THE EFFECT OF RISK MANAGEMENT ON THE PERFORMANCE OF BANKING INSTITUTIONS: A CASE STUDY OF DIAMOND TRUST BANK, MAIN BRANCH

BY

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DEDICATION

I dedicate this research report to my beloved parents MR. Bamwanga Louis and Ms Nantongo Teopista who never gave up in supporting me and advising me up to this level. I also dedicate this work to my brother Kato Joseph and Aunt Mbabazi Fridah. Thank you so much for your support.

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LIST OF ABBREVIATIONS

ISO	International Standards Organization
CFaR	Cash Flow at Risk
VaR	Value at Risk
ROA	Return on Assets
ROE	Return on Investments

ABSTRACT

The aim of the study was to establishing the effects of risk management on financial performance in banking institutions and was conducted at Diamond Trust Bank, main branch. The study objectives were to: assess the risk management practices in the banking institutions, establish the level of financial performance of banking institutions and establish the relationship between risk management and the performance of banking institutions.

The study took a case study research design where both qualitative and quantitative research approaches were employed. 50 employees of Diamond Trust Bank acted as respondents. During the study both primary and secondary data was collected. Primary data was collected from the respondents who were employees of Diamond Trust Bank where as secondary data was collected from the internet, documentary reviews, journals and other publication. Data was analyzed with the help of Excel and presented in frequencies tables, as well as on graphs.

The study findings indicated that Diamond trust Bank does not possess a risk management department and besides that the bank has a centralized decision making system about risk management policies in all its branches. This impedes managers from making financial decisions depending on the type of clients they deal with but they are rather forced to making decisions depending on the general bank policies and IT systems which are vital in data collection and analysis are not being used. It was found out that financial performance level of profitability of Diamond Trust Bank is not up to the expected level; although the company is making profits, its level of profitability is not up the required level; the company sometimes generates positive economic profits but are not as regular as it should be.

The study concluded that there is a positive relationship between risk management and financial performance of banking institutions. Poor risk management practices such as centralized decision making about risk makes some branches to lose out on potential clients. It was recommended that banking institutions need to refocus more on risk management, and that top management in banking institutions should try as much as possible to ensure that they build a risk management culture among all employees. Decentralization of decisions regarding risk management needs to be encouraged. By doing this, different branches would not have to miss out on some clients.

CHAPTER ONE

GENERAL INTRODUCTION

1.0 Introduction

The study aimed at establishing the effects of risk management on financial performance in banking institutions. Risk management's objective is to assure uncertainty does not deflect the endeavor from the business goals. Risk management is the identification, assessment, and prioritization of risks (defined in ISO 31000 as the effect of uncertainty on objectives) followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unfortunate events or to max imize the realization of opportunities (Hubbard & Douglas 2009). In banking institutions risk management is done through creating a risk management function, through decentralized decision making defining roles and objectives and auditing.

This chapter contains; a brief background about the problem under study, statement of the problem, purpose of the study, research objectives, research questions, scope of the study and significance of the study.

1.1 Background to the study

The recent Global Economic meltdown triggered by the subprime mortgage crisis of United States in 2007 and its adverse effect on financial markets and participants in the financial industry worldwide have resulted in a capital management crisis in most financial institutions especially banks (Omotola, 2011). The financial crisis has not only rocked big economies of the world but developing economies have been badly affected. Many financial institutions have either collapsed and or are facing near collapse because of badly functioned subprime mortgage

lending to firms and people with bad and unreliable credit. Banking crises in Nigeria have shown that not only do banks often take excessive risks but the risks differ across banks. Most banks quality of assets have deteriorated as a result of significant dip in equity market indices (BGL, 2010). The recent closure of Global Trust Bank by the central bank is to some extent associated with the timing of the starting of the bank, just as the global financial crisis struck, says Edmund (2014). The slowdown in the banking activities affected the takeoff of the bank which was established in 2008 which lead to accumulated losses and consequently its closure in 2014 (Edmund 2014).

Risk is inevitable and inborn in each and every economic activity. According to Brain (2001) risk occurs when outcome is uncertain. Risk exists as a part of an environment in which various organizations operate (Shafiq and Nasr, 2010) so each and every business has to face risk. Without taking risk, growth of business is like a nightmare (Asim et al., 2012). Risk simply refers to the chance that an investments' actual return will be different than expected. It includes the possibility of losing some or all of the original investments. Management has to meet an organization's goals with limited resources. It involves decision making about what goals to pursue and how to attain them (Marko, 2007). Risk management is therefore attempting to identify and then manage threats that could severely impact or bring down an organization, Generally, this involves reviewing operations of the organization, identifying potential threats to the organization and the likelihood of their occurrence, and then taking appropriate actions to address the most likely threats. Traditionally, risk management was thought of as mostly a matter of getting the right insurance. Insurance coverage usually came in rather standard packages, so people tended not to take risk management seriously. However, this impression of risk management has changed dramatically.

Banks like all businesses face various types of risk which arise due to the nature of their activities. The major aim of banks is to maximize profit by managing risk and by providing various financial services (Alimshan, 2011).

With the recent increase in rules and regulations, employee-related lawsuits and reliance on key resources, risk management is becoming a management practice that makes every bit as important as financial or facilities management (McNainar, 2010). Risk management is very important concept for any business as most financial decisions revolve around the corporate cost of holding risk. This issue is particularly important to banks since risk constitutes their core business processes (Amidu, Hinson, 2006)

Banking institutions serve the purpose of facilitating the accumulation and allocation of capital by channeling individual savings into loans to governments and businesses. The transactions of financial institution thus consist of making loans to customers and the purchase of investment securities in the market place. Banking institutions also offer a wide variety of other financial services ranging from insurance protection to the sale of retirement plans and the provision of a mechanism for making payments, transferring funds and storing financial information (Mensah,1997)

In the course of their operations, banks are invariably faced with different types of risks that may have a potentially negative effect on their performance. Risk management in bank operations includes risk identification, measurement and assessment, and its objective is to minimize negative effects risks can have on the financial result and capital of a bank. Banks are therefore required to form a special organizational unit in charge of risk management. Also, they are

required to prescribe procedures for risk identification, measurement and assessment, as well as procedures for risk management.

Historically banks and other financial institutions in Uganda have always been subject to some major risks, the careful management of which has always led to survival in the financial sector and the failure of those which have failed to carefully manage these risks (Mensah 1997). Many Ugandan banking institutions handle these risks on a daily basis in order to grow and encounter rapid changes. Therefore, risks must be understood and carefully managed because they have a big bearing on performance and for proper decision making in the banking institutions in Uganda and thus this study.

1.2 Statement of the Problem

It has been observed that risk management plays a major role in the sustainability of banking institutions (Schroeck 2002). Risk management is a central part of any organization's strategic management. It is the process whereby organizations methodically address the risks attaching to their activities with the goal of achieving sustained benefit within each activity and across the portfolio of all activities. The usefulness of risk management in banking organizations has taken a different and broader dimension (Njogo, 2012).

However, it appears that, despite significant development in risk management, many managers have not yet recognize the importance, they and their organizations could benefit from investing in a modern risk management system. Therefore, many banking institutions do not have proper risk management system. This has led to many such banks not being able to recoup back the loan they issue out to customers as well as benefiting from other investments that they make a factor

which is affecting their performance. According to the bank's annual financial statement for December 2012, as of November 2011, Diamond Trust Bank owned only 4 percent of banking assets in Uganda yet the bank has been around since 1945. The bank's financial performance has been so bad on some occasions due to undertaking risky ventures that resulted into losses in that the bank had to be recapitalized in 1995 (Africaonline.com). This therefore calls for a need to study how risk management has affected the financial performance of Diamond Trust Bank.

1.3 Purpose of the study

The purpose of the study was to assess the effects of risk management on the performance of banking institutions

1.4 Research Objectives

1. To assess the risk management practices in the banking institutions.
2. To establish the level of financial performance of banking institutions.
3. To establish the relationship between risk management and the performance of banking institutions.

1.5 Research Questions

1) What are the risk management practices in the banking institutions?
2) What is the level of financial performance of banking institutions?
3) What is the relationship between risk management and the performance of banking institutions?

1.5 Scope of the study

Content scope: The study was limited to risk management practices in banking institutions, level of performance of banking institutions and the relationship between risk management and banking institutions as showed by the research objectives.

Geographical scope: The study was restricted to diamond Trust Bank located along Jinja Road, opposite Cham Towers in Kampala.

Time scope: This study covered a period of five years between the years of 2009 and 2014 because information relating to study within this time was readily available.

1.6 Significance of the study

The study can be of significance to the following

Management of Diamond Trust Bank: The study findings can help the management of Diamond Trust bank in formulating appropriate risk management strategies that can help the bank improve its financial performance.

Academicians and prospective researchers: the results of the study can help the future researchers especially those who will be researching on the effects of risk management organizational performance as they will use it as literature survey and review.

