RISK MANAGEMENT STRATEGIES AND PERFORMANCE OF COMMERCIAL BANKS IN KENYA

BY

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DECLARATION

Student Declaration

This research project is my original work and has not been presented for a degree in any other university for an academic award

Sign…. ……..Date…14/11/2022………………………………

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REG: D61/5346/2017

MBA PROGRAMME

Supervisors' Declaration

This research project prepared by **Karoney Munira Chepkurui** titled," **Risk Management Strategies and Performance Of Commercial Banks In Kenya** "has been handed in for assessment with my endorsement as the appointed University supervisor

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DEDICATION

This study is dedicated to my late dad Ibrahim Karoney whom would be very proud for the milestones I have made in life. To my lovely family my partner David Komen and my amazing children; Latifa Cheptoo and Shakir Kigen for their enormous love, care encouragement and perseverance throughout my study period.

Above all I exalt The Almighty Allah for the unending love, blessings and success.

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ABSTRACT

Modern day organizations are exposed to more risk than they were in the past. This is mainly due to emerging trends including technology advancement increasing the firm's culpability to threats such as cybercrime, identity theft and phishing. Escalating risks have also been largely due to intensified competition which has made firms venture into new lines of businesses without conducting due diligence. Firms in the financial sector are more exposed to risk than companies in other sectors because of desire for quick riches by current day generation which have little experience in management of funds and register a high default rate. The implications of lack of proper risk management in the financial sector have some huge repercussions on the economy and can result to bank crisis, eventual collapse and economic recession. It is on this premise that the investigation sought to examine the effect of risk management strategies on performance of Kenyan commercial banks. The study was informed by two theories namely the modern portfolio theory and the prospects theory. Data collection was performed using self-administered questionnaires. A response of 35 questionnaires were returned yielding a response of 83 per cent. The regression analysis findings revealed a statistically significant effect of risk management strategies performance of commercial banks as shown by significance level of 0.000 which is <0.05. This affirms that the model was a reliable estimator of bank performance. The coefficient of determination (R^2) 0.502 value implied that 50.2 % of performance of commercial banks is attributed to risk management strategies namely risk acceptance, risk transfer, risk reduction and risk avoidance. A unit change in risk acceptance was found to cause 0.326 positive and significant change in performance of commercial banks. Similarly, a unit change in risk avoidance triggered a 0.447 positive and significant change in performance of commercial banks. On the other hand, a unit variation in risk transfer initiated a 0.523 positive and significant change in bank performancewhile a unit change in risk reduction caused a 0.665 positive and significant variation in bank performance. Part of the recommendations include the need for need for the regulators such as the central bank and other banking bodies such as the Kenya bankers association to develop frameworks for risk management to facilitate collaborative effort in the management of banking risks since a breakdown in the banking system have ripple effects on the entire economy and the need to attention to global and local financial markets to timely observe trends and shocks and set up safeguards to avoid hazardous repercussions.

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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Risk management is a vital factor in every entity due to risks that are constantly emerging. This risks are caused by several factors including technology advancement presenting an avenue for cybercrime, difficult economic conditions resulting to non-performing loans and intensified competition which increase the vulnerability of firms as they attempt to adjust with emerging trends (Gitonga & Barasa, 2021). Every organization aims to increase the wealth of its shareholders and this can be attained through optimal application of available resources and pursuing risks whose benefit outweigh the risk. As such, despite the banks' operations framework creating a platform where borrowers and savers can meet, their ultimate goal is to generate profit and therefore, it is their capacity to predict future eventualities that determines the business' profitability (Nikita, 2017)

The investigation was underpinned on two theories; prospects theory and the portfolio theory. The prospects theory founded by McDermott (2001) is a theory of decision making under conditions of risk. It argues that decisions are based on judgements which are dependent on assessments about the external environment. According to the theory, the organization's ability to set objectives is bounded by its risk appetite. The portfolio theory advanced by Markowiz (1952) formalizes risk management from a modernistic empirical approach. The theory models the association between risk and return arguing that rational investors compared risk and return so that the more the risk the higher the expected return.

Financial crisis has affected both big economies and developing nations across the globe. Most entities in the financial sector have either collapsed or near collapsing due to poor lending practices to companies and persons with a poor credit reputation. Banking crisis in Kenya have demonstrated that Banks often absorb a lot of risks which vary among banks. The risk factor associated with the banking industry has been exuberated by the Covid-19 pandemic since the financial sector, and specifically banks are anticipated to play a critical role absorbing the shock through funding (Acharya and Steffen, 2020; Borio, 2020) to cushion other sectors. This has made commercial banks more susceptible to various types of risks namely market risks, liquidity risks, credit risks, business risks, operational risks, operational risks, system risks, reputational risks and moral hazard among others.

1.1.1 Risk Management Strategies

Risk is described as the probability of financial and economic losses or gains brought about by uncertainties attributed to pursuing an investment (Richards &Manfredo, 2007). Risk management may also be described as the procedures followed by a firm to safeguard itself against loss (Dima &Ozea, 2010). Moles (2013) defines it as the establishment, assessment and decision making relating to the tackling of risks facing the firm. Practicing sound risk management is a continuous process. Risk affects the firm's ability to achieve its overall goals. Strategic performance is influenced by several risk factors, constituting of intensity of risk management in the firm, risk awareness and participation, risk appetite, risk evaluation and organizational risk structure which incorporates an aspect of communication.

Risk relates to the awareness and reaction to circumstances that may impede the ability of an entity to attain its goals. As such, firm managers should establish procedures of identifying such circumstances and come up with action plans to prevent the risks (Hill et al, 2010). Risk

management entails the identification, measurement, monitoring and control of risks. Risk influences human actions to certain extents, all businesses and sections of the management of a firm. Firms require a strategy not only for risk avoidance but risk management for successful introduction of new commodities to the market. Lack of proper risk assessment and management strategies lead to loss of control and use of large amount of resources and which inflate project costs which may result to failure (Mu, Peng & MacLachlan, 2009).

Risk management is of great essence in the identification and mitigation of risks hence prudent utilization of resources. Risk management has been applied in various fields including healthcare, financial sector and insurance (Vargas-Henandez, 2011). According to Lapteva (2009), banks may apply three generic strategies namely diversification, insurance and edging to manage risks. These strategies possesses two risk management dimension namely risk transfer and risk pooling. Hedging refers to the eradication of the risk by disposing the risk in the market via financial tools. The pooling strategy of hedging have a component of transferring the risk while the risk transfer analogy entails the transfer of risk from one party to another.

On the other hand, the diversification reduces the risk by merging risks which are not interrelated into portfolios. For instance, the fact that every single borrower represent a significant risk does not imply that all the borrowers represent key concerns relating to the risk due to varying repayment approaches. The pooling diversification dimension entails the clustering of risks into portfolios whose total risks are less that the cumulative individual risks while no with little transfer of risks but narrowed to portfolios in the transfer dimension of diversification.

On the other hand, the insurance strategy entails controlling the risk in return for a premium. For example, the bank considers the gains they anticipate from the assets and resort to pay the insurer

a certain premium so as to safeguard the bank from losses emanating from the damage of the assets. In the insurance strategy, the risk pooling component assumes the pooling of risks at a consolidated level and therefore the insurer may reap the diversification benefits. It entails the transfer of risks from the buyer and the seller who presumes all the uncertainties (Lapteva, 2009). Firms may also adopt other strategies such as risk acceptance, avoidance , risk transfer and risk reduction depending on the extent of potential loss and its impact of firm operations (Bhimani, 2009, OECD, 2014).

