailing the downside loss and also empowers firms to make sustainable profits through risk management. They also explained that, once a company accomplishes a suitable level of risk-based knowledge and development, its management can then have a risk-based outlook and groundwork for practicing a strategic approach to risk management.

Levine (2013) discussed the Goals-Progress-Strategy (GPS) Framework that manages risks related to a strategic objective by: Clear statement of the strategic objective with reference to the "Critical to Success" (G)goals, (P)rogress measures and warning indicators, refinement of (S)trategic elements such as "adaptive management". A repetition of the Progress and Strategy stages of this framework ensure a cyclical risk management process which acts as a correction tool over time. This ties in with the risk management process discussed in section 2.3.

2.5. Business Strategy and Risk

Porter's Five Forces Analysis (Porter, 1979) was developed as an advancement to SWOT analysis. One may argue that both form a risk perspective of the internal and external environment, with Porter's Five Forces Model focusing more on the external environment, specifically, competition in the market. Porter used The Threat of Substitutes, The Threat of New Entrants, Bargaining Power of Suppliers, Bargaining Power of Buyers, and Industry Rivalry to determine competitiveness of an industry. By carrying out a five force analysis, a firm can easily develop strategic objectives to cater for competition levels within an industry. This can be equated to risk assessment done prior to setting strategic objectives in an organization.

Faulkner & Campbell (2006), classified business strategies into five: Cost, Differentiation, Focus, Hybrid and "No definite" strategies. Three of these strategies were an adaptation of Porter's Generic Strategies (Porter, 1980). Cost strategies were based on cost minimization; cost overruns are a risk that may impact strategy implementation – by setting a cost minimization strategy, a risk is being mitigated. However, a cost leadership strategy may lower the quality of a product; thereby, by opting for such a strategy, a calculated decision is made (linking this to Decision Theory discussed in Section 2.2.1. below). Similarly, Focus strategies allow for narrow focus and specialization by a firm. This risks losing out on larger market bases, however, ensures quality of service and a loyal segmented customer base. Again, a risk is mitigated, and a risk as well as a decision is taken.

Business strategies are broad-based, considering a range of factors, both internal and external. By considering a range of factors, strategies incorporate risk management implicitly. Strategies, in themselves, are risk mitigating tools. By linking risk management

to strategic management, better objectives would be set, performance would be measured and reviewed with regard to the underlying risks assessed, and an improvement in the entire business process flow would be inevitable. However, techniques and approaches to risk and strategic management are ever evolving, with new studies on the matter bringing to light more ways to achieve strategic success, albeit subjectively.

2.6. Strategic Performance and Risk

Palermo (2011) discussed the relationship between risk and performance and categorised the relationship into organisational elements: barriers, facilitators and levers. The barrier element is inclusive of the difference between a performance based approach and a risk based approach, whereby, the former would interpret exceeding target expectations as positive and the latter would view it as problematic since the performance would be unsustainable. The barrier discussion also entailed the time horizon differences between the risk management process and the performance management process, where one time frame exceeded the other, or, the two time horizons were set to be achievable at different instances. In many instances, the risk management process covers a longer term than the performance management process.

Facilitators, on the other hand, are elements that help bring about cohesion between risk and performance management. One of the elements discussed is “Strategy”, such that, if the risk metrics and performance measures are set in tandem with the organisation objectives, the two will work to complement each other. Another facilitator element discussed was that of having a risk champion within each business unit who generally drives the process within that area. Levers were used to describe performance management techniques that can deliver risk information. Levers identified in the study included Key

Performance Indicators and Variance Analysis, each of which can be used in a trend analysis to work out key risk areas in the business. By considering the performance level based on key performance indicators, it can be gauged what causes variances in performance levels which effectively brings out the inherent risks in the processes.

2.7. Empirical Literature

Knight, Durham, & Locke (2001), observed the impacts of monetary incentives, goal difficulty, and efficacy on tactical implementation, strategic risk, and teams performance by carrying out a computer simulation. Their results included, among others, that performance of the team was positively impacted by strategic risk, goal difficulty, tactical implementation and team efficacy. Moreover, based on the strategic choice model (Child, 1972), organization strategies affect performance via their impact on strategic risk. Bromiley (1991) argued that the causes of organizational risk undertaking and its effect on performance are major issues in strategic management. The results of the model showed that low performance linked to lack of slack drive risk taking. Agency Theory (Eisenhardt, 1989; Jensen & Meckling, 1976) and Prospect Theory (Kahneman & Tversky, 1979) are used to expound on risk appetite conduct by management. The risk-return relationship and the appetite for risk determines how much risk firms and managers are willing to take. The higher the risk taken, the higher the expected returns will be. Risk-taking will need to be justified by higher return.