Banking industry and financial institutions: the study findings can also be an addition to the already existing knowledge especially in the field of risk management within the banking sector in Uganda and beyond.

The Researcher: the study findings with further increase on the researcher's knowledge about risk management and how it affects financial performance.

1.7 Definition of key terms

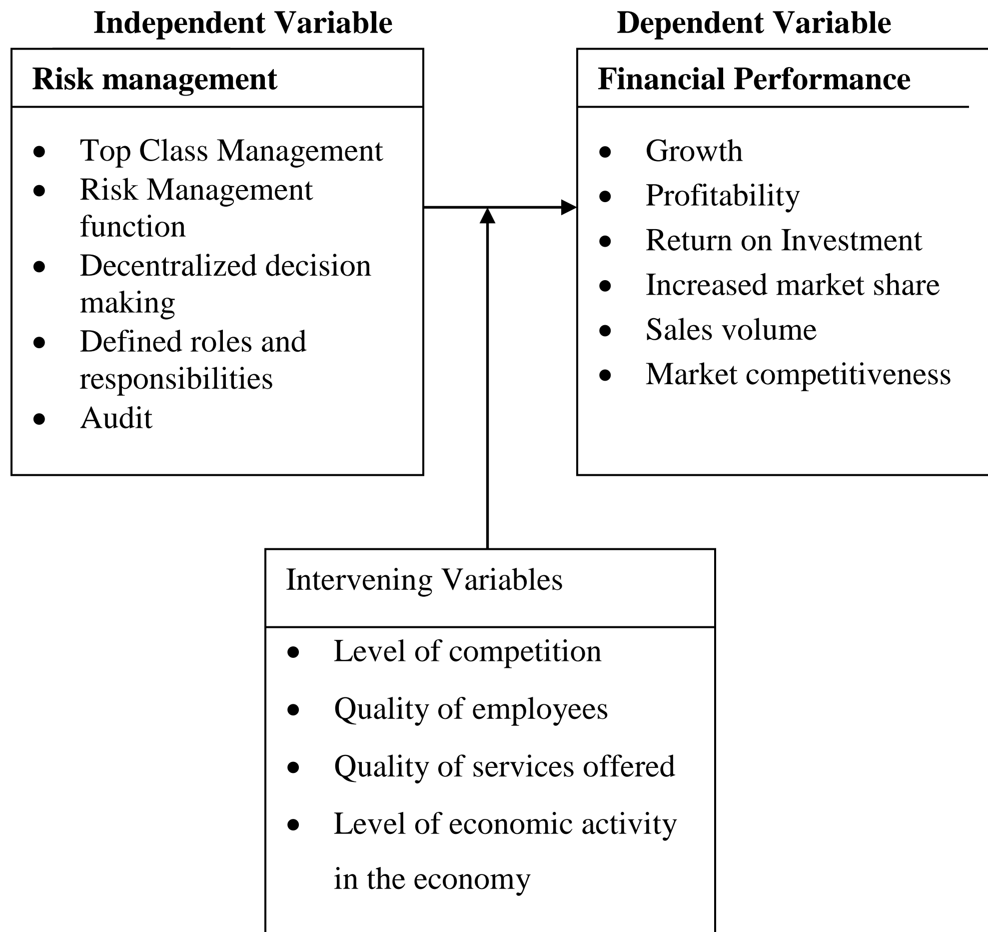
Risk Management: The process of identification, analysis and either acceptance or mitigation of uncertainty in investment decision-making

Organizational Performance: According to Richard et al. (2009) organizational performance encompasses three specific areas of firm outcomes: (a) financial performance (profits, return on assets, return on investment, etc.); (b) product market performance (sales, market share, etc.); and (c) shareholder return (total shareholder return, economic value added, etc.).

Banking institutions: A financial institution licensed as a receiver of deposits. There are two types of banks: commercial/retail banks and investment banks. In most countries, banks are regulated by the national government or central bank.

1.8 Conceptual Framework

Figure 1.1: Showing Conceptual framework



Source: Adapted from Halldorsson et al (2007) and modified by the researcher

According to Halldorsson et al (2007) risk management practices in banking institutions include creating a risk management function, decentralized decision making, defining roles and responsibilities, creating a risk management culture and periodic auditing. Financial performance on the other hand can be measured by the level of profitability, market share, sales volume, growth and return on investment. These practices when combined with level of completion, quality of employees, quality of services of offered and level of economic activity in the economy, affects financial performance which is reflected by the variety of products of offered,

increased market share, level of profitability, market competitiveness, sales volume, productivity, and increase in customer base.

1.9 Conclusion

Risk management is an important element in the banking institution's financial performance. The level of financial performance in the banking industry is directly linked to the level of risk managment. This research therefore was aimed at establishing the effects of risk management on the financial performance of banking institutions. The preceding chapter shows the literature review as complied from different scholars in regard to customer satisfaction and organization sales performance.

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

The purpose of the study is to assess the impact of risk management on the performance of banking institutions. This section provides the literature review with a focus on themes related to the study objectives namely conceptualizing risk management practices in the banking institutions, level of performance of banking institutions and relationship between risk management and the performance of banking institutions. All these will be employed from recent literature as relates to the topic studied.

2.1 The Concept of Risk management

Risk Management, according to the knowledge theorists, is actually a combination of management of uncertainty, risk, equivocality and error (Mohan, 2003). Uncertainty – where outcome cannot be estimated even randomly, arises due to lack of information and this uncertainty gets transformed into risk (where estimation of outcome is possible) as information gathering progresses. As information about markets and knowledge about possible outcomes increases, risk management provides solution for controlling risk. Equivocality arises due to conflicting interpretations and the resultant lack of judgment. This happens despite adequate knowledge of the situation. That is why, banking as well as other institutions develop control systems to reduce errors, information systems to reduce uncertainty, incentive system to manage agency problems in risk-reward framework and cultural systems to deal with equivocality.

Initially the Indian banks have used risk control systems that kept pace with legal environment and Indian accounting standards. But with the growing pace of deregulation and associated changes in the customer's behaviour, banks are exposed to mark-to-market accounting (Mishra, 1997). Therefore, the challenge of Indian banks is to establish a coherent framework for measuring and managing risk consistent with corporate goals and responsive to the developments in the market. As the market is dynamic, banks should maintain vigil on the convergence of regulatory frameworks in the country, changes in the international accounting standards and finally and most importantly changes in the clients' business practices.

Risk management as we understand it today has been conceptualized in the early 1950s. There was a transition period when the development from the insurance management to organizational risk management was paralleled by the evolution of the academic discipline of risk management. Without any doubts the academic discipline produced valuable approaches, methodologies and models that further supported the development of risk management in the real business world. The Nobel award winner, Harry Markowitz, was the first financial theorist to explicitly include risk in the portfolio and diversification discussion. He linked terms such as return and utility with the concept of risk (Mohan, 2003).

2.1.2 Risk management practices

There are different practices that are used by banks in risk management. According to Schroeck, (2002), risk consolidation is one of the ways of managing risks. Within each sector, many firms are increasingly seeking to take a consolidated, enterprise wide view of risk management. Their motivation comes from competitive forces to increase risk-adjusted returns on equity, in part by

making more efficient use and allocation of capital, as well as from other current trends, such as globalisation, expansion across sector lines, and increasing involvement with products that entail multiple types of risk. Further, financial firms are increasingly managing their risks in structurally complex ways. For example, many firms use inter-affiliate transactions to transfer risks from different legal entities into a common vehicle where the risk can be managed and hedged on a more aggregate basis.

Schroeck, (2002) goes ahead to say that the need to consolidate or aggregate measures of risk can arise at several different levels within an organisation. Within a business line, individual risk types (e.g., market risk or credit risk) may be aggregated across the various activities and positions. Consolidation at this level typically makes use of the relevant risk measurement methodology for the particular risk under consideration. This allows offsetting exposures to identical risk factors to be fully netted out and allows for diversification benefits across similar risk factors to be considered.

Another important risk management practice is developing a “Big Picture” view of risk exposure and focus on the most important. Calmès, (2004) say that develop a “Big Picture” view of risk exposure and focus on the most important. Not all risks are created or end equally. Banks need to be mindful of credit, market, and operational risks. Within the three main areas of risk, further stratification is embedded to allow for a comprehensive overall view of risk. Tools such as VaR (Value at Risk), Monte Carlo simulations, CFaR (Cash Flow at Risk), stress testing, and others are applied to judge the level of risk and subsequently the actions required to contain the risks. Yet within banks there is often a lack of tools and sophistication to keep pace with a rapidly

changing set of products. At any point in time, one or more risk elements may be more relevant than others, but the bank needs to know its risk framework and monitor developments in real time to provide the right level of attention and action. For Example by taking the big picture view, Canadian banks avoided a major meltdown. According to a report by TD Bank (2009), there appears to be a more risk-averse culture in Canada running through government, the public and banks. Canadian banks benefited from prudent and disciplined risk-management practices, and higher capital ratios pre-crisis. The fact that Canada's major investment banks were part of a large diversified financial services institution also played a role.

