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Human Resource Risk Minimization Practices and Performance of Commercial Banks in Kenya

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Abstract

This study aimed at elucidating the relationship between HR risk minimization practices and the performance of commercial banks in Kenya. Studies show that the performance of commercial banks is highly threated by HR related risks, which they have to overcome to sustain their performance. The risks come against the realization that banks are key contributors to the Kenyan economy at more than 7% of its GDP. The HR Risk Minimization practices that were of interest to this study were headhunting, show cause letters, prosecution, and termination of duties. The study was supported by both the Expected Utility Theory and Miles and Snow's Organizational Strategies Model. The study targeted 38 banks that were eligible for a census survey with a total of 228 respondents, who were bank employees, participating in study. Descriptive and inferential statistics were used to analyze the data. The association among variables was established using Pearson's Product Moment Association Coefficient (r), and the hypothesis was tested using analysis of variance (ANOVA), correlation analysis, and multiple regressions. The results indicated that, a weak (R=0.396 >0.5), positive and linear relationship between HR Risk Minimization practices and the performance of commercial banks in Kenya. Further, the p-value of 0.000 led to the conclusion that the relationship was statistically significant. This study recommends the establishment of mechanisms of determining the effectiveness of organizational HR risk minimization mechanisms. The study also challenges scholars in various management fields to deleve in research on HR related risk management, given their unpredictable nature. The study also recommends continuous development and review of policies and guidelines on the management employee related risks such as such policies are the CBK's Prudential Guidelines of 2013.

Keywords: Human Resource Risk minimization practices, Commercial Banks

1. Introduction

Commercial banks are regarded as one of the pillars of the Kenyan economy due to their financing and cash custodial roles. Human resource risks, however, pose a serious threat to the banks, given the banks' overreliance on people in accomplishing their goals. Studies show that managing employee-related risks is a difficult task for firms even outside the banking industry. Commercial banks have a myriad of challenges in staging and maintaining desirable performance levels. The outlook of commercial banks' performance on a global, regional, and local level is an indicator of the necessity of effective HR risk mitigation because the effects of such risks are adverse to their performance.

Despite the fact that their growth has improved, banks on the global stage still face employee-related risk risks that must be addressed in order to maintain their performance. A report by the Netguardians (2023) indicates that the highest risks within the banking industry such as fraud are associated with employees. According to KPMG International Limited (2021), all banks' global asset-based relative valuation fell sharply from 1 in December 2019 to 0.69 in April 2020. The emergence of COVID-19 pandemic has also reawakened the need to re-evaluate the HR risk mitigation approaches that commercial banks are employing, given that employees were at the central stage of the containment measures, in addition to being affected directly. As indicated by KPMG (2021) the European banks had a significant stock decrease of 40.18% while the Asian Pacific region saw a decrease in stock by more than 25% as a result of the pandemic.

In light of the numerous opportunities the banking sector has in Africa, the regional context indicates a positive performance potential. According to Dzomira (2014)'s study on the country of Zimbabwe's financial distress, there were numerous concerns that might be connected to the quality of human capital in most Zimbabwean banks. The author emphasizes that a lack of supervisory skills has resulted from a major brain drain from Zimbabwean banks. Just like it was on the world level, the COVID-19 turned out to be disastrous for the African banking sector.

Napier (2016) claims that several African banks have underperformed, with some going completely out of business as a result of poor management and other related moral hazards that are connected to employees. For instance, the Crane Bank of Uganda was closed in 2016 due to massive insolvency caused by incompetent management and fraud. Mdoe (2017) observes that despite most African banks having the potential of profitability, reachability to the untapped population is sluggish, occasioned by high investment risks. In line with this argument, financial intermediation in Eastern Africa countries such as Tanzania, Uganda, and Rwanda is almost half of the other countries within the region (Gaertner & Sanya, 2013). Such a scenario can be worsened by a prevalence of employee related risks.