2.8. Summary of Gaps Identified

Decision Theory and Prospect Theory work to enforce decision making in the face of uncertainty, essentially in the risk space. Since the strategic performance process is one of continuous improvement it can easily be linked to the enterprise risk management process

cycle, where the final stage is review and improvement. This literature is used to enforce the link between the two processes and the requirement to gauge the level of interrelation required between them. Further, the way in which different strategies taken by firms incorporate a risk taking and a risk mitigation strategy shows how risk is implicitly embedded in strategic decision making and should be considered as a major factor affecting strategic performance.

As discussed in Section 1.2, there is a gap on research studies considering the impact of enterprise risk management on the strategic performance in the Kenyan Banking Industry. The conceptual gaps that exist include risk management being studied with respect to dependent variables other than strategic performance. Palermo (2011) had a similar conceptual framework to this research study, however, a contextual gap existed since the study was based on a large UK energy company.

Studies on the Kenyan Banking Industry are limited to financial performance and other diverse variables. Risk Management barriers exist, and although, from the research studies used for the purpose of review, there were none that used Enterprise Risk Management as a negative indicator of performance or other dependent variable, it is generally perceived as such and this perception is what the study seeks to amend.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1. Introduction

This chapter outlines methods and procedures that will be applied to carry out the study. These include the research design, the target population, the data collection and analysis techniques applied.

3.2. Research Design

According to Yin (2014), a case study research can include single or several case studies, numerous sources of evidence, quantifiable evidence, and aid from earlier development of theoretical propositions. This study used a case study approach, with application of qualitative techniques since the study was intended to obtain a detailed understanding of risk management practices in a specific bank to represent an average Bank in the Kenyan Banking industry. This provided a thorough, descriptive approach, enabling the variables used to be examined further.

3.3. Data Collection

The study targeted the departmental managers at each of the twenty-five head office departments, all of whom carry out a unique set of inter-dependent activities. The Risk Department was excluded from the study since the risk department manager's response was expected to be unique, and perhaps biased, as compared to those of other departments, given their probable substantial knowledge on the topic. In addition, at least five branch managers were targeted from the various thirty-five branches country-wide due to the standardized services offered at branch-level. This enabled an all-rounded data collection approach targeting all levels of business within the Bank.

Primary data was collected using a structured interview guide, which was appropriate since it elicited detailed answers from respondents. This enabled them to explain their answers further in order for the researcher to better understand their perspective. The researcher administered the interviews personally, or via telephone.

3.4. Data Analysis

“Content analysis is a research technique used to make replicable and valid inferences by interpreting and coding textual material. By systematically evaluating texts (for example, documents, oral communication, and graphics), qualitative data can be converted into quantitative data” (Terry College of Business, 2012). The data analysis method focused on content analysis, in particular, by coding and classifying the data in order to highlight important findings. Since the researcher made use of primary data to make comparisons of respondents’ answers to risk management and strategy-specific questions, the content analysis approach was required to make sense of the qualitative data that was obtained.

CHAPTER FOUR: DATA ANALYSIS, INTERPRETATION AND DISCUSSION OF RESULTS

4.1. Introduction

Having collected the necessary data for this research study, this chapter provides the detailed findings and analysis structured in coherent form. The data was obtained by way of carrying out interviews with the selected interviewees, which enabled them to elaborate on specific questions further. Answers to some unstructured questions were highly differentiated, thereby prompting the requirement to carry out content analysis, results of which are documented herein.

4.2. Response Rate

The researcher targeted 30 interviewees – 25 from the head office and 5 from the branches. Out of the 30 selected interviewees, 25 responded, giving a response rate of 83.3%. According to Zikmund (2000), a response rate of 50% is adequate to continue with the analysis of data collected for a study. Further, according to Mugenda & Mugenda (2003), a 50% response rate is adequate, 60% is good and above 70% is very good. Taking this into consideration, the response rate of 83.3% is more than acceptable.

Table 1: Response Rate

	<i>Number of interviewees</i>	<i>Number of responses to interviews</i>	<i>Percentage</i>
Head Office	25	21	84%
Branches	5	4	80%
Total	30	25	83.3%