Centralizing ownership and decentralizing decision making is another common banking risk management practice in many banks (Kestens 2012). Centralize ownership of process and decentralize decision making risk management can be most effective in risk management when it is applied consistently across the banking organization with policies and procedures developed by risk experts who have the training and experience for their specific country, area, and client mix (Ettore, 2012). It is incumbent upon front-line officers to use the tools and processes to guide their daily interactions with customers. Interactions are clear. Answers are given in a timely manner and the responses leave no ambiguity about what the bank is able to do for its customer. A good example can be drawn from banks in Central Europe pre- and post-privatization. Prior to privatization and modernization, many banks had a decentralized business model and it was a public secret that the branch managers made up the rules and profited handsomely from insufficiently transparent business practices. This led to the failure of many banks in Central Europe. Post privatization, the banks focused on centralizing key processes around risk and then decentralizing decision making down to the branch level, with the

knowledge that decisions would be made within the centrally developed framework; this provided safeguards against unwanted risk (Bank of England 2006).

Kestens (2012) says that one of the common risk management practices is driving the process from the top and clearly defining roles and responsibilities. In the lead-up to the big bust, the credit crunch, banks were reporting record profits and the leaders were receiving bonuses for relatively short-term results. It seemed that everybody wanted in on the big profits and pay days, and little heed was given to people calling for curbing the growing risk profiles. The clear lesson: what the leaders in the organization do, not so much what they say, is what defines an organization's behavior. Risk management in a bank is everyone's responsibility, not just the risk departments. Leadership must not only espouse a vision but also behave in a manner consistent with it and demonstrate to employees that prudent risk management is a cornerstone to success.

Using IT to facilitate risk management process is another risk management practice. Many banks have made good use of IT Systems to facilitate the risk-management process. The value of IT appears to be increasing over time to banking organizations as the environment grows ever more complex—so there is no change in this variable in troubled times. However, the IT value will be realized only if IT systems development is driven by user needs and not vice versa. IT systems, if properly developed and used, can assist the company in risk management by providing control and compliance monitoring technology, databases, market and industry research and analysis tools, and communication tools. These are all critical tools that assist in the delivery of the

required information to decision makers in the bank. This can happen if the IT systems are developed with the user's needs in mind (Winkler, 2012).

Developing as risk-management culture is equally a common risk management practices in the banking sector says Kestens (2012). If a bank is serious about risk management, then it will be serious from the top down. Leadership will espouse a culture of responsible risk management through its behaviors and through the systems and programs it puts into place. In the run up to the financial crisis, organizations talked about good risk management; however, few in leadership positions espoused effective risk management, which is evident in the dismal failures in the financial sector. A risk-management culture can be embedded in the organization through training, communications and incentives

2.2 Financial Performance of Banking Institutions

The performance of financial institutions has long been at the center of academic research and has received a substantial amount of attention. This is primarily due to the fact that operating efficiency is of particular interest for both managers, whose aim is to improve the performance of their financial firms, and policy makers, whose task is to assess the effects of market structure on performance and, therefore, to safeguard the stability of the financial system (Berger and Mester, 1997).

Performance is defined as the degree of achievement of the prescribed objectives of an organization to the maximum benefits of the interested parties (World Bank, 2006). To Lucy (2005), organizational performance in the business industry can be measured in terms of; productivity, profitability, sales volume, motivated staff, market competitiveness and ability to survive

According to Husni (2011) the determinants of banks financial performance are normally consisting of factors that are within the control of commercial banks. They are the factors which affect the revenue and the cost of the banks. Some studies classified them into two categories namely the financial statement variables and non-financial variables. External factors are said to be the factors that are beyond the control of the management of commercial banks.

Molyneux (1992) asserts that banks are said to be heavily dependent on the funds mainly provided by the public as deposits to finance the loans being offered to the customers. There is a general notion that deposits are the cheapest sources of funds for banks and so to this extent deposits have positive impact on banks profitability if the demand for bank loans is very high. That is, the more deposits commercial bank is able to accumulate the greater is its capacity to offer more loans and make profits; Devinaga Rasiah (2010). Investigation done by Husni (2011) on the determinants of commercial banks financial performance in Jordan disclosed that there is significant positive relationship between ROA and Total liability to total Assets. To capture deposits in the model Vong et al (2009) presented the effect of deposits (DETA) on profitability as deposits to total assets ratio.

Devinaga Rasiah (2010) and Vong et al (2009) included capital ratio (EQTA or CTRA) as a variable in their study of determinants of banks profitability and performance because capital also serve as a source of funds along with deposits and borrowings. They argue that capital structure which includes shareholders' funds, reserves and retained profit affect the profitability of commercial banks because of its effect on leverage and risk. They documented that, commercial banks assets could be also financed by either capital or debt. According to Molyneux (1992) banks with high level of equity can reduce their cost of capital and that could impact positively on profitability. Empirical evidence presented by Karkrah and Ameyaw (2010) on profitability determinants of commercial banks in Ghana revealed that the equity ratio which is the measure of the capital strength of the banks posted a positive relation with the banks ROA.

According to Devinaga Rasiah (2010) commercial banks are required by regulators to hold a certain level of liquidity assets. And the reason behind this regulation is to make sure that the commercial banks always possess enough liquidity in order to be able to deal with bank runs. He further argue that a bank assume the status of highly liquid only if it has been able to accumulate enough cash and have in possession other liquid assets as well as having the ability to raise funds quickly from other sources to be able to meet its payment obligation and other financial commitments on time. In order to capture liquidity ratio in profitability model Devinaga Rasiah (2010) used loan to deposit ratio (LIQ) as a proxy for liquidity. He did this with the view that data on loans to deposits of commercial banks are normally disclosed in their annual reports and also because the loans to deposit ratio can be calculated.

Liquidity indicates a firm's ability to meet its financial obligations as and when they mature without disrupting the normal operations of the business. According to Quach (2005), liquidity

can be analysed structurally and operationally. Further, operational liquidity refers to the cash flow measures while structural liquidity refers to the composition of the balance sheet.

Both Vong et al (2009) and Devinaga Rasiah (2010) included market share in their studies. According to Devinaga Rasiah (2010) market share could be included in the profitability model as an external determinant because if commercial banks could be able to expand their market share then they may be able to increase their income as well hence profit. According to Karkrah and Ameyaw (2010) market share or size of banks is normally used to capture potential economies or diseconomies of scale in the banking sector. To capture the effect of market share or bank size on profitability, Devinaga Rasiah (2010) stressed that as both deposits and loans represent commercial banks output, one has to make a choice between deposits and assets to be used as proxy of banks market share.

Financial performance can be measured through evaluating a firm's profitability, solvency and liquidity. A firm's profitability indicates the extent to which a firm generates profit from its factors of production. Financial performance can be measured by monitoring the firm's profitability levels. Zenios et al. (1999) states that profitability analysis focuses on the relationship between revenues and expenses and on the level of profits relative to the size of investment in the business through the use of profitability ratios. The return on equity (ROE) and the return on assets (ROA) are the common measures of profitability. By monitoring a firm's profitability levels, one can measure its financial performance.

Solvency measures give an indication of a firm's ability to repay all its indebtedness by selling all of its assets. It also provides information about a firm's ability to continue operating after

undergoing a major financial crisis. Quach (2005) states that solvency measures the amount of borrowed capital used by the business relative to the amount of owners' equity capital invested in the business as an indication of the safety of the creditors interests in the company.

The incidence and relative magnitude of internal or external disruptions to business activities from risk events also vary considerably across firms depending on the nature of activities and the sophistication of internal risk measurement standards and control mechanisms. While companies should generate enough expected revenues to support a net margin that absorbs expected risk losses from predictable internal failures, they also need to hold sufficient capital reserves to cover the unexpected losses or resort to insurance (Zsidison, 2003). This ensures that losses do not impact negatively on the firm's financial performance.

2.3 Relationship between risk management and the financial performance of banking institutions

The main focus of risk management has mainly been on controlling and for regulatory compliance, as opposed to enhancing financial performance (Banks, 2004). However, this risk management often leads to enhanced financial performance as regulatory compliance and control of risks enables the organization to save on costs. Banks (2004) further suggests that by managing risks, the managers are able to increase the value of the firm through ensuring continued profitability of the firm.

Standard and Poor's (2013) identifies poor liquidity management, under-pricing and under-reserving, a high tolerance for investment risk, management and governance issues, difficulties related to rapid growth and/or expansion into non-core activities as main causes of financial

distress and failure in banking companies. It is important that these factors be managed efficiently by banking institutions, to avoid financial failure and bankruptcy to the firm.