Locally, the performance of the local commercial banks is also highly affected by employee related risks. This can be explained by bank failures for reasons attributable to employee involvement. As Ogola, K'Aol, and Linge (2016) note, human risks were at play in the failure of Chase Bank, Dubai Bank, and Imperial Bank due to risky operational practices, which led to their closure. The CBK Banking Fraud Report (2013), indicates that financial fraud activities grew from 0.5% to 5%. According to Qonde and Chepkonga

(2017), commercial banks suffered more than $100 million in losses in 2017 as a result of fraudulent activities part of which were as a result of staff involvement. The achievement of the socio-economical goals such as the Vision 2030 is therefore highly affected by such challenges, hence the need to evaluate the effectiveness of the HR Risk minimization practices that banks employ.

1.1 HR Related Risks Affecting Commercial Banks

The scope of HR related risks is wide, as most of such risks come about due to the unlimited number of possible human failures that every organization is challenged with. A report by Munda (2021) illustrates the precarity of the banking industry as far as the human risks they encounter is concerned. The author notes that as at 2021, a number of banks (deliberately undisclosed by the CBK), were at the verge of getting into regulatory problems as a result of employee related risks. Such risks included insider lending, failure to avert money laundering, high risk lending practices, political interference and fraud, among others. The success in dealing with such risks was attributed to early detection and prevention mechanisms that have been put up by the regulator and other agencies such as the Kenya Deposit Insurance Corporation-KDIC (Munda, 2021).

The diversity of HR related risks is further illustrated by the Partners Group (2014), which identifies health and psychological risks such as stress as risks associated with employees. Among the top contemporary risks that banks are facing is data security, with many undesirable outcomes such as exposure to cybercrime (Lewis, 2016). The Kenya Bankers Association (2020) attributes human factors such as poor attitude and lack of product knowledge to a decline in customer service satisfaction based on the 2019-2020 survey. Such a scenario exemplifies employee related risks as detractors of banking performance.

1.2 HR Risk Minimization Practices

Organizations make use of HR risk reduction or minimization practices to mitigate the risks they encounter. The aim is to reduce the loss of value or adverse impact to the organizational performance as much as possible (Adoko, 2017). Among the practices is head-hunting, which involves going for an identified employee from a different organization with the capabilities of managing a vacant role. In most cases, the organization comes up with an attractive package that will entice the employee to leave their current organization and join them immediately (Adeniyi, Ilesanmi, & Aremu, 2013). Another approach is using rewards to recover what might have been lost (Przewoźna-Krzemińska, 2012). On the flip side, employees responsible for risk occurrences may be punished in different ways, such as prosecution, warnings, demotion, suspension from duty, and salary cuts, among others, to recover the lost value or prevent further losses.

1.3 Statement of the Problem

One essential prerequisite for the performance of commercial banks in Kenya is the reduction of HR related risks. Kenyan commercial banks play a significant role in the economy of the nation. This contribution needs to be heightened. However, this contribution is threatened as a result of employee related risks. Due to their involvement in financing, employment, consulting, and custodial activities, commercial banks are essential to achieving other development objectives like those in the Big Four Agenda and Vision 2030. However, their performance is at stake, given the adversity of the threats ingrained in employee related activities. Such failures include the liquidation of Imperial Bank in 2016 as a result of a highly risky operational environment. Further, the concealing of insider lending activities, which was in violation of banking laws and regulations, contributed to the collapse of Chase Bank. Due to their failure to disclose fraud at the National Youth Service, five Kenyan banks were penalized in 2018. According to the Kenya Bankers Association's 2018–2020 customer satisfaction surveys, employee-related issues such unclear pricing are major causes of customers' dissatisfaction. Such threats are a pointer to the fact that both the management and evaluation of the HR mitigation practices is inadequate which highly exposes commercial banks towards unsatisfactory performance.

Although a number of studies have made an effort to address HR related risks, there is still a significant information gap. Abdrahamane, Xi, Alpha, and Kargbo (2017) investigated the impact of banking regulation on the risk management and performance of banks in Mali. The study depicts contextual gaps as it was done in Mali, where the economic conditions are different from those in Kenya. Banks are also not included in Meyer, Roodt, and Robbin's (2011) study, which only relies on literature review to examine the relationship between HR risk management and performance. The current study focuses on Kenyan commercial banks, which helps to seal such gaps. To maintain good and sustained performance in the face of such gaps and obstacles, employee related risk mitigation practices need to be continually evaluated through research, which is why this study is necessary.