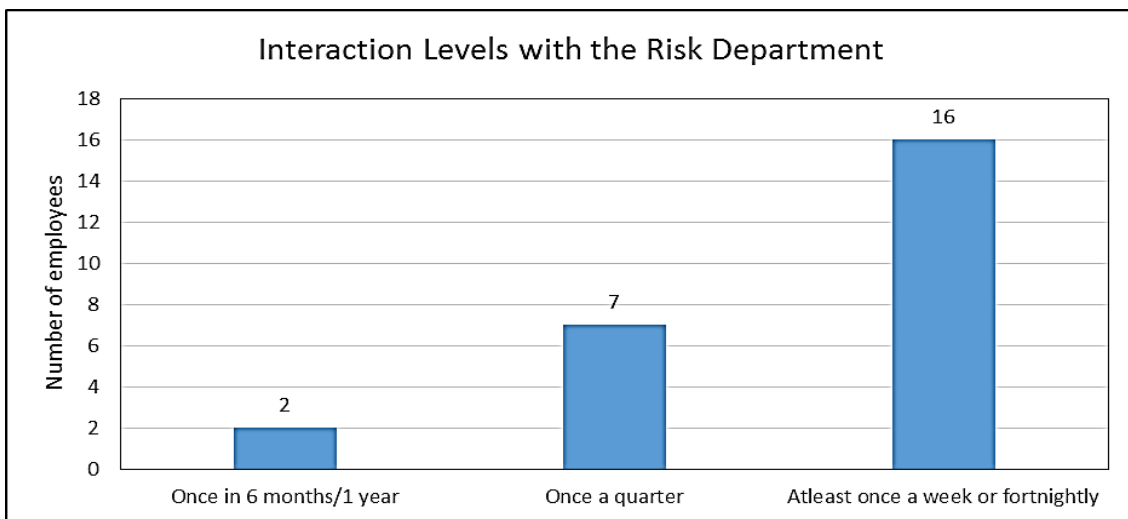
Source: Author

4.3. Background Information

The researcher sought to obtain background information of the interviewee in order to ensure that all the departments and regions were being covered as required. Although the interviewees were all at Assistant Manager or Manager level, having a wide scope of analysis was important for the research study. The interview was therefore administered by taking this into account – including all head office departments (except the risk department) and five branches, one each from the five different regions the Bank has divided its branch network into.

Further, the background information included a question on the number of times the interviewee interacts with the risk department in order to gauge involvement in risk matters and to what extent. This would bring to fore the actual organizational “risk” reporting structure in place at the Bank. Of the 25 interviewees, 100% said that they interacted with the risk department, with 64% (16 employees) stating that interaction with the risk department was very frequent (weekly or fortnightly).

Figure 3: Interaction levels with the risk department



Source: Author

The background information obtained from the interview displayed that there is risk inclusion within the Bank ensuring an all-round risk-based approach to management of the organization, encompassing the organizational “risk” structure variable the researcher recognized as one of the risk factors that strategic performance is dependent on. Interaction levels between the risk department and other departments were seen to be high. This analysis revealed that the organizational structure allowed for cross interaction between the risk department and other departments, allowing room for performance to be affected by the Risk Management function.

4.4. The Risk Department

The findings from the interview yielded positive results on the Risk Department knowledge front. The interviewees seemed to know the structure of the Department well, being able to differentiate between the sub-departments within the risk department even if the sub-department they interacted with was only one. It was further revealed that the structure within the department catered for the main risks faced in the Banking sector, by, first and foremost separating, then inter-linking, the Liquidity Risk, Market Risk, Credit Risk, Operational Risk and Compliance functions to form a Group risk structure. Risk awareness and the depth of risk management within the Bank was thus seen to be commendable from the results of the interview. Risk awareness was made apparent from the detailed descriptions staff members were able to provide when questioned about the sub-departments and their main functions. Depth of risk management, additionally, was ascertained from the fact that the Risk Team covered a wider range of tasks including having a Group Risk Structure in place.

Upon interrogation on details about the senior-most risk employee in the Bank, interviewees concurred by providing answers to the effect that the power and influence of the top-most risk employee should enable them to make key decisions and report directly to the Board. This is in line with expectations across the industry whereby the CRO should have the organizational standing, power and the essential abilities to oversee the bank's risk management happenings. Whilst official reporting lines may differ across the banking industry, the CRO must have direct contact with the Board or its risk committee without inhibition or restraint (IARCP, 2016).