In the 21st century has seen great efforts to risk management. Babbel and Santomero (1996) note that bankers should assess the various types of risks they are exposed to and devise ways of effectively managing them. They further suggest that bankers should accept and manage at firm level, only those risks that are uniquely a part of their services. This will reduce the risk exposure. Stulz (1984) suggested that risk management is a viable economic reason why firm managers, might concern themselves with both the expected profit and the distribution of firm returns around their expected value, hence providing a rationale for aligning bank objective functions in order to avoid risk.

Proper risk management is important in the daily operations of any banking institution to avoid financial losses and bankruptcy. This is in line with Jolly (1997) contribution that preventing losses through precautionary measures is a key element in reducing risks and consequently, a key driver of profitability. The efficiency of risk management by banking institutions will generally influence their financial performance. Gold (1999), asserts that banking institutions could not survive with increased loss and expense ratios.

Meanwhile, risk management has been linked with shareholder value maximization proposition. Ali and Luft (2002), suggested that a firm will only engage in risk management if it enhances shareholder value; Banks (2004), contributed that it is important for each firm to retain and actively manage some level of risk if it is to increase its market value or if the probability of financial distress is to be lowered; Pagano (2001), confirms that risk management is an important function of banking institutions in creating value for shareholders and customers.

Adeusi, Akeke, Adebisi and Oladunjoye (2013) in their study which focuses on the association of risk management practices and bank financial performance in Nigeria. Using a panel of secondary data for 10 banks and for four years reported an inverse relationship between financial performance of banks and doubt loans, capital asset ratio was found to be positive and significant. Similarly it suggests that the higher the managed funds by banks, the higher the performance. The study concludes a significant relationship between banks performance and risk management. Hence, the need for banks to practice prudent risks management in order to protect the interests of investors.

2.5 Conclusion

Generally, bank operations are prone to risks and if the risks are not managed the firm's financial performance will be at stake. Firms with efficient risk management structures outperform their peers as they are well prepared for periods after the occurrence of the related risks. This study hopes to come up with an expected positive relationship between risk management and financial performance in banking institutions.

CHAPTER THREE

Research Methodology

3.0 Introduction

The current chapter presents the methodology that has been used in the research. The justification for the use of the research approach is explained. The chapter further provides a description of research design, nature of the study, sources of data collection, sources of information, sample size and the methods employed in data collection.

3.1 Research design

The study used a case study research design. A case study is an in-depth study of a particular research problem rather than a sweeping statistical survey or comprehensive comparative inquiry. It is often used to narrow down a very broad field of research into one or a few easily researchable examples (De Vaus 2006). The study applied both qualitative and quantitative research approaches in data collection.

Quantitative research is a process of collecting data or information from the respondents in numerical format, to exercise objective judgment in order to achieve a high level of reliability and accuracy. Whereas qualitative research is defined as a study, which is conducted in a natural setting where the researcher, as an instrument of data collection, gathers words or pictures, analyses them inductively, focuses on the meaning of participants, and describes a process that is both expressive and persuasive in language (Dr. Katamba and Dr. Nsubuga 2014). This research design enabled the researcher to assess the effects of risk management and financial performance of banking institutions.

3.2 Study population

The study was carried out at Diamond trust bank main branch, Kampala. The bank employs 75 employees according to the End of Year Bank Report (2015) and it is these employees who acted as the population of study. Diamond Trust Bank is selected for this study because it is one of the most established banks in Uganda and has gone through rebranding because of the difficulties it has faced before. The study population comprised of only the staff of Diamond trust bank.

3.3 Sampling

3.3.1 Sampling design

During the research both quantitative and qualitative data was collected. The researcher used simple random sampling to select the main respondents from whom quantitative data elicited. Purposive sampling was used to select key informants from whom qualitative data was collected.

3.3.2 Sampling procedures

In this study, the target sample size involved 50 staffs member from various departments who were selected using simple random sampling and employees in managerial position who were purposively selected and these included; 1 Financial Manager, 1 Chief accountant, 1 Managing director, 1 Systems manager and Loan office.

3.3.3 Sample Size

A sample size of 50 respondents was selected from Diamond Trust Bank to act as study sample.

The Solven formula will be used to select 50 low level employees. The Sloven's formula is a random sampling technique used to estimate sampling size and it is used when

nothing about the behavior of a population is known at all, Stephanie E. (2013). With Sloven's formula, the sample size is given by:

$$n = \frac{N}{1+Na^2}$$

$$n = 75/[1+75(0.05)2\ ]$$

n= 50 people

Where n= sample size, N= population and a2= 0.05 level of significance.

The total of 50 respondents who included low level employees and employees in managerial positions who were purposively selected as showed in the table of approach bellow.

3.1 Table Showing Approach, Sample Selection, Samples and data analysis

Sampling Approach	Sampling Technique	Data Collection	Sample Frame	Data Analysis
Quantitative	Simple Random sampling	Questionnaires	25 lower level staff (male) 20 lower level staff (female) **45Respondents**	Editing Coding Tabulating
Qualitative	Purposive sampling	Semi-structured interviews	1 Managing Director 1 Financial manager 1 Chief Accountant 1 Loan officer 1 Systems Manager	Coding before and during data collection
Total			**50 Respondents**	

Source: Adopted from Dr. Nsubuga (2014) and modified by researcher

3.4 Data source

Data was collected from both primary and secondary sources. The primary source involved obtaining raw data from respondents from the different departments of Diamond Trust Bank. The secondary source involved reviewing literature related to the subject under study.

3.5 Data collection methods

The researcher applied two main data collection methods that is, Self administered questionnaire and key informant interviews.

3.5.1 Self-Administered Questionnaires

According to Mathews and Ross (2004) a questionnaire is a set of questions which can be answered by research participants in a set of ways. The researcher prepared self administered questionnaire with both closed and open ended questions, which were distributed to the selected respondents for filling. One of the major advantages of using questionnaires is that many responses can be collected in a short time. The questionnaires were sectioned according to the objectives of the study.

3.5.2 Structured Interview

According to Mathews and Ross (2004), an interview is particular type of conversation between two or more people, where a person communicates verbally with a group of persons asking questions intended to collect information or opinions. The researcher used a structured interview as oral presentations of written questions which were administered face to face with respondents to solicit for qualitative data. An interview guide was used basically because it allows the

researcher to obtain information that cannot be observed directly through questionnaires, to gain control over the time of questioning and allowed the researcher to rephrase questions and ask additional ones to clarify responses and secure more valid results.

3.6 Reliability and validity

The research questionnaires were pre-tested before they are distributed to the respondents for reliability and validity.

3.7 Research Procedure

After pre-testing of the questionnaire the researcher obtained an introductory letter from the Faculty of Business and Management studies of Uganda Martyrs University, Kampala campus. The letter was the taken to the manager of Diamond Trust Bank seeking permission to conduct the study.

3.8 Ethical Consideration

The researcher let respondents know that information gathered was to be used for academic purposes only and that their identity was not to be disclosed as they were not even indicating their names on the data collection instruments. The researcher gave the respondents the true facts about the research in order to help them make informed decisions about participating in the study or not.

3.9 Data analysis

After collecting the quantitative data, the researcher was checked for uniformity, consistency, legibility, and comprehensibility. It was then coded and tabulated using Ms Excel into the

desired descriptive statistics. Frequencies were obtained for respondent's demographics such as gender, age bracket, education level and data was graphically represented on charts.

Qualitative data was analyzed by identifying tentative themes and their concepts to come up with interpretations based on the research objectives that were analyzed. Data was analyzed during and after data collection. After data collection and the coding, Spearman's rank order correlation coefficient was used to determine the relationship between the variables.

3.10 Limitations and solutions

1) The time provided was not enough to exhaust all the aspects of the research like collection of data, receiving related literature among others. In order to solve this challenge, the researcher had to forego or postpone some of his work schedules to finish the study on time.

2) The study was limited by financial constraints. insufficient funding for travel, typing of several drafts, logistics printing, costs of the final copy and contingency costs associated with research work. To overcome the limitation, the researcher secured enough money from parents/guardians for the research work in order to avoid financial delays.

3) Some of the respondents were not be willing to cooperate during the study. In order to solve this, the researcher briefed respondents about the study purpose and let them know that it was purely academic.

4) The researcher anticipated that some key respondents would be unable to honour their appointments for interviews given their busy schedules. This however was solved by ensuring that the researcher maintains good time management.

3.11 Conclusion

The study utilised a case study research desin where both qualitative and quantitative methods of research were applied to collect both secondary and primary data was colected. Data was colected by use of both questionnaires and structured interviews and data was corded according to the different themes and Ms Excel was used to analyze this data. The following chapter shows the presentation of research findings and is sectioned according to the research objectives.

CHAPTER FOUR

DATA PRESENTATION, INTERPRETATION AND ANALYSIS

4.0 Introduction

The study investigated the effect of risk management on the performance of banking institutions, using a case study of Diamond Trust Bank main branch located opposite Cham Towers, along Jinja Road, Kampala. A total of fifty respondents were selected from the bank. Data was collected through questionnaires and key informant interviews. A total of 50 questionnaires were distributed the selected respondents for filling and a total of 43 questionnaires was received back signifying a response rate of 86%. This chapter gives a presentation and discussion of the findings. The findings are presented and sectioned according to the objectives of the study.