1 .1.2 Organizational Performance

Marmouse (1997) defines financial performance as the measurable and verifiable indicators that can be used to ascertain the degree to which the enterprise has attained the set goals or objectives. These indicators may either be financial or non-financial (Salem, 2013). Performance and its sustenance is what all companies focus at since it will enable the firm to grow and make progress. Strategic decision making is a very crucial factor in management and is arguably a highly significant pointer of a company's performance (Corina et al., 2011).

Sabina (2013) defines performance measurement as important since it enables the management and scholars to develop specific actions of the enterprise and the firms' performance in comparison to the rivals. It also tracks the firms' performance over time. Performance is measured from different perspectives with key focus on major stakeholders such as the customers, employees, suppliers financial successes and key business processes to ascertain the current, past and future performance. As such, the organization is able to measure progress and institute measures where necessary.

There are different approaches of ascertaining organizational performance. This entails financial performance which entails analyzing the financial statements of a firm. This includes the income

statements and the cash-flow. These reports are able to show the position of the firm in terms of net assets, how the company has performed and its liquidity status respectively (Quadan, 2004). Performance could also be measured in the form of ratios. For example, we have profitability ratio, asset utilization leverage ratio, coverage ratio, Return on assets, return on equity among others (Bekan, 2011). These ratios help us do quick analysis of what is reported on the financial statements. Performance may also be measured using tools and models such as the balance scorecard. Apart from the financial aspect of performance, the balance scorecard incorporates other non-financial components for instance customer satisfaction, learning and growth and internal business processes (Kaplan & Norton, 1992).

The balance scorecard by Kaplan & Norton (1992) will be adopted to measure performance in the study. According to the model proponents, the true reflection of an enterprises' financial performance is not only depicted by the financial indicators, but also the non-financial measures. The model proposes four performance measures namely, the customer perspective, financial perspective, learning and growth and internal business processes. The customer perspective measures whether the customer is content with services as considers the customers' needs such as quality and cost. The financial perspective deals with the investment decisions of the firm and profitability. On the other hand, internal business processes evaluate the seamlessness in the firm's internal processes such as communication, administration and use of technology while learning and growth constitute the experience gained as a result of being in business over time

1.1.3 Commercial Banks in Kenya

The Commercial banking industry in Kenya is governed by the Companies Act, the Banking Act, Central Bank of Kenya Act and Data Act among others. The Kenyan banking sector constitutes 43 institutions among which forty-two are commercial banks and one mortgage finance company (MFC) (CBK,2019). According to Dia et al., (2020), the banking sector constitute a vital facet of

the financial system. Banks generate additional income to the economy by sourcing funds from depositors and lending to investors to fund productive projects thus enabling smooth running of the country's economic activities (Dietrich and Wanzeried 2011). The sector makes significant tax contribution to the economy contributing to 42.4 Billion in 2020 which is used to support different economic activities (KBA, 2021).

Banks also provide employment opportunities to a huge number of Kenyan's, and this shows that the importance of the banking industry cannot be downplayed. Effectively, this means that the breed of leaders who are appointed within this sector should be individuals who understand that the critical economic role that the industry plays in supporting the entire country. Banks have put in place stringent measures to improve their risk management structures (Shahbaz, et al, 2012). This came after major financial calamities such as the 2008 financial recession and international scandals such as the Enron case and WorldCom Case which forced regulators to demand credit risk structures from the banks (Hansjörg, 2016). Commercial banks that effectively manage their risks record superior performance.

1.2 Research Problem

Modern day organizations are exposed to more risk than they were in the past. This is mainly due to emerging trends including technology advancements increasing the firm's culpability to threats such as identify theft, phishing and cybercrime. The increase in risks has also been largely due to intensified competition forces organizations to venture into new lines of businesses without adequate market research (Li, & Yu, 2010). The financial sector is more exposed to risk than other sectors because of desire for quick riches by current day generation which have little experience in management of funds and register a high default rate. Poor risk management in the financial sector and more precisely by banks have a huge implication on the economy and can result to bank crisis and closure of many leading to economic recession (Gitonga & Barasa, 2021).

Banks experience higher exposure to risks during period of crisis such as the ongoing Covid-19 pandemic resulting to financial distress. The IMF 2019 noted during periods of crisis, banks report more Non-Performing loans that exceeded 7% of total loans. In all the financial recessions between 1990 and 2018, NPLs were more than double as compared to the period before the crisis (Anil, Sphia & Ratnovski, 2019). Consequently, the share of the relatively-less-risky asset classes have been observed to rise during the period. For instance, the share of banks' investments in government securities increased by 2.5 percentage points to 29.5 percent in 2020 from 27.0 percent in 2019 as placements with other banks' share in total assets also rose from 4.5 percent in 2019 to 5.9 percent in 2020 (KBA, 2021).

Numerous studies have been executed to assess risk management strategies and its effect on performance but none known to the investigator has related the variables to commercial banks in Kenya. Locally, Akinyi (2018) analyzed the impacts of risk management strategies on corporate governance in insurance firms in Kenya. On the other hand, Mutuku (2016) examined the effect of risk management on financial performance of Kenyan commercial banks. Although the above study is similar to the proposed topic, only financial aspects were used to measure performance, additionally. Regionally, Chukwondo et al (2019) explored risk management strategies and performance of Nigerian commercial banks which presents a contextual gap. Last but not least, Mohammad &Raz (2019) delved into the impact of credit risk management strategies on performance of commercial banks in Balchistan. In a study on the effect of credit risk management strategies on performance of SACCOs, Murugu (2012) found that SACCOs heavily rely on particular credit risk strategies which do not fully mitigate dynamic and competitive lending environment. Similarly, Gitonga and Barasa (2021) delved into risk management and commercial banks' profitability and reported that credit risk and profitability were insignificantly related. From the above discussions, it is evident that no study has attempted to examine how risk management

strategies commercial banks' performance in the wake of the Covid-19 pandemic, which is the gap that the proposed study sought to articulate.

1.3 Objectives of the Study

i. To establish the extent to which risk management have been deployed by commercial banks in Kenya
ii. To determine the relationship between risk management strategies and performance of commercial banks in Kenya

1.4 Value of the Study

The study's findings will be useful to the management of commercial banks in that they will derive insights on how to apply the risk management strategies to improve performance. Given their contribution to economic growth and poverty alleviation, effective management of risk is critical hence a deeper understanding on the different risk management strategies on grounds of resources required to control the risks and expected outcomes. The study will provide a comprehensive risk management framework that may be adopted by commercial banks.

The researchers and scholars of strategic management will utilize the findings to inform future research on how risk management strategies influence performance based on the gaps that the study will present. Areas of further research will also be drawn from the study's recommendations.

The policy makers in the field of finance such as the CBK, the treasury and parliament shall leverage on the findings to map out areas of policy review and formulation on matters regarding risk management strategies by commercial banks. A review on how banks are currently mitigating risk will also enable the regulators to ascertain whether the commercial banks are complying with the stipulated risk management regulations and procedures and take the necessary corrective action.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The section examineed relevant literature associated with research objectives. Theoretical review will focus on different theories and frameworks associated with the study elucidating their facts interconnectedness with the study's variables. On the other hand, empirical review reviewed other studies conducted that inform the study. A summary and outline of gaps was provided at the end of the chapter.