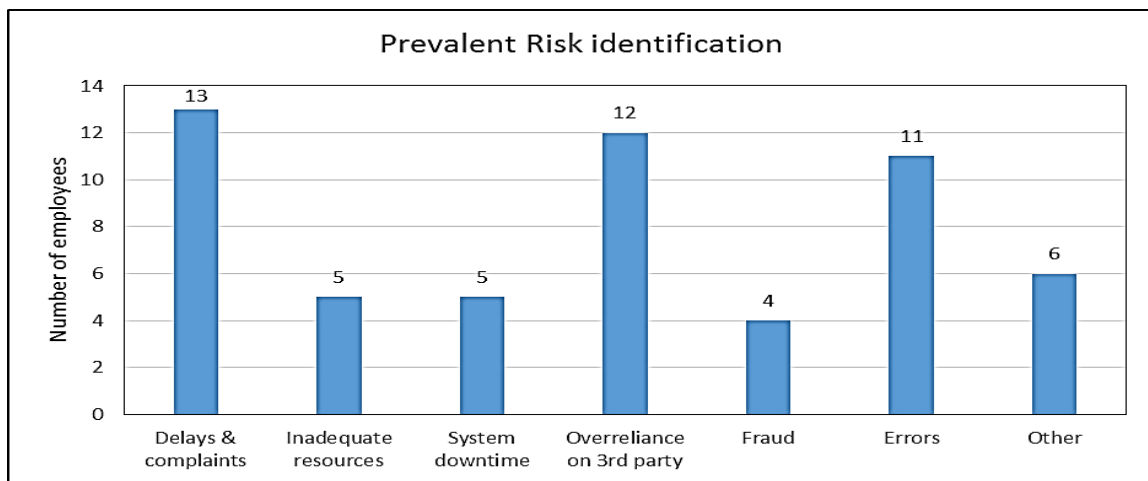
Interviewees went on to explain the main tasks of the risk department. 100% of the participants identified at least three of the following tasks on management and monitoring of types of risks: management of liquidity risk, market risk, credit risk, operational risk, legal risk, project risk, strategic risk, and reputational risk. 52% of the interviewees went further and described how the risk department assists in identification, measurement and evaluation of the risks and their associated controls across the bank. This proved that risk assessment is viewed as one of the most important tasks carried out by the risk department. Singularly differentiated responses included tasks such as risk advisory, policy and procedure review across the Bank, risk-based research, checking compliance to regulations, capital modeling, Business Continuity Planning (BCP) and reporting. The responses highlighted the wide range of tasks the risk department is involved in and the extent to which other staff members in the Bank are aware of these tasks which further solidified the depth of risk management activities within the Bank.

4.5. Risk Identification, Mitigation, Evaluation and Reporting

4.5.1. Prevalent Risk Identification

Interviewees were requested to state the most prevalent operational risks they faced out of a list which included Delays and Complaints, Inadequate resources, System Downtime, Over-reliance on other department/service/person, Fraud, Errors (Human, Processing, System), and Others. The researcher noted that interviewees were well able to identify the risk that affected their specific department the most and also noted that some of the risks were inter-linked so that one department faced more than just one prevalent risk.

Figure 4: Prevalent risk identification



Source: Author

The risks were categorized so as to include both internal and external factors. It was noted that the internal factors affected the external factors and vice versa. For example, over-reliance on a vendor leading to delays and complaints within a department or by the final customer. The interviewees were well able to inter-link the risks faced while identifying the most prevalent inter-linked risks they faced. A number of interviewees also identified the important 'Credit Risk' aspect within the Banking Sector. Although Credit Risk is

classified separately, it was recognized that operational lapses can lead to credit risk. Separate risk classification within the organization did not necessarily mean that the risk function was divided. It involved team work that enabled different risk classifications to be inter-linked to form the Enterprise Risk Framework.

4.5.2. Mitigation Tools Identification

Mitigation tools were identified by the interviewees, who also acknowledged available and well-functioning mitigation tools while taking cognizance of the fact that some controls were managed by other departments who had the mandate to ensure controls were efficient and fully functional at all times. Interviewees also recognized the work of the risk department to ensure compliance to internal controls. Additionally, 88% of the interviewees indicated that they (or other Bank departments) have some degree of control over the prevalent risk that they identified, meaning that they have identified the risk they face and have taken the initiative to control the risk they face in addition to the existing controls. This shows the high level of risk participation levels within the Bank and ability to carry out an effective Risk Control Self-Assessment (RCSA).

4.5.3. Risk Assessment Participation Levels

Indeed, of the 25 interviewees, 24 (96%) confirmed that they had done a risk assessment of their department as part of a formal Risk Control Self-Assessment process. Interviewees explained that Risk Assessment is done on a regular basis in order to ensure the existence an up-to-date risk library for each department. All 24 interviewees have been personally involved in the risk assessment process. 23 of these 24 interviewees further went on to say that the risk management process has helped reduce the prevalent risk they identified in their department and improved performance in that area. Two interviewees further

explained how the controls in place are key in improving the risk area, such that without existence of these controls, the risk would be intolerably high. As such, interviewees were able to identify key risks as well as key controls within their business units and differentiate between the different factors that affected them.