4.1 Respondents' Background Information

Respondents' demographic variables were taken into consideration and the researcher collected information on gender, age, and level of education.

4.1.1 Gender

Table 4.1.1: Distribution by Gender

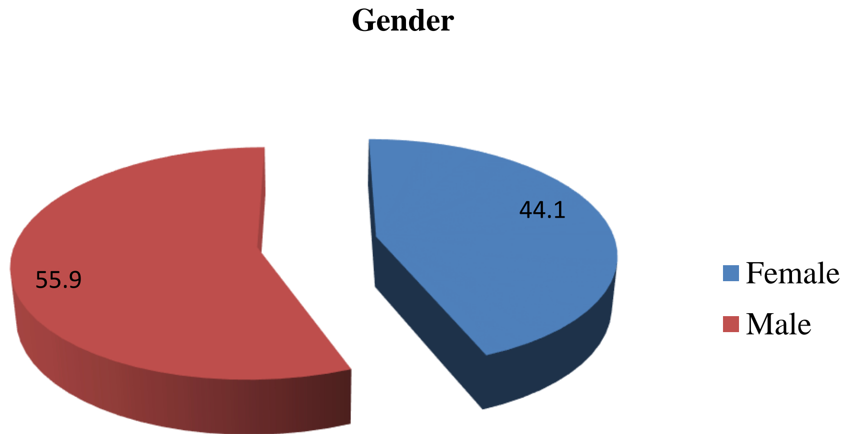
Gender	Frequency	Percent	Valid Percent	Cumulative Percent
MALE	24	55.9	55.9	55.9
FEMALE	19	44.1	44.1	100.0
Total	43	100.0	100.0	

Source: Primary data, 2016

From table 4.1.1, it is realized that 24 of respondents representing 55.9% of the total number of participants were males while 19 representing 44.1% of the total number were females. Since

data was collected from both males and females show that there was gender balance in data gathering with relatively equal representation.

Figure 2. A graph Showing respondents by gender



Source: Primary data, 2016

4.1.2 Respondent's Age

Table 4.1.2: Showing Distribution by age

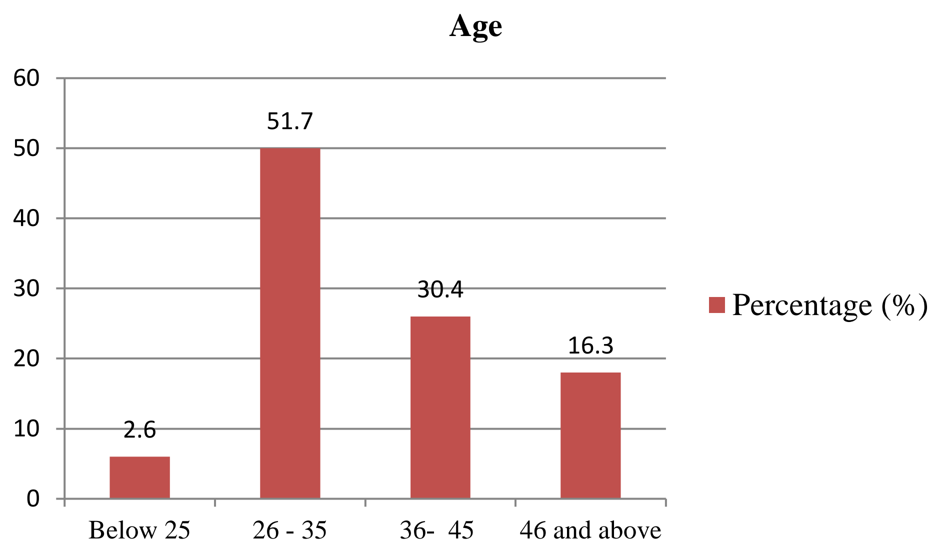
Age	Frequency	Percent	Valid Percent	Cumulative Percent
Below 25	1	2.6	2.6	10.0
36-35	22	51.7	51.7	50.0
36-45	13	30.4	30.4	66.07
46 and above	7	16.3	16.3	100.0
Total	43	100.0	100.0	

Source: Primary data, 2016

Information in table 4.1.2 above shows 51.7% were between 26 and 35 years of age. Those below 25 years were 2.6%, those between 36 and 45 years were 30.4% where as those above 46 years were 16.3%. Since the majority of the respondents are between the ages of 26 – 35 and

above, this is most productive and innovative age group and when good risk management strategies are in place to guide them, the efforts of these employees, can help in enhancing the performance of the bank.

Figure 2. Distribution by Age



Source: Primary data, 2016

4.1.3 Respondents level of Education

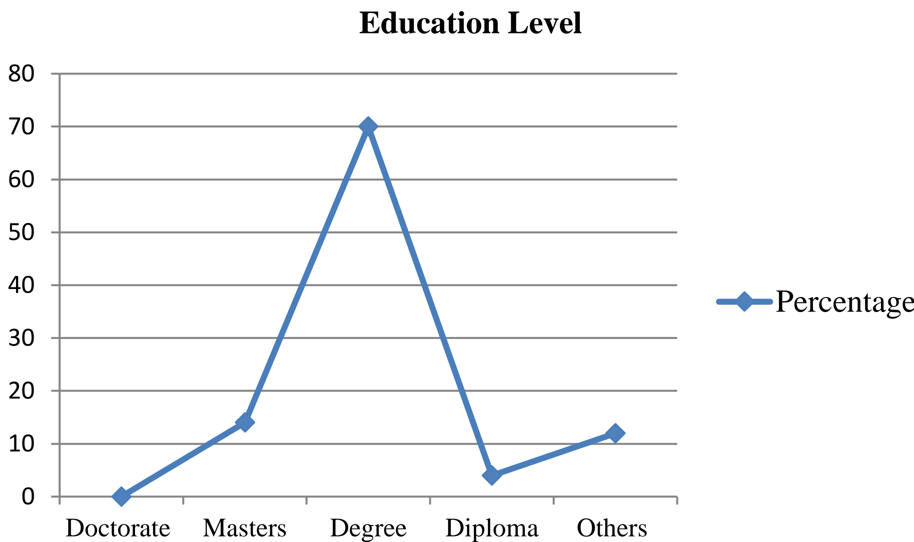
Table 4.1.3: Distribution by level of Education

Education Level	Frequency	Percent	Valid Percent	Cumulative Percent
DOCTORATE	0	0.0	0.0	0.0
MASTERS	8	18.7	18.7	18.7
BACHELORS	31	72.0	72.0	90.7
DIPLOMA	4	9.3	9.3	100.0
OTHERS	0	0.0	0.0	100.0
Total	43	100.0	100.0	

Source: Primary data, 2016

Table 4.1.3 above shows that 18.7% masters degrees. 72% of the respondents were bachelor's degree holders, and 9.3% were diploma holders. This implies that most of the employees are well educated with good understanding of risk management and organizational performance. With good risk management practices in place such employees can be able to help the bank form better financially.

Figure 4. Distribution by Academic qualification



Source: Primary data, 2016

4.1.4 Number of Years Worked at Diamond Trust Bank

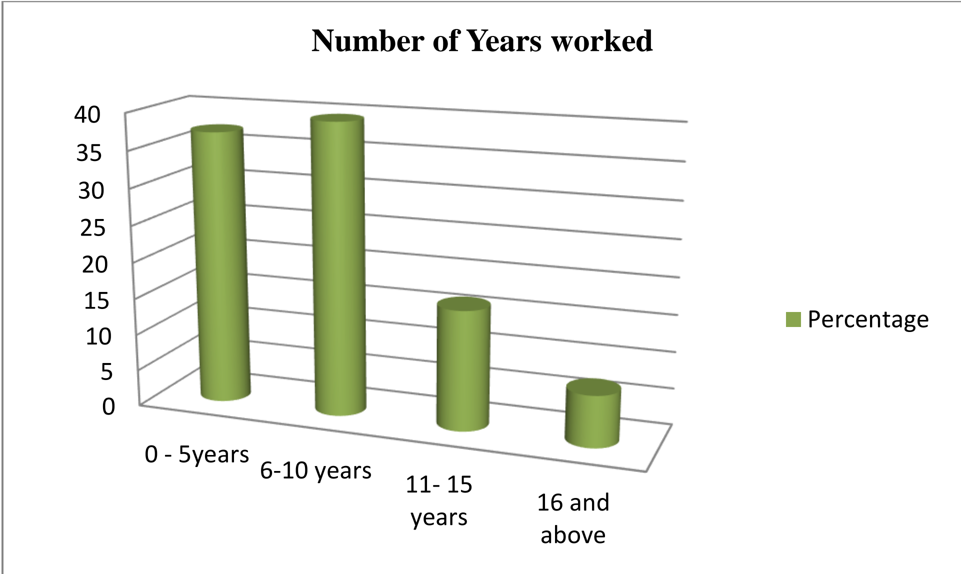
Table 4.1.4: Showing Distribution by Years Worked at Diamond Trust Bank

Time	Frequency	Percent	Valid Percent	Cumulative Percent
0 - 5	16	37.2	37.2	37.2
6-10	17	39.5	39.5	76.7
11 – 15	7	16.3	16.3	93.0
16 YEARS AND ABOVE	3	7	7	100.0
Total	43	100.0	100.0	

Source: Primary data, 2016

Information in table 4.1.4 above indicates that majority of the respondents that is 39.5% have been employed by Diamond Trust bank between 6-10 years. 37.2% of the respondents have been with the bank between 0 – 5 years, 16.3% of the respondents have been with the bank between 11 – 15 years where as only 7% of the respondents have been with Diamond Trust bank for more than 16 years. Since majority of the respondents have been working with bank for more than 6 years, means that most of them have a clear understanding of the bank's risk management practices and how they can affect the performance of the bank.