2.2 Theoretical Foundation

The research was pegged on two theories namely the Modern Portfolio Theory (MTP) and the Prospects Theory (PT). The proponents of the theory, facts, assumptions, limitations and application to the study are discussed in the section below.

2.2.1 Modern Portfolio Theory (MPT)

The modern portfolio theory was founded by Markowitz (1952, 1959). The theory explored the aspects if risk and return tradeoffs, portfolio selection and investment optimization. The MPT guides investors on the best combination of assets to generate the highest return at a given level of risk or minimize portfolio risk at a certain expected return. The theory was further advanced by Sharpe (1964) who introduced the principles of idiosyncratic and systematic risks and diversification. Through diversification, the total risk to be accrued in the portfolio is significantly reduced by selecting different assets whose returns are not purely correlated. This reduces asset-specific risk which in essence is diversified away. Addirionaly, risk averse investors prefer properly-diversified portfolio under circumstances of systematic risk. Most investors purpose to realize higher return through risk reduction by preserving certain assets (D'Antonio 1997).

The MTP propels the notion that risk presents both threats and opportunities whereby the business goals mainly seek not only to avert or reduce risks but to seek the highest return at acceptable risk levels (Boatright, 2011). To a large extent, MPT argues that the management is tasked with the selection of investment projects at efficient frontiers whose returns are high.

Commercial banks are exposed to different risks due to the ever-increasing investment strategies utilized. The boom of derivatives markets, the inception of futures on currencies and indices , as well as the development of digital lending platforms have changed the phase of the banking industry (Juma & Atheru, 2018). Even as the essence of risk management has escalated since the 2007-2009 global financial crisis, the modern portfolio theory has become integrated in law and standards. Appreciating the likely undesirable investment decisions outcomes and responding to changes in economic environment requires effective risk management strategies by financial institutions (Cipriani &Guarino, 2005). According to the MPT, the effectiveness of a risk management system depends on how accurately it executes its tasks of identification and evaluation and dealing with risks and the ability to gauge the correlation between various risks and uncertainty (Kamran &Omran, 2019).

The modern portfolio theory anchored on some assumptions such as the investor is rational which means utility maximizing hence would go for the most rewarding investment in a market of information symmetry. Secondly, the theory presumes that investors are risk averse and therefore would choose the risk portfolio with less risk when presented with investment options that yield equal return with different levels of risk (Rabin &Thaler, 2001). The third assumption is that the investor always prefers a portfolio with high investment return than lower expected return while the last assumption argues that the investor understands each asset's expected return in their

portfolio (Neumann &Margenstern, 2004). The modern portfolio theory has to a large extent been criticized in that it evaluates portfolios based on variance as opposed to downside risk. Despite the criticisms, the Modern Portfolio Theory is provides a good grounding for the study in that it informs the bank's decision making on the investment decisions through balancing risks and returns. This results to sustainability to the banking sector in terms of selection of portfolios that are highly rewarding and subject to less risk at the same time,

2.2.2 Prospect Theory

This is a decision making theory under circumstances of risk. The theory was advanced by Kahneman & Tversky in 1979 to explore the risk averse tendency in a sphere of gains as well as risk seeking in situations of losses. Decisions are anchored on judgements that are based on evaluations regarding the external environment (McDemott, 2001). The prospect theory presents four key concepts in the institutional risk preferences framework; institutions explore financial alternatives based on losses and gains and not the final wealth; institutions are more afraid of losses than attraction to gains institutions are risk-seeking in the domain of losses, and risk-averse in the gains domain and individuals measure extreme events with a view underestimating high probabilities and overestimating low probabilities (Kahneman & Tversky, 1979).

The prospects theory is largely applicable is dictating the risk that the organization is willing to take hence arrival at the current objectives. In a business situation, if the firm makes losses, then it would confront more risks by setting aggressive objectives. Therefore, the theory the theory may be applied in deliberating on the company's strategic risks. By balancing out risk and reward, this model may be used to spell out the strategy equivalent to the current risk management strategies. It may also augment strategy creation as a strategic risk management control (Bechara, 2001).

Confronting choices in isolation means that most firm choices regarding risky outcomes have negative and positive potential outcomes. Absolute win or lose situations exist but often occur (Shapira, 1994). Since managers only perceive strategies with negative results as risky, decisions perceived to be risky usually involve mixed gambles (Markle, 2008)

The prospects theory is largely applied in the behavioral science mainly in studies bordering decision making under risk circumtances. The prospects theory has been criticized for lack of psychological explanation for the process it talks about. Other scholars note that key aspects such as human emotional and affective responses are lacking in the model. The theory is applicable in the study in evaluating risks associated with investments by understanding the gains and losses associated with investment choices as to avoid risks.

2.3 Risk Management Strategies and Performance

Numerous scholars have attempted to explore the association between risk management and performance in different context; global, regional and local. These studies have taken different dimensions to explore the association between risk management and organizational performance. The current study relied on such studies to draw the gaps and hypothesize the study. Alim, Ali & Metla (2021). Looked into management of liquidity risk on banks performance in Pakistan. For the investigation, a panel dataset for all Pakistan's commercial banks from the year 2006-2019 was analyzed using Ordinary Least Squares. The study established that higher liquidity boosts performance of commercial banks hence the study sets a minimum benchmark for liquidity that commercial banks should observe to remain risk averse.

Oudat, & Ali (2021) explored the impact of risk Management on the bank's financial Performance. The investigation chose Bahrain Stock Exchange as the context where listed firms were studied between 2015 and 2019. The study assessed how financial performance measure by return on

equity is affected by components of financial risks such as capital risk, liquidity risk and exchange risk. Panel data regression was used to execute the analysis. Secondary data retrieved from annual financial reports was used. The findings document an insignificant relationship between capital risks, exchange rate, liquidity risks on financial performance while liquidity risk was found a significant impact on financial performance.

A study by Thuku, & Muchemi (2021) evaluated the impact of risk transfer strategy on performance of insurance firms in Nyeri. The study chose 66 managers from 22 insurance firms who directly participated in risk management process to provide data for the study. The census approach was applied for the survey. The research utilized both the descriptive and explanatory research design. Primary data was collected using self-administered questionnaires. Descriptive and inferential statistics were executed and the results concluded that risk transfer strategy has a positive and significant impact on performance of insurance firms in Nyeri County. The recommendations made were that insurers should consider reinsurance and partnerships with other insurance firms confronted with high risks and expand coverage of group insurance products to realize greater performance.

In a study by Nyaguthii, (2021) on the effect of financial risk management on performance of insurance firms in Nairobi County, a significant association was identified between operational risk management and performance, liquidity risk management and performance currency risk management and performance. The investigation had adopted the descriptive research design targeting 80 licensed real estate firms in Nairobi County where a sample of 66 were selected. The study adopted both the descriptive and inferential methodologies for data analysis. Among the recommendations arrived at were that the firms should reduce the probability of deferred

maintenance, reduce the risk of rising expenses to reduce the likelihood of stalled technology influencing core business processes.

