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REVIEW ARTICLE

ASSESSMENT OF RISKS AND TRAINING PRACTICES FOR EFFECTIVE RISK MANAGEMENT IN COMMERCIAL BANKS AT WOLKITE TOWN ETHIOPIA

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ABSTRACT

The fast changing financial environment exposes the banks to various types of risk. Effective risk management is critical to any bank for achieving financial soundness. In view of this, aligning risk management to bank's organisational structure and business awareness has become integral in banking business. Strategic plans and different financial techniques must have implement by the banks to avoid the financial uncertainty. Collecting up to date market information and providing sufficient training to the employees as well as management became a strategic part to every bank. In that process, this study was done in Wolkite towns, in Gurage Region, with the main objective of assessing the risk and implementing training methods for effective risk management practices of Commercial Banks. Accordingly, qualitative and quantitative study methods were employed and a total of seventy two respondents representing different sections of the banks were purposively selected and contacted. In doing so, great efforts were made to applying the bank exposure, financial and managerial skills and knowledge compositions of these respondents. The tools for data gathering were structured open and close ended questions.

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INTRODUCTION

Risk management is defined by ISO, 3000 as the process of identifying, assessing, and prioritizing of risks in an organization which is followed by coordinating and application of available resources in the organization to lower and control the likelihood or to lower the impact of unfortunate events which may lead to the business not realizing its set goals and objectives. Risk management has an objective of ensuring that business set goals are not deflected hence leading to the organization not achieving the set targets (ISO, 31000). Financial Performance has been broadly defined as the way a company measures its performance in monetary terms against its strategic goals over a given time frame. Today, The Ethiopian Economy is in the process of becoming a world class economy. The Ethiopian banking industry is making great advancement in terms of quality, quantity, expansion and diversification and is keeping up with the updated technology, ability, stability and thrust of a financial system, where the commercial banks play a very important role, emphasize the very special need of a strong and effective control system with extra concern for the risk involved in the business.

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Globalization, Liberalization and Privatization have opened up a new methods of financial transaction where risk level is very high. In banks and financial institutions risk is considered to be the most important factor of earnings. Therefore they have to balance the relationship between risk and return. In reality we can say that management of financial institution is nothing but a management of risk. Managing financial risk systematically and professionally becomes an even more important task. Rising global competition, increasing deregulation, introduction of innovative products and delivery channels have pushed risk management to the forefront of today's financial landscape. Ability to gauge the risks and take appropriate position will be the key to success. It can be said that risk takers will survive, effective risk managers will proper and risk averse are likely to perish. The risk arises due to uncertainties, which in turn arise due to changes taking place in prevailing economic, social and political environment and lack of non-availability of information concerning such changes. Risk is an exposure to a transaction with loss, which occurs with some probability and which can be expected, measured and minimized. In financial institutions risk result from variations and fluctuations in assets or liability or both in incomes from assets or payments and on liabilities or in outflows and inflows of cash.

Today, banks are facing various types of risks that financial intermediaries are exposed to, in the course of their business. Eg: 1) Financial risk classified by Credit risk and market risk 2) Non financial risk. Many banking staff have limited view or awareness of risk management and perceive it as complex and vague. In order to practice good risk management. Staff and management must be risk aware and risk must be well understood and perceive risk and risk management in negative light – more of a hindrance than as enabler.

Many staff have limited view or awareness of risk management and perfective it as complex and vague. In order to practice good risk management, staff must be risk aware and risk must be well understood. Risk management in commercial banks requires a shift in the behavior and mindset of employees. To realize the full benefits of improved systems, tools, and analytical skills, employees and management need to learn new ways of perceiving situations, interpreting data, making decisions, influencing, and negotiating. This article explains ways in which targeted learning and development interventions can help banks evolve their culture to support their overall risk management strategy.

Statement of the Problem: Currently the banking business is so sensitive because more of their income (revenue) will be generated from the business services given to their customers (Jeoitta Colquitt. 2007). When financial institutions are aware of about the impact level of risk management towards profitability, then they are going to take care of their decision and search best risk management mechanisms. The reason behind is that without effective risk management good bank performance or profit will be unthinkable. In Ethiopia, the competition within the banking industry has generated a greater concern to manage the entire activities of banks in order to avert any possible risks that may occur. The banking system in the country has been observed that it shows a significant expansion over the past few years based on an increasing rate in terms of number of branches financial products they are offering to the clients and expanding the transaction systems with the help of application software and etc.. The regulatory body believes that such growth should be aligned with strong risk management practices. But this effective risk management practices are depends on the knowledge of bank employees and management. Conducting awareness programs, special trainings and providing current market information is more important for achieve the targets. Several studies in Ethiopia have focused only on some topics more over stating the overall practice of risk management practices. No one concentrated and not stated to create awareness in the managerial staff of the banks. To the best of the knowledge, a recorded study in the Ethiopian environment in relation to risk management practices of different financial institutions not focused on employees training programs and methods. Researcher strongly believing that employee sufficient knowledge about the risk management shows the better impact to reduce the risk in all aspects. Hence, this research helps to assess the different type of risks as well as implementing the training methods to reduce the risk in the commercial banks.