1.4 Objectives of the Study

To analyze the relationship between HR Risk Minimization Practices and the Performance of commercial banks in Kenya.

1.5 Conceptual Framework

The conceptual framework that this study adopted is as shown in Figure 1. The independent and independent variable were HR Risk Minimization Practices and Performance respectfully.

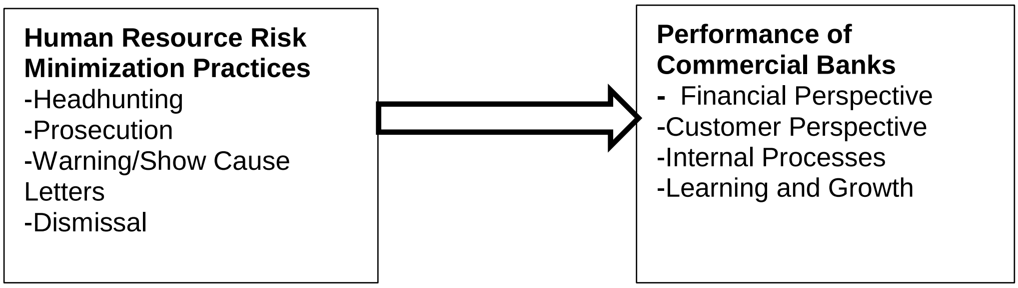

Figure 1: Conceptual Framework for HR Risk Minimization Practices and Performance of Commercial Banks in Kenya

2. Literature Review

A number of theories and empirical studies that attempt to explain the relationship between HR risk minimization practices and performance are in existence

2.1 The Concept of Performance

Various scholars define performance in different ways. According to Tahir (2020), organizational performance involves both the economic and operational aspects of an organization. Economic performance is measured by market and financial results, including earnings, sales, shareholder return on investment, and other financial metrics. On the other hand, operational performance is concerned with observable metrics like customer happiness and loyalty, social capital of the company, and competitive advantage generated from competencies and resources.

There are various models that are adopted in measuring organizational performance. One such model, which this study adopted is the Balanced Score Card (BSC), which was developed by Kaplan and Norton (1996). The model constitutes the financial perspective, customer perspective, internal procedures, and learning and growth as the performance metrics. According to Abofaied (2017) the approach was developed to narrow the gaps created by traditional performance indicators such as profitability and Return on Assets (ROA) that disproportionately emphasize financial aspects while ignoring the equally significant non-financial aspects such as growth and development.

2.2 Expected Utility Theory

The Expected Utility Theory (EUT) is a risk management theory that can be applied in risk minimization as it supports making informed mitigative decisions based on the available options. The theory was coined by Daniel Bernoulli in 1938 and has been widely adopted in various risk-related management decisions and studies (Rabin, 2013). According to the theory, a decision is usually made between risks and uncertain prospects by comparing their expected values of utility. Historically, the theory was built on the principle of maximization of expected value in monetary terms. The theory was mainly applied in situations such as gambling, where a decision could lead to either a loss or gain. However, the central idea behind the theory is that the best decision is where the risk is minimal and the outcome is high. Several studies have been done to corroborate the tenets behind the theory. For instance, Briggs (2014) notes that the theory is usually invoked by people who want to make economic decisions. The author also notes that in ethics, the theory is applicable because, within an ideal setup, people are expected to make decisions that will lead to the best consequences and shun those that may lead to undesirable consequences.

2.3 Empirical Studies and Findings

Even though there is no comprehensive list of what should be done for every risk occurrence, some of the common approaches as documented through the reviewed literature include headhunting (Mbugua, Waiganjo, & Njeru, 2015), prosecution (CBK, 2013; Enofe et al., 2015), employment termination (Verheyen, Deschacht, & Guerry, 2014) and warnings and show cause notices and dismissal (Apalia, 2017).

Headhunting can be used as a competitive staffing strategy and, at the same time, a loss mitigation strategy when an organization loses a key employee and has no immediate internal replacement (Mbugua et al., 2015). Various studies related to headhunting as a recruitment strategy have been done, although they hardly discuss the correlation between this strategy and the Performance of firms in Kenya.