Yahaya et al., (2015) examined the correlation between risk management and organizational performance of Nigerian deposit taking banks. Panel data of between 2005 to 2014, a ten-year time frame was used in the study. The study used two proxies namely ROE and ROA to measure performance. The investigation explored different explanatory variables such as standard deviation, equity, quick ratio over total assets debt over equity and debt over total assets to test the correlation between the constructs. The results on the hypothesis tests performed reveal that overall, risk management strategies and liquidity policies have a positive impact on organizational performance hence banks should implement sound risk management strategies to steer their operations and subsequently attain higher organizational performance. Among the strategies proposed were utilizing earnings rather than seeking external financing, investing more in current assets as oppose to non-current assets, and strictly adhere to liquidity management practices.

Randeree, Narwani &Mahal, (2012) evaluated a risk management model for UAE banks. The study focused on 10 UAE banks. A tailored risk management model was advanced using two stage modality. The first approach entailed developing a model based on five existing models while the other involved validation of the model based on the results of the first stage with support of BCM experts from the selected banks. The study established that standard maturity model is a functional model for situational analysis and can be a basis evaluating the maturity of BCM processes. The investigation evaluated the efficacy of the BCM model as opposed to assessing the nexus between risk management practices and performance which the present study seeks to investigate.

Maina (2012) explored the use of a risk management plan as a mechanism for building resilience among SACCOS in Kenya. All the six-licensed deposit taking microfinance institutions licensed

by the central bank were studied. The results indicated that deposit taking microfinance institutions in Kenya have adopted formal business continuity planning. The findings established a direct correlation between business continuity planning and priority given, existence of technical capacity, management attitude and acknowledgment of the importance of business planning. It was further established that that the client's reputation on deposit taking microfinance institutions was largely dependent on proactive management of risks. The scope of the study is like that of the current study although only that it focused on the deposit taking microfinance institutions. As such, the current study will explore whether a similar relationship will be observed among commercial banks in Kenya

Ariffin & Kassim (2014) analyzed the association between risk management practices and financial performance of Malaysian Islamic banks. The research evaluates the risk management practices employed by Islamic banks and attached them with bank performance. The study's findings associate risk management practices with positive and significant performance by Malaysian Islamic banks.

2.4 Review of Related Literature

Previous studies conducted on risk management and performance present various gaps including contextual, conceptual, methodological and theoretical gaps. Contextual gaps emanate from studies such as Chukwondo et al (2019) who explored risk management strategies and performance of Nigerian commercial banks, Mohammad &Raz (2019 who studied the impact of credit risk management strategies on performance of commercial banks in Balchistan and Ariffin & Kassim (2014) analyzed the association between risk management practices and financial performance of Malaysian Islamic banks which were conducted in different geographical locations.

Other studies such as Majid et al., (2022) have analyzed risk management but from other perspectives such as the employee safety at work place and subsequently performance. In the study on the effect of safety risk management on aviation safety performance, Majid and others found that there exists a statistically significant direct effect of safety risk management of the employees at workplace on airline performance.

On the other hand, other scholars including Saeidi et al., (2021) studied how the nexus between risk management and enterprise performance is moderated by other variables such as intellectual property and found that whereas some components of intellectual property such as information technology and knowledge had an effect on relationship between risk management and performance, others such as culture and training had no statistically significant impact on the relationship.

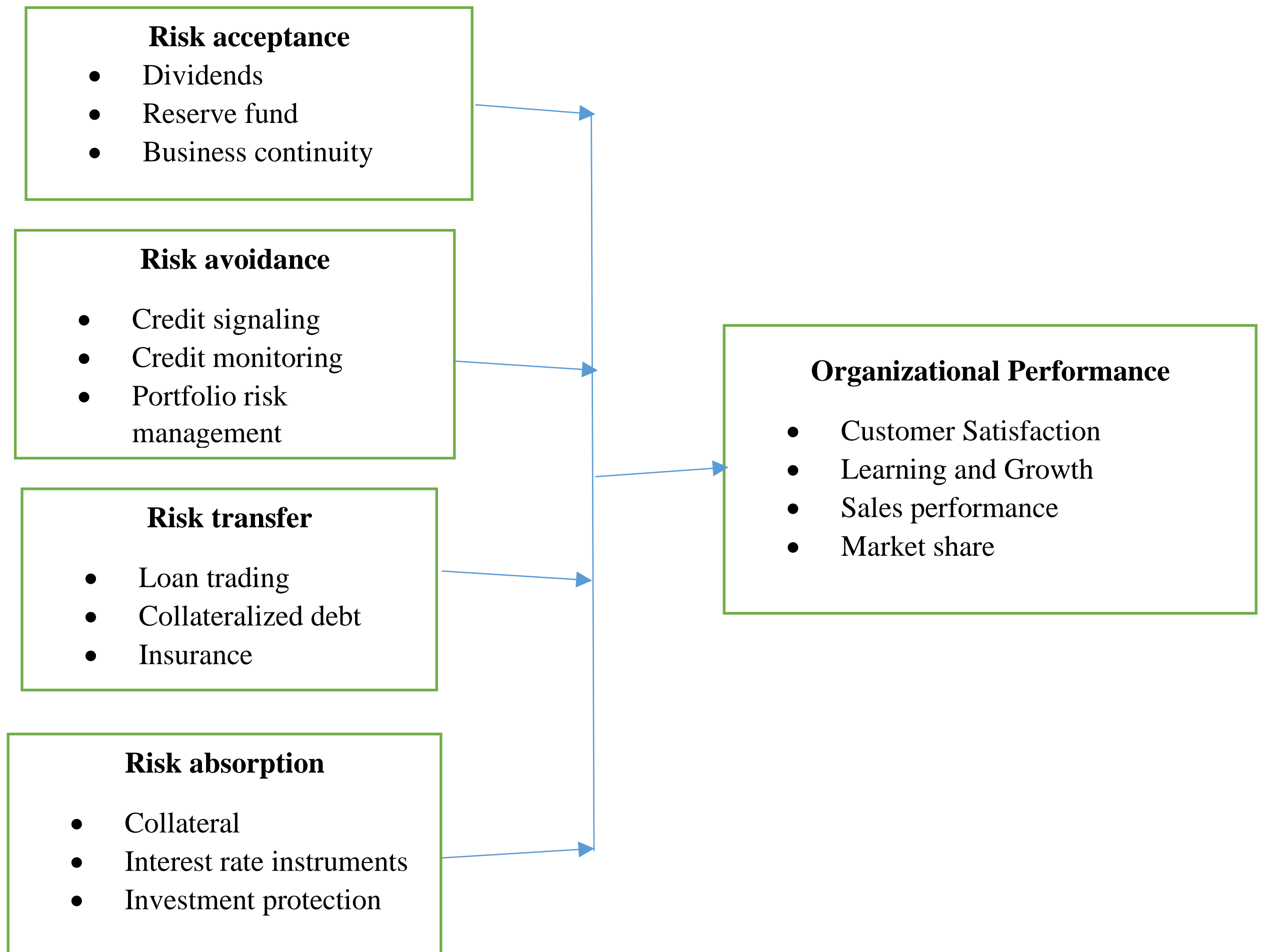
Gaps also arise from previous studies that were sector specific such as EL Baz and Ruel (2021) who explored supply chain risk management practices and resilience during pandemics such as Covid-19. Similarly, Thuku and Muchemi (2021) dwelled on the risk transfer strategies on performance of insurance firms while Dvorsky (2021) examined risk management and performance in the context of small and medium sized enterprises.

