

Effects of Project Risk Identification on the Performance of Core Banking Systems in Commercial Banks of Kenya

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Abstract: Commercial banks in Kenya often establish a risk management practice in their core banking system for improving the performance and increase the profits. Adoption of Core banking systems is widely complex and has often significant budgets, tight schedules and consume immense resources hence minimize risks linked to be treated as a priority to every project manager. The study examined the extent to which project risk identification influences core banking system projects performance in selected commercial banks, in Kenya. A descriptive research design was utilized. The accessible population was 80 respondents comprising of 10 project managers from each bank. A census of 80 respondents was done to form the study sample size. Questionnaires were utilized to collect data. The collected data was quantitatively analyzed using descriptive statistics and multiple regression analysis. The study found that risk identification, risk analysis, risk response and risk monitoring had a positive significance on project performance. The study concluded that identifying risk enables full risk analysis to be done and risk to be addressed and the project managers qualify risk based on likelihood and impact. The study recommended that commercial banks should increase level of project risk identification as it enhances the risk management activities on each significant risk.

Keywords: Project Risk Identification, Organizational Performance

I. INTRODUCTION

A Project is defined as a short-term and distinct task carried out to achieve a set end result and it is only successful if it is achieved with the expected time, cost, attains the required customer expectations and is utilized by the customers who are directly linked to the benefits of the project (Crawford & Bryce, 2013). According to Ward and Chapman (2013) the cost of the project and time exceed because of failure a proper measuring system in regard to the assessment and control of the risk involved in the project. The author indicates that project risk is the probability of an occurrence of an event with likelihood of having an insignificant effect on the objectives of the project and gauged against the possibility and its impact.

The management of risk is a sequence of steps in which its objectives entails identifying, addressing and eliminating risk elements before becoming either a threat to the success operation or the main basis for incurring high cost redoing the work (Elkington & Sallman, 2012). Alessandri, Ford, Lander,

Leggio and Taylor (2014) observe that failure to handle and manage risk events properly may result to increase in budgetary costs, changing the capital structure, postponing the building or office activities, overwhelm in the financial plan, loss of money inflow, lead to sold harms claims, generation of low quality finished result, venture modify after consummation, etc may happen.

According to Mills (2011) the efficiency, execution, quality and cost of the undertaking are influenced by the risk. The author identifies risk administration as an essential instrument to adapt to extend dangers and to defeat above issues of a project. Dey (2012) observes non-achievement of time, cost and nature of project because of the nonattendance of hazard the board strategies in the management of the project. Therefore, the success parameters of project is based on timely completion, remaining inside the predefined spending plan, and accomplishing imperative execution would rely on the ability of each gathering in the management of the risk.

Project performance is considered as the general nature of a project as far as its effect, esteem to recipients, execution adequacy efficiency and sustainability (Gemunden & Lechler, 2010). Success in projects requires creating a well-planned project schedule just as comprehension of the key venture achievement factors. It helps the undertaking supervisor and the partners to take the correct choices and act towards the task achievement. So as to accomplish execution in undertaking conveyance, delicate variables must be considered. Delicate elements include the advancement of a progression of delicate aptitudes concentrating on most extreme client satisfaction.

Project risk management practices refer to those practices that are used by the project managers in identifying and assessing the risks to the project and managing those risks to minimize the impact on the project (Cooper, 2015). The author further indicate that the risk management process includes the methodical use of the executives arrangements, procedures and strategies to the assignments of setting up the specific situation, distinguishing, dissecting, evaluating, treating, observing and conveying risks. According to Smith, Merna and Jobbling (2016) indicates that risk management practices should be continuously developed during the entire projects so as to maximize risk management efficiency, to have clear

knowledge and aware of the risks potential in projects and enhance control of the whole project.

Risk identification, is the first link of the chain which affects the entire risk management process (Gray & Larsson, 2013). According to Merna and Al-Thani (2014), effective risk identification process could contribute to gain detailed information about the project progress and provides clarification by decreasing the level of uncertainty. Thus, it becomes possible to analyze identified risks in the following stages. The authors further indicate that many organizations opt for using traditional risk identification methods such as brainstorming and checklists. However, large-scale and complex projects may require advanced risk identification methods.

Commercial banks have a very important role on country's financial system. The country's financial system is required to boost the development of the country economy and its performance. Ahmad, Raza, Amjad and Akram (2011) observe that banks and other institute of finance are very critical in creating the country's health and wealth system of finance which help the investors in having a fair investment. Banks worldwide play a significant role in mobilizing savings to fuel investments and performance. This role is particularly significant in the Kenya where banks continue to dominate the financial markets (Ogamba, 2012).