Objectives of the Study

General Objective: The main objective of the study is "Assessment of risks and training practices for effective risk management in commercial banks at Wolkite town"

Specific Objectives

To attain the key objective, the following are listed as the specific objectives:

- To identify the risks faced by the selected banks;
- To assess the risk for better practice of risk management;
- To implementing the training techniques for risk management by the Banks ;
- To create awareness of new employees about risk management;

Significance of the Study: The study is valuable to the to the banking industry stakeholders and the commercial banks management, First it would certainly provide an insight into the best risk management practices that they can adopt in order to enhance performance in their industry, Second it can also help to the training agencies, other financial institutions, stock brokers and thirdly to the researchers and academicians: the study will provide a useful basis upon which further studies on risk management practices either in public or in the private sector can be conducted.

Scope of the study: The purpose of this study is to assess the risks for effective risk management and providing sufficient knowledge to bank employees for better practices on the performance of their business. Thus, Commercial bank of Ethiopia, Nib International Bank, Dashen Bank, Awash International Bank, Banks of Abyssinia, Wegagen Bank, Lion International Bank, Cooperative Bank of Oromia and United Bank have purposely selected. The rationale behind is that these are banks established before ten years and supposed to have been a good exposure in the banking industry in the country as a whole and at regional level in particular.

Limitation of the study: Although the present study has yielded some preliminary findings, its design is not without flaws. A number of caution need to be noted regarding the present study. Along with the overall primary data collection results, some respondents were unable to give the necessary information and they were not participatory and not willingness to give appropriate responses as required and it took some extended time out of the proposed schedule. The other is that the insignificant presentation of secondary data since this research totally focused on retrieving primary data sources. Therefore, the present study recommends that future research would be more important if it is going to include more of the variables or factors to explore the effective risk management practices of commercial banks crucial depend on secondary data sources.

REVIEW OF LITERATURE

Risk Management in Banks: Schmit and Roth (1990) describe risk management as the accomplishment of different activities formulated to reduce the adverse effect of uncertainty regarding potential losses. Green (1992) explains risk management in banking institutions as a mixture of policies, procedures and persons, adopted to control the potential losses. This idea is supported by Santomero (1997) who mentions four steps of the risk management process which includes: standards and reports; position limits or rules; investment guidelines or strategies; and incentive contracts and compensations. Bessis (2002) characterises risk management as the complete set of risk management processes and models permitting banking institutions to put in place different risk-based procedures and practices. According to him, risk management contains all the tools and methods necessary for measuring, monitoring and controlling different risks. Schroeck (2002) describes the concept of risk management as: An active, strategic, and integrated process that encompasses both the measurement and the mitigation of risk, with the ultimate goal of maximizing the value of a bank, while minimizing the risk of bankruptcy. (Schroeck, 2002, p.28) Schroeck (2002) further explains that the said process is comprised of various steps including the definition, identification, categorization, measurement, analysis, and mitigation of a bank's risk exposures.

According to State Bank of Pakistan (2003), risk management in banks comprises of identification, measurement, monitoring and controlling risks to make sure that:

- All the persons who manage or take risks clearly understand different risks;
- The risk exposure of the bank is within the limits set by the board of directors;
- All the risk taking decisions are aligned with the objectives and business strategies established by the board of directors;
- The wonted payoffs compensate for the risks taken by the bank;
- All the risk taking decisions are clear and explicit; and
- Adequate capital is available as a buffer to take risk.

All the above activities are generally taken to evaluate risk exposures, develop policies to deal with these exposures, limit positions in person to tolerable levels, and support decision makers to manage risk in order to achieve the goals and objectives of the banking institutions. Form the above discussion, it can be summarized that risk management in banks is a complex process, beginning with the formulation of a framework to identify measure and analyze risks and then implementation of certain measures to minimize or control inevitable losses. It is important for any discussion about the risk management in banking to embark on why risk matters and what approaches can be taken for managing risk in these firms (Oldfield and Santomero, 1997). The next section provides a brief description on the rationales of risk management in banks.