2.5 Conceptual Framework

The conceptual framework is a diagrammatic structure of the association between the endogenous and exogenous variables. For the study, the independent variables namely risk acceptance, risk avoidance, risk transfer and risk reduction while the dependent variable was organizational performance.

Independent Variables **Dependent**

Variable



CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The section outlined the study's research design. In addition, it addressed population, sample size and the techniques used in data collection. It also discussed the procedures for processing and analyzing the data collected.

3.2 Research Design

Kothari (2004) defines the research design as a plan or system to be applied to articulate the research problem. It provided a framework on how the objectives were addressed by the study. The research design guides the study by providing guidelines on the data that was collected and how it was analysed. The research adopted a descriptive the cross -sectional design since the data was collected during a single period of time. This design enabled the researcher to understand the relationship between variables in this study (Teddlie & Tashakkori, 2003). The research design also enabled the researcher to collect a vast amount of data in a short span (Singleton, 2009).

3.3 Target Population

Kothari & Garg (2014) define study population is a group of elements with a minimum of one common characteristic. The study's population constituted all the 42 Kenyan commercial banks as from 31st December 2020 (CBK, 2020). The study was a census study since all the banks were studied.

3.4 Data Collection

The research employed primary data. The primary data was considered appropriate in showing the actual/ present relationship between the variables under study. The data was gathered using a structured questionnaire. The questionnaire beared closed-ended questions. The choice of close-

ended questions was to draw comparisons and reflect the characteristics of the data. The questionnaire was structured into three sections; the first section captured the demographic information of the participants, second part examined the extent to which risk management strategies have been adopted by commercial banks while section three addressed organizational performance.

The questionnaires were issued to one respondent from each of the banks preferably from the strategy department or risk department. The investigator personally hand delivered questionnaires to the respondents to fill which were picked on a later date.

3.5 Data Analysis

Saunders, Thornhill and Lewis (2009) opined that the collected data must be processed so as to obtain meaningful information and make deductions. The data collected was subjected to data cleaning which entails testing the data for completeness and controlling for outliers. Data entry was performed by coding the data into the statistical package for social sciences (SPSS Version 23). Descriptive statistics including standard deviation and mean was executed to understand the data. The association between the dependent variable (performance) and independent variables (risk management strategies) was assessed using regression analysis and presented using charts and tables.

The multiple regression equation is presented as follows;

$Y = \beta_0+\beta_1 X_1+\beta_2 X_2+\beta_3 X_3+\beta_4 X_4+ e$

Where:

Y = Organizational Performance

ベータ I = The coefficients for different variables.

β_0 = the Y intercept

X_1 = Risk acceptance

X_2 = Risk avoidance

X_3 = Risk transfer

X_4 = Risk reduction

e = the error term

CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

4.0 Introduction

The section outlines the analysis of findings in a study to investigate the risk management strategies and performance of Kenyan commercial banks. Descriptive statistics was generated on the application of various risk management strategies by commercial banks. The investigation then applied multiple regression analysis to test the association between risk management strategies and performance of Kenyan commercial banks.

4.1 Response Rate

For the study, a total of 42 questionnaires were administered to the participants. 35 were returned translating to a response rate of 83%.

Response	**Freq**	**%**
Received Back	35	83
Not Received	7	17
Total	**42**	**100%**

Source: Researcher (2022)

This response rate was appropriate according to Mugenda (2010) who indicated that a 70% response and above is the is excellent and therefore the study was fit for drawing inferences about the population.

4.2 Demographic Factors

The demographic attributes of the participants from the bank were examined in order to obtain a picture of the background characteristics and gauge their ability to accurately respond and articulate the issues relating to the study. For the study, aspects regarding the bank and the

respondents such as the gender, age, highest level of education and duration worked for the organization were investigated.

4.2.1 Gender

The investigation explored the respondents' gender. Such was important to ascertain if there was a balanced and good representation of both genders at the bank.

	Frequency	Percent
Male	20	57.1
Female	15	42.9
Total	**35**	**100.0**

Source: Researcher (2022)

The results presented above indicate that there are more male (57.1%) than women (42.9%) working for commercial banks in Kenya. Despite the variance, the composition is acceptable as per the constitutional thresholds of the two third gender rule.

4.2.2 Age

The study sought to evaluate the age of the respondents. The participants were asked to indicate their age brackets.

	Frequency	Percent
18-30 years	6	16.6
30-40 years	10	28.5
40-50 years	12	34.2
50 and Above	7	20.0
Total	**35**	**100.0**

The findings above shows that majority of the respondents were aged between 40-50 years (34.2%) followed by those aged between 30-40 years (28.5%) then 50 and above (20%) while the least were between 18-30 years. The findings show that the banks have a diversity of workforce with respect to age hence a combination of young innovative minds and experienced professionals whose combined efforts are important for the bank's risk management.

4.2.2 Level of education

The researcher measured the respondent's level of education. The participants were asked to indicate whether they had attained tertiary, undergraduate or post –graduate academic awards.

	Frequency	Percent
Tertiary	7	20.0
Undergraduate	19	54.2
Post graduate	9	25.7
Total	**35**	**100.0**

From the results, it is evident that majority of those polled had attained bachelors level of education 54.2% followed by 25.7 % who had earned post-graduate degrees while the least, 20.5% had acquired tertiary level of education. The results demonstrate that majority of the respondents were well educated hence anticipated to have higher comprehension on the issues relating to risk management and performance.

4.2.3 Duration Worked

The study sought to investigate the duration in which the participants have been working for the commercial banks.

	Frequency	Percent
Less than 3 years	5	15.6
3-5 years	7	21.9
6-10 years	11	34.4
Above 10 years	9	28.1
Total	**32**	**100.0**

Source: Researcher (2022)

The findings reveal that majority have worked for their organizations for between 6-10 years (34.4%), followed by above 10 years (28.1%), then between 3-5 years (21.9%) while only 15.6% have served for less than 3 years. It can be said from the analysis that most respondents have worked for the banks for a considerable period of time hence have acquired adequate experience on issues related to risk management and how it contributes to bank performance.

4.3 Risk Management Strategies

The study sought to measure the degree to which commercial banks have employed various risk management strategies to realize performance. The study considered four variables namely risk acceptance, risk avoidance, risk transfer and risk reduction. The statements were evaluated in a five point Likert Scale of 1- Strongly disagree, 2- Disagree, 3- Moderate, 4-Agree, 5- Strongly agree. The results were as indicated in the sections below;

4.3.1 Risk acceptance

The investigator sought to access whether risk acceptance was practiced by commercial banks in Kenya as a strategy for managing risks. The participants were asked to rate various statements related to risk acceptance in the five point Likert Scale.