Karemu, Kahara, and Josee (2014) did an investigation to come up with the influence of recruitment practices on employee retention at Equity Bank in Kenya. However, the study's main analysis is centered on other factors such as how vacancies are posted and online applications, but not on headhunting as one of the HR Risk Minimization Practices. In the same vein, Tafamel and Akrawah (2019) note a high correlation between headhunting as a recruitment strategy and employee retention in Zenith bank in Nigeria. This has eventually shown consistency in the Performance of the stated bank. Kundu et al. (2014) noted that headhunting is a rare strategy used among manufacturing firms in India, is only applied in emergencies such as when a critical employee leaves the firm. Osoian and Zaharie (2015) observed that the private sector utilizes headhunting more when compared to the public.

Prosecution can also be an option to recover the incurred losses resulting from employee related activities. Risk occurrences such as fraud and money-laundering, which may not be fully remedied within the organizational confinement and are usually handled legally (Akekola, 2015). Different sources illuminate prosecution from different perspectives. Isa, Sanusib, Haniff, and Barnes (2015) consider prosecution as one of the measures that can be used to control money laundering in banks. However, the scope of the study does not cover any relationship between prosecution as a risk management measure and the Performance of banks. In a guidance paper by the International Association of Deposit Insurers-IADI (2015), it was noted that due to the global financial crisis, most jurisdictions worldwide had revamped their effort towards ensuring that criminal cases are initiated against individuals who are found with responsibilities with bank failures. The statistics documented by this research corroborate that prosecution is a highly adopted means of mitigating losses from banking staff. For instance, between 2005 and 2013, more than 250 criminal cases revolving around bank owners and employees were filed in Russia. The cases involved intentional bankruptcy and improper use of office by senior managers.

Apart from prosecution, the management can opt for warning or show cause letters to minimize losses associated with employees (Dzimbiri, 2016). According to Apalia and Okoche (2016) incidences of employees subjecting losses to their employers are frequently encountered within the Kenyan context, which calls for the use of disciplinary approaches such as warning letters. The authors concluded that an increase in disciplinary measures such as warnings and holding employees accountable resulted in a significant increase in their Performance. However, this study contradicts the findings of Ahmad and Scott (2014), who established frequent warnings to frontline staff in Malaysian hotels as among the major factors that led to employee exists. In a related study, Cedaryana, Luddin, and Supriyati (2015) established a strong relationship between work discipline and the Performance of employees at the Directorate General of Research and Technology in Indonesia. The authors also found a high correlation between work discipline, career development, and job satisfaction. However, the research is not explicit on the granular elements of discipline, such as the use of warning as a way of improving an employee's Performance.

Dismissal of employees can also be a consideration in minimizing employee related risks. The assumption behind dismissal is that the employee in question is likely to expose an organization to risks through ways such as degeneration of productivity, poor organizational image, embezzlement of funds, among others (State Human Resources Manual, 2011). Employee dismissal affects organizational Performance in negative ways, such as loss of morale due to job insecurity, as seen in the study by Lucky, Minai, and Rahman (2013). Lee (2017) considers employee dismissal a strategic workforce management approach, which he terms as involuntary employee turnover. Through his study, the author indicates a strong and positive correlation between strategic employee dismissals and the Performance of firms.

3. Methodology

The study's methodology, philosophy, research design, population, data collection methods, and tests for regression assumptions are discussed in this section.

3.1 Research Philosophy

This study adopted the positivist school of thought. According to Fulford and Hodgson (2016), the positivist philosophy holds that what can be observed, measured, or scientifically proven can be taken as fact. Because the study included a statistical examination of respondents' perceptions of the effectiveness of various HR Risk Minimization Practices and how they affect the performance of commercial banks, this philosophy was adopted. Bw'Auma (2012) and Sporta (2018) used positivism in their study on how banking performance was affected by board qualities and financial distress respectively

3.2 Research Design

This study adopted a descriptive survey with the main goal of analyzing the relationship between HR Risk Minimization Practices and the performance of commercial banks in Kenya.