4.5.4. Risk Appetite and Tolerance Levels

When questioned about a risk appetite or tolerance level being set for the prevalent risks identified, 88% of the interviewees explained and justified the use of set tolerance levels, also called key risk indicators, which help them monitor the risk levels to ensure they remain at a minimum or, at the very least, at a maximum acceptable level. According to Tattam (2011), Key Risk Indicators are simply indicators over the key risks to which the organisation is exposed. They are identifiable pieces of information that act as a proxy or indicator of the current, or potential, level of that key risk. The use of key risk indicators is common in many organisations, even if they are not necessarily documented. Key Risk Indicators can also be related to everyday real-life situations, for example, the number of incorrect answers to questions during preparation for an examination used as an indicator of how well prepared a person is. The fact that majority of the interviewees make use of key risk indicators shows high risk awareness and existence of risk appetite levels within I&M Bank. Exceeding risk appetite levels will trigger necessary action plans to provide assurance that the strategic goal achievement process will not be negatively affected.

4.5.5. Incident Reporting

All 25 interviewees (that is, 100% of participants) concurred that the Bank encourages identification and reporting of risk issues. Risk detection and prevention can only occur if the risk owners report the issues they face on a regular basis. Having a clear incident

reporting policy ensures that actual or near-miss risk incidents are recorded and the information used to build up on existing controls for future risk incidents. This forms another important strategic tool – “structure” which includes integration and coordination of activities, as one of the hard elements of McKinsey’s 7S framework (Peters & Waterman, 1982), via the organizational “risk” structure. Having a mechanism of incident reporting ensures that lapses in controls and emerging risk events are captured and closely monitored to minimize the impact on the bottomline and achievement of strategic objectives. In effect, it is an element to strategic risk management so as to reduce variance between actual and expected strategic goal outcomes.

4.6. Enterprise Risk Management, Strategy, and Strategic Performance

4.6.1. Involvement in Strategy

A Strategy meeting is viewed as an “elite” exercise in majority of organizations with only senior management opinions being considered. To test the same at I&M Bank, the interviewer posed the question of whether the interviewee had ever been involved in a strategy setting exercise at the Bank. Surprisingly, 36% of the interviewees said they had been involved in a strategy setting exercise. Upon further investigation, it was realized that the strategy setting exercise at the Bank takes into consideration the views, opinions and on-the-job experience of managers. According to Murray (2010), the higher the involvement of employees in creating and setting out objectives for the organization, the higher their dedication to the objectives will be, and therefore, the higher the strategic performance.

4.6.2. Correlation between strategic objectives and performance

All the interviewees agreed that the goals of the Bank are well quantified and clearly measurable. Some interviewees elaborated further by explaining how their individual goals helped the Bank achieve at least one of its overall strategic goals. Interviewees were able to create a direct link between their individual goals and the overall strategic goals of the Bank, thereby showing a positive correlation of goal structure across the Bank.

4.6.3. Enterprise Risk Management as a strategic objective

Enterprise Risk Management forms a vital input to achievement of the Bank's strategic objectives according to 92% of the interviewees. Further, in the opinion of 96% of interviewees, risk management should be one of the Bank's main strategic objectives, citing reasons such as the nature of the industry (being dynamic) which requires risk management activities to adapt to change in a proactive manner, service industry being a slave of reputation and the reputational risks it faces, and variance analysis of goal achievement over time which is a risk management tool in itself. Surveying various research work in the risk management field enforces the use of risk management as a strategy. As a common example, a study by Mohindru & Chander (2010) discusses diversification and yielded results pointing towards that fact that after the "gestation period" (whereby costs of diversification are recovered), diversification strategy is expected to provide profitable outcomes for firms in India. Diversification strategies are adopted by numerous firms as part of their long-term strategic plans. Diversification is a risk management tool in respect of concentration risk. Thereby, Risk Management is implicitly included in majority of strategic plans by way of underlying a main strategic objective such as expansion or diversification.

4.6.4. Performance Measurement

To add on to the strategic performance interview questions, interviewees were requested to provide an opinion on whether or not they felt that the organization systematically measures actual performance versus the goals initially set. 96% of employees said that the performance was systematically measured vis-a-vis the goals set out at the outset of the strategy-goal setting exercise. The general idea behind their opinions was that a structured measurement criteria such as that used by the Bank enabled them to plan their work accordingly and achieve majority of their goals and performance criteria by the end of the appraisal period. In line with this, 96% of the interviewees said that their Key Performance Indicators had a risk element to them. One of the interviewees explained that, risk management, being a key initiative within the Banking industry, was ingrained in every business process and was therefore an important input in the KPI's set out for employees.