	N	Mean	Std. Deviation
Risk acceptance helps to improve cost effectiveness in the choice of risk mitigation measure	35	4.23	.88
The bank has a clear risk acceptance criteria	35	4.03	.75
The bank is ready to cope with the consequences incase risk arises	35	4.00	.84
The bank acknowledges that it operates in a highly dynamic and risky	35	4.00	.80
Recognition for risk existence forms the baseline for risk mitigation in the bank	35	3.76	1.27
The acceptance of financial risk is inherent to the business of banking	35	3.63	.94
Average		**3.94**	**0.91**

The results above show that most respondents agreed that risk acceptance helps to improve effectiveness in the choice of the risk mitigation measure (M-4.22, SD-0.88). Similarly, a majority of the participants concur that their banks have a clear risk acceptance criterion (M-4.03, SD-0.75). On the other hand, an equal number of those polled agree that the bank is ready to cope with the consequences in the event risks arise and that banks acknowledges that it operates in highly dynamic risky environments as evidenced by means of 4.00. Additionally, the respondents maintain that recognition of risk existence forms the baseline for risk mitigation in the bank (M-3.76, SD-1.27) while a significant number recommended that the acceptance of financial risk is inherent to the business of banking (M-3.63, SD-0.94). An overall mean of 3.94 on the various attributes tested imply that commercial banks have robust risk acceptance strategies in place.

4.3.2 Risk transfer

The researcher examined whether risk transfer was used by commercial banks in Kenya as a strategy for managing risks. The participants were asked to rate various statements associated with risk transfer in the five point Likert Scale.

	N	Mean	Std. Deviation
The bank is comprehensively self-insured	35	4.00	.91
The number of insured linked products has increased	35	3.88	.68
The bank has increased use of asset-backed securities	35	3.60	1.35
All credit products are insured	35	3.54	.85
The bank uses credit derivatives to reduce risk	35	3.42	.84
Average	**35**	**3.69**	**0.93**

From the results, it is evident that the banks are comprehensively self -insured (M-4.00, SD-0.91). In light of this, the respondents agree that the number of insured products have increased over time (M-3.88, SD-0.68). The participants also contend that their banks have increased the use of asset backed securities (M-3.60, SD-1.35). The respondents further confirm that all credit products are insured (M.3.54, SD-0.85) while they agree to a moderate extent that the bank uses credit derivatives to reduce risks (M-3.42, SD-0.84). It can be said from the findings that the commercial banks have adopted risk transfer as a strategy for mitigating risks given the average mean of 3.69 on the aspects tested.

4.3.3 Risk reduction

The study sought to assess whether risk reduction was deployed by Kenyan commercial banks as a strategy to reduce risks. The participants were requested to rate various statements related to risk reduction in the five point Likert Scale.

	N	Mean	Std. Deviation
The banks demands collateral when issuing loans	35	4.05	.91
The bank has spread capital allocation to cover risks	35	3.71	1.20
The bank charges a special risk premium on risky borrowers	35	3.51	1.27
The bank has a special capital allocation to cover risks	35	3.37	.86
The bank spreads risks through partnerships on high risk investments	35	3.22	.69
Average	**35**	**3.57**	**0.99**

Source: Researcher (2022)

From the results, the participants agree that banks demand collateral when issuing loans (M-4.05, SD-0.91). The participants also reported that the banks spread capital allocation to cover risks (M-3.71, SD- 1.20). The respondents further agree that the bank charges special risks premium on risky borrowers (M-3.51, SD-1.27). On the other hand, the respondents agree to a moderate extent that the banks have a special capital allocation to cover risks and that the bank spreads risks through partnerships on high risk investments as shown by means and standard deviations of (M-3.37, SD-0.86) and (M-3.22, SD-0.69) respectively. It can be concluded that the bank has attempted to apply risk reduction as a strategy to manage risks.

4.3.4 Risk avoidance

The study explored risk avoidance was practiced the banks in Kenya to manage risks. The participants were asked to rate various statements associated with risk avoidance in the five point Likert Scale.

	N	Mean	Std. Deviation
The bank undertakes regular portfolio risk assessments	35	4.22	.88
The banks insist on guarantees on all loans	35	4.20	.63
The banks has strict documentation policies in place	35	4.15	.77
Bank employees are well trained to avoid risky contracts	35	3.93	.94
The bank works closely with credit rating agencies	35	3.86	1.26
The bank undertakes thorough background check on borrowers before issuing credit	35	3.84	.85
Average	**35**	**4.03**	**0.89**

Source: Researcher (2022)

The results depicted in the Table above, confirm that the bank undertakes regular portfolio risk assessment (M-4.22, SD-0.88). Similarly, it may be construed from the findings that banks insist on guarantees on all loans (M-4.20, SD-0.63). Additionally, the respondents agree that the bank has strict documentation policies in place (M-4.15, SD-0.77). The participants also construed that the bank employees are well trained to avoid risky contracts (M-3.93, SD-0.94). The results also demonstrate that banks work closely with credit rating agencies (M-3.86, SD-1.26) while a significant number of those polled attest that the bank undertakes thorough background check on borrowers before issuing credit (M-3.84, SD-0.85). The grand mean of 4.03 implies that is avoidance is largely leveraged by Kenyan commercial banks to manage risks and realize performance.

4.4 Bank Performance

The study sought to examine whether commercial banks have recorded improvements in performance in the last three years. Various statements related to the different performance indicators were presented to the respondents and asked to rate in a five point Likert scale of 1-

Strong Disagree, 2- Disagree, 3- Neutral, 4- Agree and 5- Strongly Agree. The findings were as shown below

	N	Mean	Std. Deviation
There has been increased digitization of services and processes in the bank over the last three years	35	4.02	.91
Customers have reported more satisfaction in the last three years compared to the past	35	4.01	.84
The banks' market share has increased over the last three years	35	3.89	.68
The banks' revenues have increased over the last three years	35	3.49	1.27
The rate of employee retention has improved over the last three years	35	3.47	.85
The bank has registered improved profitability over the last three years	35	2.80	1.35
Average	**35**	**3.62**	**0.98**

Source: Researcher (2022)

Upon the evaluation of the various performance parameters, the respondents confidently affirm that there has been increased digitization of services and processes in the bank over the last three years (M-4.02, SD-0.91). The participants also stated that the customers have reported more satisfaction in the last three years compared to the past (M-4.01, SD-0.84). Similarly, the respondents declared that the bank's market share has increased over the last three years (M-3.89. SD-0.68). However, the respondents, agreed, but to a moderate extent that the banks revenues have increased in the last three years, the rate of employee retention has improved in the last three years and that the bank has registered improved profitability over the same period as shown by means of 3.49, 3.47 and 2.80 respectively. Overall, it can be said that the bank has attained improved performance over the period as shown by a mean of 3.62.

4.5 Regression Analysis

Regression analysis was used to measure the association between the exogenous variable (risk management strategies) and endogenous variable (performance). For this study, a multiple linear regression analysis was performed on the study to test the association between risk management strategies and performance of commercial banks in Kenya.

4.5.1 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.709[a]	.502	.436	.64354

a. Predictors: (Constant), risk acceptance, risk avoidance, risk transfer, risk reduction

The model summary results demonstrate that risk management strategies as represented have a strong relationship with performance (r=0.709). The coefficient of determination (R^2) 0.502 measures the degree to which risk management strategies explain the performance of commercial banks in Kenya. From the data findings, 50.9 % of performance of commercial banks in Kenya is attributed to risk management strategies. The remaining 49.1% variation in performance of commercial banks is influenced by other factors not factored in the model.