3.3 Population of the Study

The study involved all the 41 of the commercial banks listed by the CBK at the time of data collection. However, only 38 were accessible given that two were under receivership while one was under statutory management, which informed their exclusion from the study. Out of the 38 banks four were involved in a pilot study. The respondents were bank employees who included risk managers, branch operations mangers, tellers, human resource managers, and sales managers.

3.4 Data Collection Instruments and Procedures

Closed-ended questionnaires were used to collect the data, and a Likert scale was used to evaluate the responses. The scale was set at 1 to 5, with 5 denoting "very much" and 1 denoting "not at all." To ensure that respondents had enough time to answer the questions, a drop and pick later strategy was employed.

3.5 Test for Reliability of Instruments

The Cronbach's Alpha Coefficient was used to assess the reliability of the data collection tool by assessing the internal consistency. When there is internal consistency, the data collection methods will most likely produce similar results when used on a larger scale (Durakbasa & Gencyilmaz 2018). Cronbach's Alpha Coefficient above 0.7 is deemed as having a suitable internal consistency (Bolarinwa, 2015). This study determined that the instruments were internally consistent based on a Cronbach's Alpha value of **0.714**.

3.6 Data Analysis and Presentation

The collected data was cleaned, coded, and then backed up using the SPSS program. The study made use of descriptive statistics, factor analysis, testing for regression assumptions, and regression analysis. Regression analysis was used to look at how HR risk minimization practices and performance correlate. Before performing the regression analysis, the data were examined for outliers, normality, linearity, and homoscedasticity. The tests were necessary to assess whether the data was suitable for regression analysis.

4. Results and Discussions

The results of the analysis were as documented below:

4.1 Response Rate

A total of 204 questionnaires were distributed within the 34 banks. Out of all the distributed questionnaires, 156 representing 76.47% were filled correctly and collected. According to Fincham (2008) a return rate for questions of at least 60% is suitable for a social science research.

4.2 Descriptive Analysis for HR Risk Transfer Practices

The aim of the study was to analyze the perceived effectiveness of HR Risk Minimization Practices in managing HR-related risks. The results were as summarized in Table 1:

Table 1: Descriptive Results for HR Risk Minimization Practices

Statement	Very Much (%)	Much (%)	Somehow (%)	Neutral (%)	Not at all (%)	Mean Per Item	Standard Deviation
Headhunting is effective in reducing losses in circumstances where the organization untimely loses an employee	19.90	38.50	26.90	10.90	3.80	3.60	1.05
Prosecution of Employees is instrumental in reducing or recovering losses	23.10	29.50	25.60	12.80	9.00	3.45	1.23
Warning or Show Cause Letters are effective in reducing losses that are linked to employee activities within the bank	28.80	35.30	23.10	7.10	5.80	3.74	1.12
Employee Dismissal helps in minimization reduction of losses linked to employee risks within my	29.00	25.00	25.00	14.70	5.80	3.58	1.22
Mean Per Rating (%)	**25.20**	**32.08**	**25.15**	**11.38**	**6.10**		
Overall Standard Deviation							**1.34**

A majority (25.20%) of the respondents agreed that the HR Risk Minimization Practices were highly effective in mitigating employee-related risks, while 6.10% disagreed. A study by Ahmad and Scott (2014) found warning letters as contributive to employee exits in Malaysian frontline staff within the hotel industry hence confirming these findings. These responses had a standard deviation of 1.34 indicating a considerably high variation from the mean. This indicates that the respondents had fairly varied opinions about the effectiveness of the HR risk minimization practices under study.

4.3 Inferential Analysis

To determine the fitness of the model in explaining the relationship between HR Risk Minimization Practices and Performance, a model summary was generated as shown in Table 2:

Table 2: Model Summary for HR Risk Minimization Practices and Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.396[a]	.157	.151	.42948

a. Predictors: (Constant HR Risk Minimization Practices)

The model that was used for the analysis was $Y = b0 + b_5X + \varepsilon$. From the model summary, the value of R was 0.396 and R square 0.157. The value of R (<0.5) led to the conclusion that there was a weak, positive, and linear relationship between HR Risk Minimization Practices and the Performance of commercial banks in Kenya. The R square value, on the other hand, indicated that 15.31% of the variance in performance could be explained by HR Risk Minimization Practices within the model. Studies that demonstrate a relationship between HR Risk Minimization Practices and organizational performance include Somaya, Williamson, and Lorinkova (2008) who established a correlation between employee mobility and firm performance. The authors advocate for the use of HR Risk Minimization Practices such as headhunting to deal with attrition risks.