METHODOLOGY

This research was conducted in Wolkite Town of Gurage region. The Commercial banks from this town were chosen as a major research setting. The basic rationale to choose this Town is that it is populated by different group of people who have worked and participated with the largest service and trade activities that covers most of the transaction revenue of the region with the particular services of these banks. In doing so, a number of Commercial banks that have been evolved and established before 10 years were considered.

It is a descriptive research based on cross-sectional design method. In order to collect relevant information for the study the researcher used both primary and secondary source of data. Primary data collected from questionnaires whereas Secondary data collected from NBE manuals, Journals, bank statements and quarterly and annual reports, internets and other available archived documents. In the questionnaire, open ended options have been considered. Since this research tries to assess risk management and practices of Commercial Banks in Wolkite Town, and stuffs at different position within their respective banks, were taken as one of the major participants (data sources) for this study. To achieve the stated objectives, the researcher employed Purposive sampling method to collect data for this study.

Since this research tries to assess risk management and practices of Commercial Banks in Wolkite Town, and stuffs at different position within their respective banks, were taken as one of the major participants (data sources) for this study. The focus of this research is one geographical area that is greatly impacted by the proliferation of Commercial banks, the sampling frame of this research is Commercial Banks, both from Public and Private owned. Accordingly, nine Commercial banksnamely Commercial Banks of Ethiopia, Nib International Bank ,Dashen bank, Awash International Bank, Banks of Abyssinia, Wegagen Bank, Cooperative Bank of Oromia, Lion International Bank and United Bank have purposely selected. Thus, In order to determine other key informants,purposive sampling again employed and as a result Branch managers, Assistant Branch Managers, supervisors, auditors ,Risk officers and senior staffs, a total of 72 (9*8=72) were selected. Since this study is the descriptive type of research, the collected data were processed with the help of the computer by using statistical software. Thus, five point Likert –Scale was used to analyze the data. In addition, to show and rank the respondent's responses table, tables and percentages were used and the necessary interpretations were applied.

DATA ANALYSIS

Respondents' Social-Demographic Status: This section includes gender, working experience, age, educational status and the positions of employees at the selected banks. In addition, their experience in areas of risk management section of the sample population also inculcated. In the above table gender column observed that, out of 72 respondents who worked at the selected commercial banks 57 were male representing for 78.1% of the total respondents, while 15 were women representing 20.8 % of the total participants. It implies that the number of workers in gender specific status did show an exaggerated difference. Based on age, 55.55% employees fall under the ages between 21-30 years. Since the greater proportion of the employees fall within the ages between 21-30 years, it shows that the Banks consisted of workers with best working efficient and at the stage of productive age group as well. The remaining 44.45% falls under the age between 31-40 and above years of age. The study tried to get factual information on the respondents as well as purposely selected Commercial Banks in the study area. The purpose was to enable the researcher to realize whether the respondents had the necessary experience to be able to provide relevant and reliable information for this study. Thus, respondents' educational status represented as follows. Respondents were found to be of a different academic background. Most of them were University graduates. Within this group, 86.1 % were holding BA degree in business studies, 13.9 % were holding Masters Degrees in business studies. Furthermore, when we see the share of numbers among respondents, most of the respondents 62 of them have first degree while master's holders were found to be 10.

Respondents' Social-Demographic Status

GENDER			AGE			EDUCATION			W.EXPERIANCE		
	Freq	%		Freq	%		Freq	%		Freq	%
Male	57	79	21-30	40	55.55	U.G	62	86.11	1-5 Yrs	46	63.88
Female	15	21	31-40	30	41.67	Masters	10	13.89	6-10	16	22.22
Others	--	--	40 above	2	02.78	PhD	--	--	10 above	10	14
Total	72	100		72	100		72	100		72	100

JOB STATUS						
	Manager	Assistant anager	Accountant	Staff	Risk Manager	Total
Frequency	11	8	43	5	5	72
%	15.28	11.11	59.72	6.94	6.94	100

Source: Primary data [Freq: frequency]