4.5.2 Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	12.547	4	3.137	7.574	.000[b]
	Residual	12.424	30	.414		
	Total	24.971	34			

a. Dependent Variable: Bank Performance
b. Predictors: (Constant), risk acceptance, risk avoidance, risk transfer, risk reduction

The statistical output for analysis of variance attempts to show the suitability of the model to statistically predict the association between the endogenous and exogenous variables. The output illustrated the Table above show a significance level of 0.000 which is <0.05 hence the model is statistically significant. The F Critical value 2.66 was lesser than the F calculated value of 7.574 confirming the significance of the model. This affirms that the model is statistically fit as an estimator of performance of commercial banks

4.5.3 Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	1.952	.617		3.162	.004
	Risk acceptance	.326	.153	.358	2.133	.041
	Risk avoidance	.447	.170	.453	2.633	.013
	Risk transfer	.523	.156	.520	3.345	.002
	Risk reduction	.665	.129	.731	5.154	.000

a. Dependent Variable: Bank Performance

The resultant regression equation will be represented as;

$$Y= 1.952+0.326X_1 +0.447X_2 +0.523X_3 +0.665 X_4 + \varepsilon$$

From the equation above, performance of commercial banks will maintain at 1.952 when other factors remain constant. A unit change in risk acceptance will cause 0.326 positive and statistically significant change in performance of the banks. Similarly, a unit change in risk avoidance triggers a 0.447 positive and significant change in performance. On the other hand, a unit variation in risk transfer initiates a 0.523 positive and significant change in banks performance while a unit change in risk reduction causes a 0.665 positive and statistically significant variation in bank performance.

4.6 Discussion of the Findings

The results showed that risk acceptance has been leveraged by commercial banks to a large extent to realize performance. As such, the acknowledgement and acceptance or risks has enabled banks to improve on cost effectiveness in the choice of the mitigation measure which is by the acceptance procedures and measures in place. Part of the risk acceptance measures include being ready to cope with consequences arising from risks including the financial risk inherent to banking. The regression analysis findings demonstrate a positive and statistically significant nexus between risk acceptance meaning banks have to be cognizant and accept risks to grow their portfolios.

The findings demonstrated the application of risk transfer to a large extent as demonstrated by the average mean of 3.69 on the attributes tested. This has been actualized through the insurance of various bank products. It emerged that the bank as an entity is comprehensively insured in addition to the various products and services offered. Other instruments that have been used by the banks to transfer risks include the deployment of asset-backed securities and use of credit derivatives. Risk transfer was also found to have a positive and statistically significant influence on performance which is in line with Thuku, & Muchemi (2021) who concluded that risk transfer strategy has a positive and significant impact on performance in his study the impact of risk transfer strategy on insurance firm's performance in Nyeri County, Kenya.

From the assessment of the risk reduction strategy, the findings allude that risk reduction positively and significantly influence bank performance. In cognizance of this fact, banks have employed various strategies to reduce risk such as demanding collateral when issuing loans, spreading capital allocation to cover risks, charging a special risk premium on risky borrowers, and spreading risks through partnerships on high risks investments where applicable. These findings agree with Alwan &Hassan (2020) who documented a positive and statistically significant relationship between risk

reduction and performance and competitiveness of the firm and recommended timely identification, mitigation and monitoring of risks to reduce instances of risk.

Further, the findings revealed that the commercial banks have deployed various risk avoidance strategies to ameliorate risks. This include undertaking regular portfolio risk assessments, performing a thorough background check of the borrower before issuing credit, having strict documentation policies, taking guarantees on loans and working closely with credit rating agencies. The positive and statistically significant relationship on risk avoidance on bank performance as established in the study contradict with the conclusions of Ntunaru and Mundia (2019) who document a weak correlation between risk avoidance and organizational performance. The authors contend that even though risk avoidance might be a crucial risk mitigating strategy, its effect on project success is insignificant.

Finally, the analysis of variance revealed that the overall model was statistically significant as shown by a significance level of 0.000 which is <0.05. These findings agree with Yahaya et al., (2015) stated that risk management strategies have a positive impact on enterprise performance hence banks should implement effective risk management strategies to steer their operations and subsequently attain higher organizational performance.

CHAPTER FIVE: SUMMARY OF FINDINGS, CONCUSIONS AND RECCOMENDATIONS

5.1 Introduction

The section details a summary of the results, conclusion, implications and suggestion for future studies. The conclusions and recommendations are based on the study's objectives.

5.2 Summary of the Findings

Demographic information results show that there were more male employees (57.1%) than female employees (42.9%) working for Kenyan commercial banks. Despite the difference the composition is acceptable and meets the threshold established by the Kenyan Constitution. The results showed that majority of the respondents were aged between 40-50 years (34.2%) followed by those aged between 30-40 years (28.5%) then 50 and above (20%) while the least were between 18-30 years. On the education level, majority of the those polled attained bachelors level of education followed post-graduate degrees while the least number of bank employees had acquired tertiary level of education.

Descriptive statistics show that risk acceptance have been employed by commercial banks to a large extent to mitigate risks. This was evidenced by overall mean of 3.94. Among the practices largely practice include having a clear criterion for risk acceptance and having clear guidelines to ameliorate risks in the event it arises. Other measures include acknowledging the volatile environments in which the banks operate and appreciating that financial risk is inherent to the business. The banks have also deployed various risk transfer strategies to manage risks which include seeking self-insurance, increasing the use of asset backed securities and insuring all credit products.

The findings further revealed that the banks have employed various risk reduction strategies as shown by a grand mean of 3.57. According to the results, the bank among other measures demands collateral when issuing credit, charges special risk premium on risky customers and to some extent has special capital allocations to cover credit. As to risk avoidance, it was evident that various risk avoidance strategies have been implemented including conducting regular portfolio risk assessments, soliciting guarantees on all loans, ensuring strict documentation at the stage of credit application, ensuring that bank employees are well trained to avoid risky contracts and working closely with credit rating agencies.

The regression coefficient results show that a unit change in risk acceptance will result to 0.326 positive and significant change in bank performance (B=0.326, P=0.041). Similarly, a unit change in risk avoidance causes a 0.447 positive and statistically significant change in commercial banks' performance (B=0.447, P=0.013). On the other hand, a unit variation in risk avoidance provokes a 0.523 positive and statistically significant change in banks performance (B=0.523, P=0.013). while a unit change in risk reduction causes a positive and significant variation in bank performance (B=0.665, P=0.000). analysis of variance tests alluded that the overall model was statistically significant as shown by a significance level of 0.000 which is <0.05. Hence risk management strategies were statistically significant in predicting the performance of commercial banks.

5.3 Conclusions

The study found risk management strategies to be a statistically significant predictor of performance. Kenyan commercial banks should hence intensify the application of the different risk management strategies especially the ones studied and implement each one of them to the fullest for optimum performance. The findings demonstrated that a significant percentage (50.2%)

of commercial bank performance is explained by the four risk management strategies namely risk acceptance, risk avoidance, risk transfer and risk reduction hence it is an important area to explore and reap full gains that impact performance.

The findings revealed that a change in risk acceptance triggered a positive and statistically significant impact on bank performance. Commercial banks were therefore able to realize performance as this function appeared well embedded in the bank's functions based on the findings of the scrutiny. This was demonstrated through a well laid out risk acceptance criteria, appreciation that the bank operates in dynamic and risky environment and the bank's readiness to cope with consequences in the event of risks. Acknowledging that financial risk was inherent to the banking business allowed the bank to put in place adequate safeguards to absorb the risks.