Indeed, a paper by Basova & Mitselsky (2010) discussed the need of Risk Management KPI's. They discussed the existing problems of Risk Management in business, specifically the view of managers that have a negative perception about it, labeling it an extra reporting requirement and adding further weight to their duties. They concluded that the Corporate Management System and Risk Management should be managed hand-in-hand, with Risk Management implementation at a novice level being enforced with some Risk Management policy KPI's and concurrently implement risk-based actions whereby risks are evaluated at all organizational levels and include control plans in the budget; however, this should not impede the existing KPI's of achieving the business plan's goals. Eventually, when the risk management culture becomes a part of the organization, the Risk Management specific KPI's can be done away with given that the Risk Management objective has been achieved.

4.6.5. Communication on Risk Management

Communication on the importance of risk management is paramount in its successful execution. Interviewees shared their experience on how risk management importance has been communicated within the Bank. 76% of the interviewees explained that regular scheduled risk training has driven the risk initiative across the Bank at a faster pace than would have been the case otherwise. Further, 68% said that communication by top management and enforcement by managers brought about the enhanced risk management effort. The management buy-in is considered one of the most critical elements of managing risk in any business setting. “You can have all the systems and procedures in the world, but without senior management buy-in, it’s worthless” (ERM initiative faculty, 2008). Singularly highlighted interview responses included communication to departments via the risk assessment process training, communication to clients via a credit rating system which ensures the minimization of “reckless lending”, and more importantly, empowerment of risk champions within departments who are tasked with training the rest of the team.

4.6.6. Enterprise Risk Management effect on strategic performance

In line with the main objective of this research, the researcher sought to find out whether the interviewees believed that Risk Management helped them achieve their performance targets in any way. All the interviewees concurred that risk management helped them achieve their targets since they applied risk management even at an individual level (in addition to the formal risk management processes in place) while carrying out their day-to-day work activities. These targets included their normal business process activities, to which they applied some form of control to ensure any risks affecting achievement of these targets are well mitigated. In addition to this, since majority of the employees’ targets are

risk-based, the risk objectives of the Bank were also achieved. Furthermore, as Voltaire (1764) once said, “It requires ages to destroy a popular opinion”; the researcher valued the opinion of the interviewees’ opinions and enquired whether, in their opinion, risk management helps an organization perform better, acts as a hindrance or is simply a regulatory requirement. 24 of the 25 interviewees said that, in their opinion, risk management helps an organization perform better.

The staunch supporters of risk management explicated that it ensures comparison to best standards set out, provides risk appetite adherence limits that help sustain the business in a dynamic environment, and provides a line of defence to cope with a potentially crippling event that may arise. One interviewee highlighted the need to ensure that the risk function is as objective as possible to ensure an efficient and thriving business, while another interviewee explained the importance of continuous education on the risks the organization faces in order to gauge the reasons for variances in actual versus required performance levels. Interviewees appreciated the fact that, as much as a positive bottom-line is the main objective of any organization, there is need for proper risk management for close monitoring of the internal and external factors that affect the business. One interviewee stated, “Risk Management is pivotal because it is only through control and adequate monitoring that an organization can truly prosper.”

Of the 24 interviewees who were of the opinion that risk management helps an organization perform better, 2 explained why risk management could act as a hindrance, citing reasons such as inflexibility which may hinder innovation and bureaucracy and lead to longer processes thereby hindering a customer-centric function from carrying out their role in the simplest and, in their opinion, more effective manner. However, they also agreed that a

balance needs to be achieved in order for business and risk management to work conjointly without creating additional unnecessary procedures. 4 of these 24 interviewees also added that risk management is a regulatory requirement, stating the various regulatory requirements on the risk management function structure and reporting. One interviewee explained that, if the function is well structured and understood across the organization, it helps a business succeed otherwise it becomes one of the many regulatory requirements. Out of the 25 interviewees, only one interviewee labeled risk management as a regulatory requirement rather than one that helps the organization perform better.

4.6.7. The link between Enterprise Risk Management and Strategic Performance

The study therefore established that enterprise risk management is viewed as a performance boosting tool with the opinion of majority of the members being highly positive on the effects and/or reasons for having it in place. The risk awareness culture is ingrained in majority of the interviewees' minds as deduced from the results of the study. It was shown to work both ways, with one process being infused into the other and vice versa, such that strategy drives enterprise risk management and enterprise risk management drives strategic performance. Based on the appetite for risk, the strategy was set out; based on the extent of achievement of objectives, the risk control measures and action plans set in. A birds' eye view of all the factors that affect the bank will enable its strategy to be driven by these factors instead of being crippled by them.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1. Introduction

To summarize the outcome of this study from what was inferred in chapter four, this chapter outlines the conclusion, limitations and recommendations for further research on the topic, acting as a foundation to research on similar Banks in the Kenyan Banking industry and beyond.