The significance of the model was determined through an analysis of variance. The results were as indicated in Table 3:

Table 3: Analysis of Variance (ANOVA) for HR Risk Minimization Practices and Performance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.282	1	5.282	28.636	.000[a]
	Residual	28.406	154	.184		
	Total	33.688	155			

a. Predictors: (Constant), HR Risk Minimization Practices
b. Dependent Variable: Performance.

The F statistic was 28.636 out of which it was deduced that the model was significant as this value was more than the critical value of 3.903 with a 1 and 154 degrees of freedom at p=0.05. Given that the p-value was 0.000, there was a high level of significance in the relationship between HR Risk Minimization Practices and the Performance of commercial banks.

Further analysis involved the determination of the model's coefficient and the results were as summarized in Table 4:

Table 4: Regression Coefficients for HR Risk Minimization Practices and Performance

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	T	Sig.
1	(Constant)	2.595	.237		10.928	.000
	HR Risk Minimization Practices	.374	.070	.396	5.351	.000

a. Dependent Variable: Performance

The findings imply that at zero effect of HR Risk Minimization Practices, the Performance of the bank would be 2.595 units. With an improvement in HR Risk Minimization Practices by one unit, then the Performance of the commercial banks is expected to improve by 0.374 units. Generally, the model shows that there is a significant influence of HR Risk Minimization Practices on the Performance of commercial banks in Kenya. The coefficients were used to generate the model Y=2.595+0.374X where,
Y=Performance
X=HR Risk Minimization Practices

The hypothesis was based on the objective of the study, which sought to analyze the relationship between HR Risk Minimization Practices and the performance of commercial banks in Kenya. The hypothesis was stated as below:

$H_{0:}$ There is no Statistically Significant Relationship between HR Risk Minimization Practices and the Performance of Commercial Banks in Kenya.

Given that the p-value was 0.00<0.05, the study concluded that there was a statistically significant relationship between HR Risk Minimization Practices and Performance, hence the rejection of the null hypothesis. These findings are a pointer to the fact that any gaps generated in the management of employee related risks can end up causing disastrous effects on the performance of the bank in question, hence the need to ensure that the mitigative practices are at always at their optimal levels. On the flipside, effectiveness in their applicability means that the banks will benefit more through improved performance. Such findings are in tandem with those of Hoffman, Kelley, and Rotalsky (2016) who found HR Risk Minimization Practices as effective tools in service recovery. In another study, Tafamel and Akrawah (2019) found that there was a high correlation between headhunting, looked at as an attritional mitigative strategy and employee retention in Zenith bank in Nigeria. Given the findings of this study together with the aforementioned corroborating studies, it can be concluded that indeed the HR Risk Minimization Practices are of value to commercial banks in Kenya as enhancers of their Performance.

5. Conclusion and Recommendation

In conclusion, the study involved an analysis of how HR risk minimization practices were related to performance of commercial banks in Kenya. The findings showed a statistically significant, weak and positive correlation; as such, the various HR Risk Minimization Practices studied have a significant contribution to the Performance of commercial banks in Kenya. Since the correlation is significant, banking performance can be enhanced through an effective deployment of HR Minimization strategies.

This study recommends that the management needs to establish mechanisms that can be continuously used to determine whether the HR Risk Minimization mechanisms that are in place are effective or not. Such information is important given that a decision can be made on how best to apply the practices towards the improvement of organizational performance. The study also challenges scholars in various fields such as human resource management, risk management, ad finance, among others, to take a deep dive in research on human resource risk management, given the unpredictable and indeterminate level of risks that employees can be expose an organization to. In policy, the study recommends continuous development and review of policies and guidelines that are geared towards enhancing the management and mitigation of employee related risks. An example of such policies are the CBK's Prudential Guidelines of 2013 on banking operations. Further, the study advocated for a heightened level of flexibility to accommodate the emerging challenges such as HR risks that are associated with remote working, which has been advised by the COVID-19 containment measures.

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