Out of the 51 financial institutions, there are 42 commercial banks. All the 51 financial institutions run with a specific core banking system. Some of these core banking systems adopted by commercial banks in Kenya include: The Mysys Bank fusion Universal Banking_ (Co-op Bank), Finacle10_ (BBK & Equity Bank), Temenos' T24 (KCB, CFC stanbic), Fusion Banking Essence (FBE), eBBS_ (Standard Chartered Bank) among others. Projects as the key pillars that drive the growth of the economy, failure to complete these projects within set budget and time is common to all software projects (Ochwoto & Ogolla, 2017). This rate of innovation has seen growth in the number of bank customers thus increasing the need for core banking systems with the capacity to handle the large number of transactions without or with minimal pitfalls. Proper risk management practices are essential during implementation of the core banking system projects to guarantee success (Koch, 2002).

Statement of the Problem

Project performance measurement is crucial in managing projects as it enables the project manager to establish challenges in budget and scope in time and devise proper mechanisms that address these challenges (Dissanayaka & Kumaraswamy, 2013). McFarlan (2011) observe that failure of projects is as a result of not paying keen attention to either project risk individually, sum all of risk in projects and recognizing the various kinds of projects need a diverse practices of managing risks. In this regard, project delays and budget overruns are usually encountered due to an overlook of potential risk.

Core banking systems delivery is a sensitive phenomenon in the banking industry due to digitization and technological changes. Mills (2011) observe that a better management of project risk strategy enables project managers to have a keen look at the whole project and see what may go wrong. This will additionally enable them to come up with a suitable plan for effective budgeting, time or individual matters. However, the banking industry has seen lots of challenges when it comes to core banking system delivery. Project managers in commercial banks have been facing challenges such as determining project risks, getting the project team and the banks' top managers' buy-in for most components of a project and aligning risk management with the banks' strategy which necessitates the need for this study.

Ochoto, and Ogolla (2017) study investigated the factors influencing the delivery of core banking projects in Kenya and found that project manager competence, stakeholder management, project team capacity and scope management have an influence on the delivery of core banking projects in Kenyan Banks. But the study used correlational research design which cannot give conclusive findings. Zailani, Ariffin, Iranmanesh, Moeinzadeh and Iranmanesh (2016) study focused how project risk mitigation strategies relate to delay factors and performance of construction projects and established visible and flexible solve the negative effects of issues of coordination on performance of projects. However, the study used purposive sampling method which does not provided conclusive findings. Lawrence (2015) investigated how risk management at project planning phase affects construction projects performance in Rwanda and established a significant influence. However, the study used qualitative data which covered information from a smaller population. Musau (2015) study established the factors influencing successful implementation of core banking systems and found out that Human Resource Management, project scope management, risk management and a vendor selection greatly influence core banking system implementation. However, the study used correlational research design which cannot give conclusive findings.

Although a number of scholars have explored project risk management in projects as evidenced in review of empirical literature, much interest has been on building and construction projects. Risk management in Finance and banking has been less explored hence creating research gaps in performance of core banking systems in Kenya's banking industry. Musau (2015), in his study on factors influencing implementation of core banking systems in Kenya suggests further research to be done on risk factors affecting the implementation of core banking systems. Therefore, this study sought to investigate the effect of project risk management practices on the performance of core banking system in commercial banks of Kenya.

II. LITERATURE REVIEW

Theoretical Review

Contingency theory advocated by McMahon (1972) was used to guide that study. According to McMahon (1972) a contingency theory is an organizational theory that guarantees that there is no most ideal approach to arrange an enterprise, to lead an organization, or to decide. Rather, the ideal game-plan is unforeseen upon the inward and outer circumstance. According to Schoonhoven (2011) project managers contend that there is nobody or single most ideal way or ways to deal with oversee ventures. Undertaking administrators should then create appropriate ways dependent on the circumstance and condition they are encountering.

Individuals are frequently inadequately propelled to build up a solid "Plan B," since they have such an extensive amount an enthusiastic interest in the "Plan A" that they need to convey. Stress that Plan B should be appropriately thoroughly considered (Drazin & Van de Ven, 2010). There's frequently a low likelihood of an emergency happening, so individuals regularly don't see possibility arranging as a critical movement. Lamentably, this can imply that it stalls out at the base of their-plan for the day as an undertaking that never completes. Along these lines, it is suggested that venture administrators enjoy building up the arrangement and keeping up the arrangement in order to have an effective management of project risks. This theory is also relevant to the study as it shows that project managers should consider the inherent project risks, develop relevant risk management practices to remedy the situation and deliver projects within the constraints of time, budget, scope and resources.

Empirical Review

A study carried out by Radujkovic and Car-Pusic (2014) focused on the attributes of risk sources and drivers in construction projects. The results up to today show that there is a conformable influence of internal and external sources of risk, but at the same time the value of more than 50% of internal risks indicates an increased responsibility of management. From the aspect of project management, the internal risk sources are more important, because they can be managed by project team.