5.2. Summary of findings

The main findings of this study were centered about obtaining a better understanding of how enterprise risk management and strategy worked at I&M Bank, both on an individual factor level and in tandem. The researcher thereby asked interviewees risk-specific questions followed by strategy-specific questions, finally linking the risk and strategy questions to get an overall view.

Analysis of the interviewees' responses to risk-specific questions exhibited that the Organizational "Risk" Structure of the Bank was well set up, such that interaction levels between the risk department and other departments across the Bank was high. The Risk Function in itself has specific roles involving Operational Risk, Market Risk, Credit Risk, Liquidity Risk and Compliance Risk. The Head of Risk (equivalent to the Chief Risk Officer title in other organizations) has a high level of authority and reports directly to the Board. Reporting levels are also clear with incident reporting encouraged across the Bank. This enforces Risk Management Awareness and Participation across the Bank, thereby creating a supportive Risk Culture.

The main tasks of the Risk Department, as described by interviewees from other departments, include Market Risk, Liquidity risk, Credit risk, Operational risk, Legal risk, Project risk, Strategic risk, and Reputational risk management. Identification, measurement and evaluation of the risks and their associated controls across the Bank including risk advisory, policy and procedure review across the Bank, research, compliance activities, capital modeling, Business Continuity Planning (BCP) and Reporting were also key activities mentioned. The Depth of Risk Management across the Bank was portrayed by the descriptions obtained from interviewees. Interviewees identified prevalent risk areas and key controls within their departments including the reliance on other support departments to ensure controls are enforced, showing understanding (awareness) of inter-department risk management activities carried out. Participation was also immediately apparent from the positive responses on being involved in a formal RCSA or Risk Assessment exercise and the impact it has had on the organization. Involvement in setting Key Risk Indicator measures for risks identified was also very high. Being able to set tolerance levels at individual risk level reveals employee involvement in setting a Risk Appetite.

To summarize the responses to strategy-specific questions, at least a third of the employees have been involved in a strategy setting exercise within the Bank leading to higher employee inclusion (participation) levels while setting goals and objectives. All the employees concurred that the goals and objectives set out are well quantified and clearly measurable with performance being systematically measured vis-a-vis the goals. They were able to link their individual goals to the Bank's overall thereby bringing to light the structured approach to setting and measuring achievement of objectives.

Further, analysis of the risk-strategy-specific questions confirmed that, based on majority of the employees experience, Risk Management is an important input when it comes to achieving the Bank's strategic objectives. Also, in the opinion of the interviewees, Risk Management should be one of the main strategic objectives, highlighting that variance analysis of goal achievement over time is also a form of risk management. Given that risk is "the effect of uncertainty on objectives", the non-achievement of objectives points to an underlying problem. Majority of the interviewees also confirmed that their Key Performance Indicators had a risk element to them.

To obtain further information on the Risk Culture across the Bank, interviewees were probed on how risk awareness was spread across the Bank. Communication was viewed as key to achieving Risk Management adoption amongst Bank employees. Buy-in and communication by top management, enforcement by managers and training were the main contributing factors. Credit rating models, which are the main input to pricing, serve as important "non-verbal communication" tools. Training and empowerment of risk champions, who communicate to their department members on behalf of, or in addition to, the training done by the Risk Department was a unique feature noted. Interviewees stated that risk management (at both an individual and organization control level) helped them achieve their performance targets. The opinions obtained on risk management were largely positive, with majority of the interviewees agreeing that it helped an organization perform better in addition to being a mere regulatory requirement. However, some interviewees stressed the need to achieve a balance between risk management and bureaucracy/inflexibility that it may bring about.

5.3. Conclusion

To create a better understanding of the objectives of the study, a link to the introduction is necessary. The researcher considered the following risk factors to explain the extent of Risk Management carried out by the Bank: Depth of risk management in an organization, Risk awareness and participation, Risk appetite, Risk assessment and the Organizational “Risk” structure which includes an element of communication.

From the findings it can be concluded that enterprise risk management and strategic performance are inter-related activities and this has been recognized by employees at the bank. Strategic performance and risk activities have been inter-linked within the bank through tools such as KPI's, an incident reporting Mechanism, risk appetite monitoring and variance analysis between actual and expected outcomes. Risk management education is through risk trainings and regular risk assessments. The structure caters for interaction between the risk department and the other departments as well as high level reporting to Board Members, in addition to being all-inclusive and involving. From the study it is ostensible that Risk Management within I&M Bank caters for group risk activities too, which shows a wide-reaching scope of risk management across the Group. Structure acts as a starting point to strategy, pointing towards the fact that risk management activities have enforced strategy and strategic performance.