Figure 5: Number of Worked at Diamond Trust Bank



Source: Primary data, 2016

4.2 Risk Management Practices in Banking Institutions.

Objective number one of the study was to establish the risk management practices in banking. Participants in study were asked to answer questions relating to the risk management practices at Diamond Trust Bank and the results are as presented below;

4.2.1 The bank has a risk management department

During the course of the study it was discovered that having a risk management department is one step towards risk management. When respondents from Diamond Trust Bank were asked whether the bank has a risk management department, they responded as follows;

Table 4.2.1: Showing Response to the bank having a risk management department

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid		0	0	0	0
	Strongly Agree	13	30.4	30.4	30.4
	Agree	15	34.3	34.3	64.7
	N.A	3	6.6	6.6	71.3
	Disagree	8	18.6	18.6	89.9
	Strongly Disagree	4	9.1	9.1	100.0
	Total	43	100.0	100.0	

Source: Primary Data, 2016

Table 4.2.1 results show that 64.7% of the respondents agreed that the Diamond trust Bank has a risk management department, 6.6% of the respondents were not sure 27.7% of the respondents disagreed. This implies that the bank does posses a department responsible for risk management. The risk management department is important in ensuring that all financial decisions are evaluated to ensure that the risks involved will not affect the financial performance of the bank.

4.2.2 Decentralized decision making about risk management policies and procedures in the different branches of the bank

During the course of the study it come to notice that decentralized decision making about risk management policies and procedures in the different branches of the bank is one of the risk management practices in banking institutions. When respondents were asked to show their level agreement to this, they responded as follows;

Table 4.2.2: Showing Response to use of decentralized decision making about risk management policies and procedures in the different branches of the bank as a risk management practice

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid		0	0	0	0
	Strongly Agree	4	9.3	9.3	9.3
	Agree	7	16.7	16.7	26.0
	N.A	4	9.3	9.3	35.3
	Disagree	17	39.5	39.5	74.8
	Strongly Disagree	11	25.2	25.2	100.0
	Total	43	100.0	100.0	

Source: Primary Data, 2016

Results in 4.2.2 above also shows that 64.7% of the respondents disagreed with the bank having a decentralized decision making about risk management policies and procedures in the different branches of the bank, 9.3% of the respondents were not sure where a small number of respondents, that 26% agreed. This implies that the bank has a centralized risk management and decision making system that applies to all its branches. This is not a good risk management practice as different branches deal with different class of clients which would require different branch managers to make independent decisions.

The findings of the study are in line with (Kestens 2012) who observed that centralizing ownership and decentralizing decision making is another common banking risk management practice in many banks. Centralize ownership of process and decentralize decision making risk management can be most effective in risk management when it is applied consistently across the banking organization with policies and procedures developed by risk experts who have the training and experience for their specific country, area, and client mix.

4.2.3 Bank uses inter affiliated transactions to transfer risks from different legal entities into one common vehicle with an aim of consolidating risks.

During the course of the study it was found out that banks uses inter affiliated transactions to transfer risks from different legal entities into one common vehicle with an aim of consolidating risks as a risk management practice. When respondents were asked to show their level agreement to this, they responded as follows;

Table 4.2.3: Showing Response to use of uses inter affiliated transactions to transfer risks from different legal entities into one common vehicle.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid		0	0	0	0
	Strongly Agree	3	6.6	6.6	6.6
	Agree	9	20.6	20.6	27.2
	N.A	16	37.5	37.5	64.7
	Disagree	10	23.5	23.5	88.2
	Strongly Disagree	5	11.8	11.8	100.0
	Total	43	100.0	100.0	

Source: Primary Data, 2016

Findings in table 4.2.3 above shows that 27.2% of the respondents agreed with that the bank uses inter affiliated transactions to transfer risks from different legal entities into one common vehicle with an aim of consolidating risks agreed that they receive low compensation and that their salaries are low, 37.5% of the respondents were nor sure whereas 35.3% of the respondents disagreed. The fact majority of the respondents were not sure about the bank using inter affiliated transactions to transfer risks from different legal entities into one common vehicle with an aim of

consolidating risks is a clear indication that this important risk management practice is not well streamlined in Diamond Trust Bank. The Bank's risks are not well consolidated.

The findings of the study are in agreement with Schroeck, (2002) who said that within each sector, many firms are increasingly seeking to take a consolidated, enterprise wide view of risk management. Their motivation comes from competitive forces to increase risk-adjusted returns on equity, in part by making more efficient use and allocation of capital, as well as from other current trends, such as globalisation, expansion across sector lines, and increasing involvement with products that entail multiple types of risk failure to do this can cost firm in this era of increased global competition.

4.2.4 The bank uses information technology systems to facilitate the risk management practices

During the course of the study it was found out that Information technology system is one of the risk management practices in many banks. When respondents were asked to show their level agreement to this, they responded as follows;

Table 4.2.4: Showing Response use of IT as a risk management practice

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid		0	0	0	0
	Strongly Agree	7	16.7	16.7	16.7
	Agree	11	25.5	25.5	42.2
	N.A	2	3.6	3.6	45.8
	Disagree	9	20.6	20.6	66.4
	Strongly Disagree	14	32.3	32.5	100.0
	Total	43	100.0	100.0	

Source: Primary Data, 2016

Information is table 4.2.4 above also shows that 42 % of the total respondents agreed that the bank uses information technology systems to facilitate the risk management practices, 3.6% of the respondents were not sure where a total of the 52.9% of the respondents disagreed with the bank using information technology systems to facilitate the risk management practices. This implies that bank mainly relays on manual systems in facilitating risk management. This is not practical enough given the current development in IT and the complex environment under which banking institutions are currently operating.

The findings of the study are supported by Winkler (2012) who contends that the value of IT appears to be increasing over time to banking organizations as the environment grows ever more complex—so there is no change in this variable in troubled times.

4.2.5 The bank's policies, behaviors and programs shows that the bank tries to develop risk management culture among its employees

Developing a risk management culture is one of the risk management practices practiced in banks. When this was put to the respondents, they responded as follows;

Table 4.2.5: Showing Response bank's policies, behaviors and programs shows that the bank tries to develop risk management culture among its employees

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid		0	0	0	0
	Strongly Agree	4	9.3	9.3	9.3
	Agree	10	23.5	23.5	32.8
	N.A	5	11.6	11.6	44.4
	Disagree	15	34.3	34.3	78.7
	Strongly Disagree	9	20.6	20.3	100.0
	Total	43	100.0	100.0	

Source: Primary Data, 2016

Results in table 4.2.5 above indicate that 32.8% of the respondents agreed that the bank's policies, behaviors and programs shows that the bank tries to develop risk management culture among its employees, 11.6% of the respondents were not sure where as 54.6% of the respondents disagreed. This implies that the bank does not take an integrated system of risk management where by all employees of the bank are involved in managing risks. Too much work pressure and unreasonable work expectation cannot be sustained by very many employees. The truth of the matter is that many decisions made in the banking institution have risks attached to them inspite of the level at which they are being made. It's therefore prudent that the bank develop a risk management culture among all its employees such that all decisions, big and small are made with risk management in mind.

The findings rhyme with Kestens (2012) who said that if a bank is serious about risk management, then it will be serious from the top down. Leadership will espouse a culture of responsible risk management through its behaviors and through the systems and programs it puts into place. In the run up to the financial crisis, organizations talked about good risk management; however, few in leadership positions espoused effective risk management, which is evident in the dismal failures in the financial sector.