Tworek (2010) study examined the methods of risk identification in companies' investment projects. The study exclusively dealt with the methodological aspects of risk identification in investment projects carried out by companies' and carried out in 25, out of 100, leading construction and assembly companies in Poland. The research was conducted in the third quarter of 2009. The study found that effective identification of the effects of the risk is especially vital as it guarantees increasingly compelling assurance against risks.

Garrido, Cassia, Ribeiro and Naked (2011) carried out a study on risk identification techniques knowledge and application in the Brazilian construction. The research result was obtained by conducting a survey among professionals of construction

companies, mostly in Rio de Janeiro. A self-administered questionnaire with closed questions as a tool for data collection was used and was distributed electronically via internet and data were analyzed using statistical techniques. Simple random probability sampling to select elements of the sample. The study revealed that that the risk identification technique called Checklist is the most often used, followed by flowchart and Brainstorming.

Tadayon, Jaafar and Nasri (2012) study assessed risk identification in large construction projects in Iran. The data were collected through questionnaires from 43 respondents using email and mails. The study established that brainstorming sessions and historical analysis of data for comparative projects were observed to be the most favored strategies for the identification of the risk in the Iranian construction industry.

III. RESEARCH METHODOLOGY

A descriptive research design was utilized. The accessible population was 80 respondents comprising of 10 project managers from each bank. A census of 80 respondents was done to form the study sample size. Questionnaires were utilized to collect data. The collected data was quantitatively analyzed using descriptive statistics and multiple regression analysis.

Findings

The findings of the effects of project risk identification on core banking system projects performance in selected commercial banks, in Kenya are indicated in Table 1.

Table 1: Project Risk Identification

Statement	Mean (M)	Standard Deviation (SD)
Knowledge of internal and external sources of risks influence the time taken to complete core banking system projects within your bank	4.23	0.620
Knowledge of internal and external sources of risks influence the optimization of resources allocated for core banking system projects within your bank	4.05	0.846
Knowledge of risk internal and external sources of risks influence the cost incurred in core banking system projects within your bank	4.48	0.640
The accuracy of project team in identifying potential risks and risk events influence the time taken to complete core banking system projects within your bank	4.45	0.677
The accuracy of project team in identifying potential risks and risk events influence the optimization of resources allocated for core banking system projects within your bank	4.60	0.545
The accuracy of project team in identifying potential risks and risk events influence the cost incurred in core banking system projects within your bank	4.14	1.146
The nature and the type of risk influence the time taken to complete core banking system projects within your bank	4.12	0.798
The nature and the type of risk influence the optimization of resources allocated for core banking system projects within your bank	4.34	0.583

The nature and the type of risk influence the cost incurred in core banking system projects within your bank	4.18	0.805
The Techniques employed in risk identification influence the time taken to complete core banking system projects within your bank	4.52	0.580
The Techniques employed in risk identification influence the optimization of resources allocated for core banking system projects within your bank	4.51	0.604
The Techniques employed in risk identification influence the cost incurred in core banking system projects within your bank	4.59	0.523
Aggregate Score	4.35	0.627

Source: Survey Data (2019)

The results in Table 1 shows that the respondents indicated that project risk identification influences the performance of core banking systems in commercial banks of Kenya to a very great extent as indicated by the aggregate mean score of 4.35 with standard deviation of 0.627. These findings are in line with the findings of a study carried by Rabechini and Monteiro de Carvalho (2013) who empirically examined the influence of project risk management on the performance of the project and revealed that the success of the project is significantly influenced by adoption of risk management practices.

The respondents indicated to a very great extent on the statements that the accuracy of project team in identifying potential risks and risk events influence the optimization of resources allocated for core banking system projects within your bank and that the techniques employed in risk identification influence the cost incurred in core banking system projects within your bank as shown by the mean of 4.60 and 4.59 respectively and a deviation of 0.545 and 0.523 respectively. These findings concur with the findings of Kinyua *et al.* (2015) study which established a significant relationship between management of project risk strategies and performance of the project.

IV. CONCLUSIONS AND RECOMMENDATIONS

The study concluded that identifying risk enables full risk analysis to be done and risk to be addressed. The project managers qualify risk based on likelihood and impact. Those that are deemed significant are then quantified in terms of cost or time to determine efficient ways to address them.

The study recommended that Commercial banks should increase level of project risk identification as it enhances the risk management activities on each significant risk. Risk identification must be described in detail so that it will not be confused with any other risk or project task that must be done. Each risk should be given an identification number. During the course of the project, as more information is gathered

about the risk, all of this information can be consolidated about the particular risk

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