Responses in risk frequently faced by the bank

TYPE OF RISK	VERY LOW	LOW	NEUTRAL	HIGH	VERY HIGH	TOTAL
	Freq (%)	Freq (%)	Freq (%)	Freq (%)	Freq (%)	Freq (%)
Operational risk	0	5 (6.8)	0	57 (78.1)	10 (13.7)	72 (100)
Credit risk	5 (6.8)	15(20.5)	0	36 (49.3)	16 (21.9)	72(100)
Human resource risk	5 (6.8)	20 (27.4)	10 (13.7)	16 (21.9)	21 (28.8)	72(100)
Market risk	0	25 (34.2)	10 (13.7)	37 (50.7)	0	72(100)
Information risk	0	15 (20.5)	20 (27.4)	11 (15.1)	26 (35.6)	72(100)
Technology risk	5(6.8)	15 (20.5)	20 (20.5)	16 (21.9)	16 (21.9)	72(100)
Equity risk	0	25 (34.2)	15 (20.5)	22 (30.1)	10 (13.7)	72(100)
Foreign exchange risk	0	10 (13.7)	5 (20.5)	37 (50.7)	20 (20.5)	72(100)
Interest rate risk	25 (34.2)	15 (20.5)	11 (15.1)	11 (15.1)	10 (13.7)	72(100)
Liquidity risk	5 (6.8)	20 (27.4)	10 (13.7)	16 (21.9)	21 (28.8)	72(100)
Money laundering risk	0	25 (34.2)	5 (6.8)	36 (49.3)	6 (8.2)	72(100)

Source: Primary data

Value/Variables	Strongly Agree		Agree		Neutral		Disagree		Strongly Disagree	
	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
Ensures that the risk management is established throughout the whole Bank	46	63	21	28.8	5	6.8	0	0	0	0
It helps to assess risks according to their importance	26	35.6	46	63	0	0	0	0	0	0
Risk identification assists the management strategy to allocate resources efficiency	36	49.3	31	42.5	5	6.8	0	0	0	0

Source: Primary data

The percentage of how often organizations provide risk management Training courses

Responses	Never		1 times per year		2 times per year		3-5 years		More Than 2times per year	
	Freq	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
	0	0	67	91.8	0	0	0	0	5	6.8

The most useful systems of risk identification

Training methods	Not at al		Least extent		Moderate		Great extent		Very great extent	
	frq	%	frq	%	frq	%	frq	%	frq	%
Workshops	5	6.8	5	6.8	25	34.2	17	23.3	20	27.4
Group Interviews	5	6.8	5	6.8	15	20.5	37	50.7	10	13.7
Comparisons with other organizations	0	0	15	20.5	31	42.5	20	27.4	6	8.2
Questionnaires	0	0	26	35.6	20	27.4	11	15.1	15	20.5
Analysis of processes	0	0	5	6.8	11	15.1	36	49.3	20	27.4

Source: Primary data

This implied that most of the staff had the skills required for Bank business or working atmosphere and management and able to improve on service delivery, quality and financial performance of the banks. As far as the working experiences of respondents, In doing so, the total frequency which is the total number of respondents is 72; the highest most occurred frequency is 46 which corresponds or pointed to 5 to10 years of working experience and represents about 63.9 % of the sample population.

The next working experience category is including from 6 to 10 years of services, which accounts for 22.2 % with a total frequency of 16. This implies that most of the employees at the Selected Commercial Banks and of the sample population are very much experienced pertaining to different risk management and practicing levels. The findings provide evidence that in the processes to work proficiently then their personnel should have a thorough knowledge and experience in the area of risk management control.

As the findings stress that only 59.7 % of Accountants which consisted of the highest share, 15.3 % Mangers and11.1 % Assistance Manager and stuffs and Risk Managers share equal percentage 5 for each.

Bank management analysis Risks: As far as the risk analysis and management Techniques are concerned, the researcher wanted to establish the extent to which commercial banks in Wolkite involve various concerned authorities in the identification of risk management process and practices. As per below table showed that members and the regulator are involved in the process of risk identification to a great extent. Employees of the selected commercial banks and the Risk management Officer and Board of Directors are also involved only to a moderate extent as indicated, 63 % and 15.1 % respectively. It was also important for the study to establish the various parties who are involved by the Banks in the risk management and identification process. The findings revealed that the Management Committee is involved to a very small extent in the risk identification process. This is evident from the response rated at above table.. The employees' suggestions had a 6.8 % share and it indicated that this is a confirmation that they are involved in the risk identification process.

Type of risk frequently faced by the bank: In order to get the perception of bankers regarding various types of bank's risks, 72 bankers filled the questionnaire and interviewed. Their responses have been tabulated in below Table, which reveals that operational risk occupies the highest score; followed by market risk and foreign exchange risk, money laundering risk (share the same percentage); credit risk; and interest rate risk is found to be a very low bank risk, equity risk, liquidity risk, marketing risk & human resource risk, which have percentage scores as 78.1%; 50.7%; 49.3%; and 25% respectively. From the below table conclude operational risk, credit risk, market risk, Foreign exchange risk and Money laundry risks are the most understandable risks in the bank.