4.2.6 The bank has top class management that makes calculated decisions

While conducting the study, it was noticed that having top class management that makes calculated decisions is one of the risk management practices in banks. When respondents were asked about this, they responded as follows;

Table 4.2.6: Showing Response the bank having top class management that makes calculated decisions

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid		0	0	0	0
	Strongly Agree	11	25.5	25.5	25.5
	Agree	21	48.3	48.5	74.0
	N.S	2	4.1	4.1	78.1
	Disagree	5	11.6	11.6	89.7
	Strongly Disagree	4	9.3	9.3	100.0
	Total	55	100.0	100.0	

Source: Primary Data, 2016

Furthermore table 4.2.6 above shows that 74% of the respondents agreed that the bank has top class management that makes calculated decisions, 4.1% of the respondents were not sure where as 20.9% of the respondents disagreed. This implies that Diamond Trust Bank has good managers who are keen in risk management. However these top managers have to b supported by other sectors of the bank such as IT and all other employees.

4.2.7 The bank has top class management that makes calculated decisions

In course of conducting the research it was learned that clearly stating the roles and responsibilities of top managers and adhering to them is one of the risk management practices in different banking institutions. When respondents were asked about this, they responded as follows;

Table 4.2.7: Showing Response to roles and responsibilities of top managers are well outlined and adhered to.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid		0	0	0	0
	Strongly Agree	4	9.3	9.3	9.3
	Agree	7	16.7	16.7	26.0
	N.A	4	9.3	9.3	35.3
	Disagree	17	39.5	39.5	74.8
	Strongly Disagree	11	25.2	25.2	100.0
	Total	43	100.0	100.0	

Source: Primary Data, 2016

Results in 4.2.7 above further show that 26% of the respondents agreed that roles and responsibilities of top managers are well outlined and adhered to, 9.3% of the respondents were not sure whereas 664.7% of the respondents disagreed with roles and responsibilities of top managers are well outlined and adhered to. The fact that majority of the respondents disagreed implies that to management risk management roles are not well streamlined and this can result into conflict of interest and complacent in risk management.

The finding are in agreement with Kestens (2012) who says that one of the common risk management practices is driving the process from the top and clearly defining roles and responsibilities. In the lead-up to the big bust, the credit crunch, banks were reporting record profits and the leaders were receiving bonuses for relatively short-term results. It seemed that everybody wanted in on the big profits and pay days, and little heed was given to people calling for curbing the growing risk profiles.

4.3 Level of Financial Performance

Objective number two of the study was to establish the levels of financial performance of banking institutions. Respondents were asked questions relating to level of financial performance of Diamond Trust Bank and they responded as follows;

4.3.1 The bank's profitability level is good and sound

In the course of conducting the research it was learned that one of the primary indicators of financial performance is the level of profitability. Respondents were asked whether the profitability level of Diamond Trust bank is good and sound and they responded as follows;

Table 4.3.1: Showing Response to the bank's profitability level being good and sound

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid		0	0	0	0
	Strongly Agree	10	23.5	23.5	23.5
	Agree	13	30.4	30.4	53.9
	N.S	4	9.3	9.3	63.2
	Disagree	9	20.1	20.1	83.3
	Strongly Disagree	7	16.7	16.7	100.0
	Total	43	100.0	100.0	

Source: Primary Data, 2016

The information in table 4.3.1 above shows that majority of the respondents that is 53.9% of the respondents disagreed with the levels of profitability of Diamond Trust Bank being good and sound. 8.3% of the respondents were not sure where as 36.7% of respondents agreed that the levels of profitability of the company were good and sound. The fact that majority of the respondents disagreed with the level of profitability of the bank being good and sound is a clear

indication that the bank is not performing as expected financially. This is attributed to poor risk management as the bank has a sizeable of loan defaulters.

The findings of the study are supported by Drucker, (1954) who stated that the ability for a company to consistently make a profit, or a surplus of revenues over expenses is critical to the survival of an organization. In the absence of profits or the likely prospect for profits, equity capital providers will withdraw their resources from an organization and redeploy them to alternative investments where a positive return can be realized.

4.3.2 Diamond trust bank holds a fare market share of the banking market in Kampala

While conducting the research it was discovered that market share is one of indicators of financial performance. When respondents from diamond Trust Bank were asked about the market share of the bank, they responded as follows;

Table 4.3.2 Showing Response to Diamond trust bank holding a fare market share of the banking market in Kampala.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid		0	0	0	0
	Strongly Agree	4	9.3	9.3	9.3
	Agree	8	18.6	18.6	27.9
	N.S	9	20.1	20.1	48
	Disagree	14	33.4	33.4	81.4
	Strongly Disagree	8	18.6	18.6	100.0
	Total	43	100.0	100.0	

Source: Primary Data, 2016

Information in table 4.3.2 further shows that 52% of the respondents disagree with the fact that Diamond trust bank holds a fare market share of the banking market in Kampala. 20.1% of the respondents were not sure whereas 27.9% of the respondents agree. The fact that majority of the respondents that is 51% disagreed with the bank holding a large of the banking market in Kampala implies that the bank has limited number of clients and this reflects in its financial performance. Without a steady increase in customer base, there cannot be a steady increase in revenue.

The findings are in line with Devinaga Rasiah (2010) stresses that to capture the effect of market share or bank size on profitability, both deposits and loans represent commercial banks output, one has to make a choice between deposits and assets to be used as proxy of banks market share. If commercial banks could be able to expand their market share then they may be able to increase their income as well hence profit

4.3.3 The bank meeting its financial obligations in a timely manner and provide a cash return to capital providers

While conducting the research it was discovered that meeting financial obligations in a timely manner and providing returns to capital providers is an indicator of good organizational financial performance. Respondents were asked whether Diamond Trust bank meeting its financial obligations on time and providing returns to financial providers and they responded as follows;

Table 4.3.3: Showing Response to the bank's profitability level being good and sound

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid		0	0	0	0
	Strongly Agree	4	9.4	9.4	9.4
	Agree	9	20.1	20.1	29.5
	N.S	9	20.1	20.1	49.7
	Disagree	14	33.4	33.4	83.3
	Strongly Disagree	7	16.7	16.7	100.0
	Total	43	100.0	100.0	

Source: Primary Data, 2016

Furthermore information in the table 4.3.3 above indicate that 29.5% of the respondents agreed that the company meets its financial obligations in a timely manner and providing and providing cash returns to capital providers. 20.1 % of the respondents were not sure whereas 50.3% of the respondents disagreed. The fact that majority of the respondents that is 50.3% disagree with the company meeting its financial obligations in a timely manner and providing cash returns to capital providers implies Diamond Trust Bank is still meeting its financial obligations but not in a timely manner and his been providing cash returns to capital providers irregularly. The company's profitability levels are not good enough to take care of the day to day operations of the business and at the same time provide cash returns to capital providers regularly

The findings of the study rhyme with Drucker (1954) who said that in the absence of profits or the likely prospect for profits, equity capital providers will withdraw their resources from an organization and redeploy them to alternative investments where a positive return can be realized.

4.3.3 The bank meeting its financial obligations in a timely manner and provide a cash return to capital providers

While conducting the research it was discovered that meeting financial obligations in a timely manner and providing returns to capital providers is an indicator of good organizational financial performance. Respondents were asked whether Diamond Trust bank meeting its financial obligations on time and providing returns to financial providers and they responded as follows;

Table 4.3.4: Showing Response to the company's total assets having been growing constantly

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid		0	0	0	0
	Strongly Agree	9	20.6	20.6	20.6
	Agree	10	23.5	23.5	44.1
	N.A	7	16.7	16.7	60.8
	Disagree	11	25.5	25.5	86.3
	Strongly Disagree	6	13.7	13.7	100.0
	Total	43	100.0	100.0	

Source: Primary Data, 2016

Table 4.3.4 above once again shows that 20.6% of the respondents strongly agreed that the company assets were growing constantly, where as 23.5% of the respondents agree constant growth of assets. 16.7% of the respondents were not sure where 39.2% of the respondents disagreed. The fact that only 44.2% of the respondents agreed that the Diamond Trust bank's assets were growing constantly, indicates that the Bank's current and fixed have not been growing as expected. Diamond Trust Bank is having a good asset base but this asset base would be growing faster if the bank was managing risks effectively.

The findings of the study are in line with Brush & Vanderwerf (1992), who found out that growth has been conceptualized both in the context of resources and from a business operations perspective. Typical accounting-based growth measures include absolute or percentage change in total assets, operating assets, sales, total expenses, and operating expenses. Commercial banks are required by regulators to hold a certain level of liquidity assets. And the reason behind this regulation is to make sure that the commercial banks always possess enough liquidity in order to be able to deal with bank runs

4.3.5 The Company generating positive economic profit

In the course of conducting the research it was discovered that economic profits is an indicator of good organizational financial performance. Respondents were asked whether Diamond Trust bank was generating economic profits and they responded as follows;

Table 4.3.5: Showing Response to the bank generating positive economic profit

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid		0	0	0	0
	Strongly Agree	7	16.7	16.7	16.7
	Agree	9	20.1	20.1	36.7
	N.S	6	16.7	16.7	53.5
	Disagree	14	33.4	33.4	87.9
	Strongly Disagree	5	11.8	11.8	100.0
	Total	43	100.0	100.0	

Source: Primary Data, 2016

Results in table 4.3.5 above also shows that 45.2% of the respondents disagreed with the bank generating positive economic profit, 16.7% of the respondents were not sure where as 36.7% of the respondents disagreed with the bank generating economic profits. The fact that majority of the respondents that 45.2% disagree with company costs reducing implies that Diamond Trust

bank is still facing high cost of operation which result from poor management of risks which costs the bank in terms of bad loans.