Further, it can be concluded that risk management communication and culture is ingrained within the bank such that employees are able to identify its various aspects and quantify its majorly positive effect on their performance. To enforce this conclusion further, the balance sheet size and profit figures show a year-on-year growth that has been sustained over the years. Employees also have a positive attitude towards risk management and what

it sets out to achieve: sustainable strategic performance taking cognizance of the potentially devastating effects of risk events. Risk management will therefore work to bridge the gap between actual and required performance, ensuring the organization meets its overall objectives by applying a risk-based approach to management.

5.4. Recommendations

In line with the outcomes, this study recommends continued risk enforcement practices along with continuous risk process improvement which may include balancing out the risk control procedures with the time spent enforcing them by introducing more efficient controls. This will reduce and potentially eliminate any resistance to risk management practices as the value-add will be more visible. Although it was not discussed as a part of the study, continuous improvement comes about with improved and evolving technology. To keep up with the changing environment, the uptake and use of risk software and strategic risk assessment is important. This will improve the quality and efficiency of strategy and risk processes within the bank.

5.5. Limitations of the study

It is important to note that strategic performance encompasses more than just one element and the elements covered in this study may not provide a multifaceted view. Further, the study was limited to I&M Bank which has different risk factor enforcement levels than other Banks in Kenya may be subjected to. This may skew the results of the study given that other Banks may employ different enterprise risk management techniques. Another limitation of the study is the dependence on the answers provided to interview questions. The answers may have an element of bias to portray knowledge or ignorance on the subject matter given the respondents actual positive or negative experiences. The interview

questions were personally administered and the researcher believes that the responses were honest to the extent of the knowledge and experience of the interviewee and bases the findings, conclusion and recommendation on this belief.

5.6. Suggestions for further research

There is scope for much extensive research on the topic given that enterprise risk management is a growing phenomenon within the Kenyan Banking Industry and indeed other business sectors. Other risk factors and strategy elements can be explored in addition to those used for this study. Strategic Risk Management adoption can also be added to the growing list of under-researched topics in the Kenyan Banking Sector as was identified in section 1.2 of this study. Researchers may also consider moving away from the financial sector to sectors where the uptake of risk management is much lower and requires a boost.

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APPENDICES

Appendix 1: Interview Guide

This Interview’s content is confidential and aims to serve the purpose of obtaining data for the following research project: “The effect of Enterprise Risk Management on the Strategic Performance of I&M Bank Limited, Kenya.”

Section A: Background Information

- 1) What Department/Business Unit do you work in?
- 2) Do you interact with the Risk Department? If yes, how many times? (Once in 6 months or a year, Once a quarter, Once a month, At least once a week)

Section B: Risk Department Information

- 3) What is the **title** of the senior-most risk employee within the Bank?
- 4) How many ‘sub-departments’ is the Risk Department currently divided into?
- 5) What, according to you, are the main tasks of the Risk Department? Explain.

Section C: Other Risk Information

- 6) Out of the following operational risks, which **one** do you (or does your department) **prevalently** face on a day-to-day basis?

Delays & Complaints

Inadequate Resources (time, personnel, etc.)

System Downtime

Over-reliance on other department/service/person

Fraud

Errors (Human, Processing, System, etc.)

Other

- 7) If “Other” Risk, which one? Explain.

- 8) Do you have some degree of control of the risk you have identified? Explain.
- 9) Do you have a set standard risk appetite or tolerance level for the risk you have identified? (For example, how much of the risk is considered too much in your department – one hour of system downtime per week, number of complaints per week, number of times delays by other people/departments have affected your work per week?)
- 10) Have you ever done a Risk Assessment of your department, for example RCSA (Risk Control Self-Assessment)?
- 11) In your opinion, has the Risk Management process reduced the **prevalent** risk you have identified in your department faces and improved performance in that area?
- 12) Does the Bank encourage identification and reporting of risk issues?

Section D: Strategy Information

- 13) Have you ever been involved in a strategy setting exercise at I&M Bank?
- 14) Are the objectives/goals of the Bank well quantified and clearly measurable (e.g., volume, market-share, growth rate, profitability)?
- 15) To your knowledge, is Risk Management considered as one of the Bank's strategic objectives/goals?
- 16) In your opinion, **should** Risk Management be one of the Bank's **main** strategic objectives? Explain.
- 17) Does the organization systematically measure actual performance versus goals?
- 18) How is risk management importance communicated within the Bank? (Regular scheduled training, communication by top management, enforcement by managers, etc.)
- 19) Do your current Key Performance Indicators (KPI's) have a risk element to them?
- 20) Do you believe risk management has helped you achieve your performance targets in any way?
- 21) In your **honest** opinion, has risk management helped the organization perform better, or does it act as a hindrance, or is it simply a regulatory requirement?