The Importance of Risk Identification in Banks' Risk Management: As far as the importance of risk identification for banks operation, respondents forwarded their responses and it was evident from the findings of the study that the most important reasons of risk identification among Commercial banks in Wolkite is to ensure that the risk management is established throughout the whole organizations and that identification of risk helps to assess risks according to their importance. As it can be observed vividly in table 4.5 below, these two important risk identification factors, such as Importance in creating ways to risk identification in risk management and Ensures that the risk management is established throughout the whole Bank had a percentage share of 63% each. In doing so, 63 % of the respondents agree in the issue of helping to assess risks according to their importance. It was further confirmed that risk identification is important in assisting the banks in developing risk management strategies to a great extent. This was supported by a 49.3 of percentage score.

How often Banks provide risk management training courses: Since the purpose of training is to improve knowledge, skill and attitudes to job satisfaction it is better to know how frequent the organizations provide training for employees. In the below table, It was asked the respondents about the frequency of credit risk management training in their banks.

The results show that banks (91.8%) have a risk management training course one times per year. None of the respondents have a risk management training course two times per year and, more than 2 times per year percentages, 6.8 %.

The most useful systems of effective training for risk identification: Employee training methods for effective risk management are essential to control the risk in different aspects. In this competitive world, always banks should take better decisions, strategic plans should implement for achieve the goals. Commercial banks provide training to the employees in various methods. But the comfort ability of the employees to absorb the sufficient knowledge is more important. This study collected information from employees which study is more extent to the risk identification. Furthermore, regarding systems that would probably help to identify risk for banks operation, respondents forwarded their responses and it was evident from the findings of the study tabulated in below Table showed that workshop 34.2% scored great extent; 27.4 % very great extent; Interview 50.7 % of the respondents replied great extent. In addition, Analysis of processes scored 49.3% for great extent.

Offering Training for new employees: The researcher also asked yes or no question about training courses for employees. The results show that the respondents have a training course according to their status and job specification. That mean most of the respondents think that they had taken trainings on Risk management becomes a part of good business practice and should include training staff appropriately. The main reason for an education and training program is to ensure that the members are comfortable with the system and increase the expertise and knowledge level of the members. Most companies offer training courses for new employees. The purpose of training is to improve knowledge, skills and attitudes that in turn increase confidence, motivation and job satisfaction (Fill and Mullins, 1990). Finding whether the banks involve training in respect to risk management processes and techniques, it is possible to observe from table 4.6 all the respondents took trainings in respect to risk management, trainings like financial computing, risk management short courses and certificates ,and internal audit workshops and workshops on risk management. Thus, it possible to state that majority of the respondents has the additional necessary trainings of risk management but use their experience and on job trainings to manage risks.

Conclusion And Recommendations

Risk management is considered to be the very vital yardsticks for ascertaining success and failure of any financial institution. The main purpose of the paper was to determine the risks and assess the risk for effective risk management and same time implement the training methods to provide and improve the sufficient knowledge of employees. The study sample size was 72 respondents from 9 commercial banks in Wolkite region, Ethiopia. This study collected information from three categories of employees in the commercial banks like managers, accountants, board of directors. This study based on quantitative and Qualitative research design under descriptive method. The study results demonstrated assessment of risksand effective risk management by employee training methods. This study also concludes that how the identification of risk and its impact and how training performance is affected by risk management practices.

This study will contribute in literature and will be beneficial for academic, social and managerial deportment.

Following are the key recommendations must bear in mind while dealing with risks management;

- It is suggested that commercial banks ofWolkite should fully concentrate on the risk identification and its assessment procedure. The exact identification of risk plays a vital role in risk management. Management can easily take the decisions for risk control.
- Banking companies need to take a critical look at their risk management. Eagle eye observing system and assessment of risks mandatory. Some risks are different from bank to bank. Eg: interest rate risk is different from private And government banks. This change will show the more impact on long term deposits and borrowings.
- Risk management cannot be a onetime activity. It is an ongoing process. It is also recommended Ethiopian banking industry should inculcate a balance risk management culture. There should be risk based strategy formulation.
- Commercial banks should maintain mature corporate governance framework. Cristal clear information passing system between employees and management is essential. In the process of corporate governance, staff must have knowledge about risks and its controlling techniques.
- There should be periodic review of risk based strategies as well risk management departments should develop the expertise system by providing training to the employees and management. In addition, there should be proper meetings among the risk management authorities.
- The risk committee and audit committee must review risk policies for effective risk management.

Finally commercial banks of Wolkite should maintain proper information about risks in certain and uncertain conditions. They must have implement better training methods to the employees as well as managers. Frequently assess the risks by conducting surveys for effective risk management.

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