The study also concludes that risk transfer causes a positive and statistically significant change in bank performance. It is therefore inevitable that banks embrace various risk transfer strategies to achieve improved performance. Therefore, commercial banks engage in various strategies to transfer risks including insuring itself as an entity, increasing the portfolio of products insured more so by insuring all credit products and increasing the use of asset backed securities not forgetting the application of credit derivatives to manage risks.

Further, the study established that risk reduction has a positive and statistically significant effect on bank performance. This has seen the bank take a raft of measures to reduce risks that may hamper performance which include seeking collateral when issuing loans, charging premium on risky borrowers and allocating some capital to cover risks. It was however evident that work is still needed to spread the risks through partnerships on high investments.

Finally, the study concludes that risk avoidance is akin to realization of performance. Among the measures taken by the bank to evade risks include performing regular portfolio risk assessments to appreciate the risk status to inform action, taking loan guarantees to avoid losses, having strict documentation at the phase of loan application and working closely with credit rating agencies to ascertain the credit score of the borrowers to avoid lending to borrowers with a bad credit reputation hence reducing loan defaulting.

5.4 Recommendations

There is important for the top management to support risk management functions through adequate financing. Such resources may be used to purchase risk detection applications which may help the personnel in sensing risks, i.e. emanating from sources such as malware. Part of these resources may be used to hire professionals to train the internal staff on risk management and invite external system auditors more frequently to examine the systems for timely detention of risks. There is also need for the regulators such as the central bank and other banking bodies such as the Kenya bankers association to develop frameworks for risk management to facilitate collaborative effort and governance in the management of banking risks since a breakdown in the banking system have ripple effects on the entire economy.

To remain adequately prepared to changing dynamics in the banking space, the management of the banks should hire a competent team that is able to forecast and simulate scenarios of risks appropriate action. Observing trends both locally and internationally is crucial in identifying and arresting risks on time. Ensuring that the bank operates above the minimum requirements set by regulators for risk prevention and emulating best practices from successful international banks with respect risk management which crucial for attainment of good performance.

The study concluded that in addition to the banks setting up stringent measures to evade risks such as securing guarantees, collateral and working with credit rating agencies, there is need to initiate programs and trainings to capacity build loan beneficiaries with financial literacy and financial management skills on prudent management of funds and offering free consultancy and mentorship for the borrowers as they implement various projects through use of experts and professionals.

5.5 Implications of the Study

Kenyan commercial banks are expected to play a fundamental role in the growth of the economy and attainment of development blueprints such as the vision 2030. Therefore, the banking sector has to be as vibrant as possible for realization of such goals. The entry of non-banking institutions and occurrence of pandemics has presented several risks to commercial banks. This is compounded by the emergence of internet and mobile banking leading to customers switching banks. The study found that the risk management strategies have an impact on the performance of commercial banks. This finding has a policy implication in that the Central bank may direct commercial banks to expand their capacity to collect information about the market. This initiative may compel commercial banks to channel more resources to data collection through properly structured functions. This will make commercial banks to be more responsive to risks hence building the resilience of the entire industry in the long run.

5.6 Limitations of the Study

The study time-frame was limited. The interface between proposal defense, approvals for data collection, actual data collection to analysis and presenting the final report was inadequate. However, the researcher planned her schedule accordingly to ensure that the work was delivered without compromise. Resource constraints was also a challenge which was attributed to the payment of fees for the project and the resources involved for logistics to collect the data given

the hard economic times that we live in. Despite this limitation, the researcher was able to allocate the available resources prudently, to make the study a success. Getting an appointment with the respondents was also a challenge which compelled the investigator to make several calls and visits to the banks. Some respondents were also hesitant to spell out their risk management strategies on grounds that the banking business is a competitive venture hence the need to keep their strategies a secret. The respondents were however assured of non-disclosure and confidentiality of the information provided and that it would be purely used for academic purposes.

5.7 Suggestions for further Studies

Primary data was exclusively used in this research. Future studies may apply secondary data or a blend of primary data and secondary data to explore the subject further. A similar study may also be conducted, but using a qualitative approach. Furthermore, in-depth research on the factors that affect the performance commercial banks in Kenya should be undertaken incorporating more variables since 49.1 % in the variation of bank performance remained unexplained. The scope of the study should consider other financial institutions including SACCOs and Micro Finance institutions to validate the findings of this study.

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APPENDICES

Appendix I: Questionnaire

Introduction

This instrument has been structured to assist in collection of data concerning the effect of risk management strategies on organizational performance of Commercial Banks in Kenya. The questionnaire contains three sections. Kindly tick the most appropriate response for each question

Section A: Demographic Information

1. What is your gender?

Male ☐
Female ☐

2. Educational qualifications

Diploma ☐
Degree ☐
Masters ☐
PhD ☐
Other (specify) ☐

3. Kindly indicate your age

☐ 18-25 Years ☐ 26-33 Years ☐ 34-41 Years ☐ 42- 49 years ☐ 50 years and above

4. Duration worked in the current job

☐ Less than 3 years ☐ 4-6 years ☐ 7-10 years ☐ More than 10 years

5. Have you changed jobs in the last three years?

Yes ☐
No ☐

Section B: Risk Management Strategies

Indicate the extent you agree with the following statements regarding the different risk management strategies as it may be applicable in your bank. Rate the attributes in a five point Likert Scale of 1-Strongly disagree, 2-Disagree, 3- Moderate, 4- Agree, 5-Strongy agree. Provide your response by ticking the box accordingly.

Risk acceptance	**1**	**2**	**3**	**4**	**5**
The bank acknowledges that it operates in a highly dynamic and risky environment					
The bank has a clear risk acceptance criteria					
The bank is ready to cope with the consequences incase risk arises					
Risk acceptance helps to improve cost effectiveness in the choice of risk mitigation measure					
Recognition for risk existence forms the baseline for risk mitigation in the bank					
The acceptance of financial risk is inherent to the business of banking					

Risk Transfer	**1**	**2**	**3**	**4**	**5**
All credit products are insured					
The number of insured linked products has increased					
The bank is comprehensively self-insured					
The bank has increased use of asset-backed securities					
The bank uses credit derivatives to reduce risk					

Risk Reduction	**1**	**2**	**3**	**4**	**5**
The bank has a special capital allocation to cover risks					
The bank charges a special risk premium on risky borrowers					
The banks demands collateral when issuing loans					
The bank has spread capital allocation to cover risks					
The bank spreads risks through partnerships on high risk investments					

Risk Avoidance	**1**	**2**	**3**	**4**	**5**
The banks insist on guarantees on all loans					
The banks has strict documentation policies in place					
The bank undertakes regular portfolio risk assessments					
The bank works closely with credit rating agencies					
Bank employees are well trained to avoid risky contracts					
The bank undertakes thorough background check on borrowers before issuing credit					

Section C: Organizational Performance

Indicate the extent to which you agree with the following measures of performance in your bank over the last three years. Use the scale of: 5= Strongly agree 4= Agree 3= Neutral 2= Disagree 1= Strongly disagree

Organizational Performance	1	2	3	4	5
The banks' market share has increased over the last three years					
There has been increased digitization of services and processes in the bank over the last three years					
The bank has registered improved profitability over the last three years					
Customers have reported more satisfaction in the last three years compared to the past					
The rate of employee retention has improved over the last three years					
The banks' revenues have increased over the last three years					

Thank You for Your Time