The findings of the study are in line Cameron, (1986) who said that a business that is earning at least its cost of capital is generating positive economic profit; a business that is earning less than its cost of capital has negative economic profit, even if its earnings are positive

4.4 Relationship between Risk Management and Financial Performance of Banking Institutions

To verify this research question, correlation was done where all responses relating to risk management and financial performance of banking institutions were aggregated into a single index and then Pearson's correlation Co-efficient (r) technique was used to assess the nature and magnitude of the relationship

Table 4.4.1: Pearson's correlation Coefficient for risk management and financial performance of banking institutions

Correlations

		Risk Management	Financial performance of banking institutions
Risk management	Pearson Correlation	1.000	.709**
	Sig. (2-tailed)	.	.000
	N	43	43
Financial Performance of Banking institutions	Pearson Correlation	.709**	1.000
	Sig. (2-tailed)	.000	.
	N	43	43

** Correlation is significant at the 0.01 level (2-tailed)

Source: Primary Data, 2016

From table 4.4.1, Pearson's Correlation Coefficient for risk management and financial performance of banking institutions was r = 0.709**, with a probability value ($p = 0.000$) that is less than $\alpha = 0.01$ level of significance showing a strong relationship between risk management and financial performance of banking institutions at the one percent level of significance. Therefore findings revealed that risk management significantly influences financial performance of banking institutions.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the study findings as presented in chapter four, conclusions and recommendations plus areas for further research.

5.2 Summary of Major Findings

5.2.1 Risk Management Practices in Banking Institutions.

Findings showed that Diamond trust Bank does not possess a risk management department and besides that the bank has a decentralized decision making system about risk management policies in all its branches. This impedes managers from making financial decisions depending on the type of clients they deal with but they are rather forced to making decisions depending on the general bank policies. This makes the bank miss out on some potential customers. In addition to that, bank does not utilize IT system in risk management yet the use of IT is important in collecting and analyzing data about clients. The bank does not generally take much effort in building a risk management culture among its employees. Risk management is mainly left for those concerned with risk management.

The findings further showed that Diamond Trust Bank have good top managers who are kin on risk management although risks management roles are not well stream lines in the bank. The bank may have good top managers; these managers need the support of all other departments to manage risks well.

5.2.2 Levels of Financial Performance

Findings of the study showed that financial performance level of profitability of Diamond Trust Bank is not up to the expected level. The respondents reported that; although the company is making profits, its level of profitability is not good enough; the company sometimes generates positive economic profits but are not as regular as it should be. It was further reported that the organization meets its financial obligation but sometimes with delays. Cash returns to investors are never consistently given on time, the bank's market share of the banking industry in Kampala is equally low. It was reported that poor risk management practices are to blame for the current state of the financial position of the bank.

5.2.3 Relationship between Risk Management and Financial Performance of Banking Institutions

Pearson's Correlation Coefficient for risk management and financial performance of banking institutions was r = 0.709**, with a probability value (p = 0.000) that is less than $\alpha = 0.01$ level of significance showing a strong relationship between risk management and financial performance of banking institutions at the one percent level of significance. Therefore findings revealed that risk management significantly affects financial performance of banking institutions.

5.3 Conclusion

Generally findings of the study showed that risk management significantly influences the financial performance of Diamond Trust Bank. It was found out that the banks has poor risk management practices. It was found out that there is no decentralization decision making about

risk management policies, this results into delays in decision making as well as loosing potential clients which affects the profitability of the bank. The lack of a risk management culture at the bank means that many decisions are made without considering the risks involved and this has cost the bank in terms of increased operational costs. Although the bank has top class management, these managers are not to implement all the risk management practices without the help of all employees and other departments like IT. Because of this the bank has found itself getting involved in high risk ventures which result into loss of money in terms of for example bad loans.

5.4 Recommendation

From the above findings, the following recommendations are made:

i) Banking institutions need to refocus more on risk management. Risk management practices should be one of the core practices in bank management. This is because most bank business activities involve risks and therefore if these risks are not well managed, they can continue hurting the financial performance of banking institutions.

ii) Decentralization of decisions regarding risk management should be encouraged. This will help different branches of the same back to make independent decisions basing on the type of clients they deal with in a specific area or branch. This increases the number of clients served, facilitates timely feedback as well diversification which can increase profitability hence improved financial performance.

iii) Top management in banking institutions should try as much as possible to ensure that they build a risk management culture among all employees. This is important because it makes each and every one in the bank to be conscious of their actions. By doing this risk management will not be left to only top managers and those in the risk management department but it will be a concern for all employees.

iv) Since we are living in the information technology era, banking institutions should ensure that they incorporate IT systems in risk management. The use IT systems would help in collecting and analyzing vast amount of data relating to clients with an aim of making decisions about risk management easier and more accurate. This would minimize on time taken to make a decision as well as losses resulting decisions made without adequate information.

5.5 Areas for Further Study / Research

Further research can be carried out in the following areas;

1) Relationship between risk management practices and organizational financial performance
2) Factors influencing the financial performance of baking institutions
3) Types of risks in banking institutions and their effects on bank performance

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APPENDIX I

QUESTIONNAIRE

Dear Respondent,

I am **Tumusiime Hillary** a student of Uganda martyrs University pursuing a bachelor's degree in Business administration and management: undertaking a research on "The effects of risk management on the performance of banking institutions". You are kindly requested to participate in the above mentioned research activity. The survey will take 10 – 15 minutes to complete. To ensure confidentiality of all responses, you are not obliged to provide your name. The information you give in response to this survey will provide me valuable information and insight into the above research survey and will be used for only academic purposes.

SECTION A

BACKGROUND INFORMATION

The questions below are about your personal background. Please answer them as they correctly apply to you by ticking the appropriate box

1 .Age

Below 25 ☐ 26-35 ☐ 36- 45 ☐ 46 above

2. Gender:

Male ☐ Female ☐

3. Level of education (Your highest completed level of education)

Diploma ☐ Degree ☐ Masters ☐

Doctorate ☐

4. Number of years with Diamond Trust Bank Uganda.

☐ 0-5 yrs ☐ 6-10yrs ☐ 11-15yrs ☐ 16 and above yrs

SECTION B: RISK MANAGEMENT PRACTICES IN BANKING INSTITUTION.

Please respond to the following statements by showing your level of agreement/disagreement using the scale provided in the table below;

Strongly disagree	Disagree	Not sure	Agree	Strongly Agree
1	2	3	4	5

Risk Management Practices	**1**	**2**	**3**	**4**	**5**
Bank uses inter affiliated transactions to transfer risks from different legal entities into one common vehicle with an aim of consolidating risks					
There is decentralized decision making about risk management policies and procedures in the different branches of the bank					
Roles and responsibilities of top managers are well outlined and adhered to					
The bank uses information technology systems to facilitate the risk management practices					
The bank's policies, behaviors and programs shows that the bank tries to develop risk management culture among its employees					
The bank has a risk management department					
The bank has top class management that makes calculated decisions					

SECTION C: BANKING INSTITUTIONS FINANCIAL PERFORMANCE LEVELS

Please respond to the following statements by showing your level of agreement/disagreement using the scale provided in the table below;

Strongly disagree	Disagree	Not sure	Agree	Strongly Agree
1	2	3	4	5

Levels of Financial Performance	**1**	**2**	**3**	**4**	**5**
The bank's profitability levels are good and sound					
Diamond trust bank holds a fare market share of the banking market in Kampala					
The bank meets its financial obligations in a timely manner and provide a cash return to capital providers					
The Company is generating positive economic profit					
The bank has adequate liquid assets					
Diamond Trust bank has a good capital structure					
The company's total assets having been growing consistently over time					

SECTION D: RELATIONSHIP BETWEEN FINANCIAL RISK MANAGEMENT AND FINANCIAL PERFORMANCE OF BANKING INSTITUTIONS

Please respond to the following statements by showing your level of agreement/disagreement using the scale provided in the table below;

Strongly disagree	Disagree	Not sure	Agree	Strongly Agree
1	2	3	4	5

Relationship between risk management and bank financial performance	**1**	**2**	**3**	**4**	**5**
Managing risks has increased value for the bank through continued profitability					
Efficiency of risk management has generally influenced the financial performance of the bank by preventing losses					
Risk management at the bank increases share holders and customers value					
Good liquidity asset management practices have helped the bank to improve in its profitability levels					

END