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# Effects of Financial Risk Management Practices on Financial Performance of Listed Banks at the Nairobi Securities Exchange in Kenya

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# Abstract:

Proper management of risks ensures that the financial earning capacity of a firm is enhanced and guarantees future firm growth. Firms face different kind of risks in its operations and the manner in which they deal with them greatly influences their performance. Risk in financial terms is usually defined as the probability that the actual return may differ from the expected return. The study was to establish the effects of financial risk management practices on the financial performance of listed banks at the Nairobi Securities Exchange. The study was guided by the objectives: to establish the influence of corporate hedging practices, to determine the influence of liquidity management practices and to establish the influence of employee risk management training on the financial performance of listed firms at the NSE. The study target officers in Finance Department whereby secondary data was collected from published annual financial statements. The study adopted a descriptive research design. A census approach was used since the target population is small. The sample size for this study was44 listed banks at the NSE. Percentages, tabulations, means and other measures of central tendencies was be used to present the collected data. The study found out that banks enter into contract to sell/purchase a set amount of foreign currency at a pre-determined price in a given future date and use currency options when dealing in foreign currency denominated transactions, bank identifies any other expected cash receipts, income from operating and non-operating activities and outline the expected collections from their budgeted period income and Banks identify the design, conduct and evaluation of the training programme and usually have a checklist to guide them on their day to day operations. The study concludes that banks listed at Nairobi stock exchange have entered contracts to sell or purchase foreign currencies and use currency options and forward contracts and design, conduct and evaluation of the training programme. The study recommends that there is need for the management of commercial banks in Kenya to maintain the liquidity level at safe level and training could be organized for staff so that they learn more about the concept of financial risk management on financial performance. The study suggests that a further study can be done on the effects of financial risk management by use of detailed questionnaire on the financial performance of other financial institutions like the micro finance institutions (MFIs) and development financial institutions (DFIs).

# 1. Introduction

# 1.1. Background of the Study

The business environment in which organizations operate has become highly volatile and uncertain owing to increased effects of globalization and internationalization of firms as reflected in highly fluctuating exchange rates, interest, inflation rates as well as competition. As a result of this, firms are exposed to different classes of risks which require that they develop appropriate practices to minimize their effects on the financial performance of their companies (Russo & Perini 2010).). Firms face different kind of risks in its operations and the manner in which they deal with them greatly influences their performance. Risk in financial terms is usually defined as the probability that the actual return may differ from the expected return (Dionne, 2013). In the financial system, there are at least three broad categories of risks, financial risk, business risk and operational risk (Shah, 2014).

Financial risk or the risk of losing money is real and fundamental in the modern society; unlike for individual loss of income, for corporations, financial risk can affect the value of business investments and financial assets (Shah, 2014). Financial risk refers to the danger likely to be caused by an event or a loss that could impair the value of member's savings or substantially affect assets, hence its delivery and earning capacity (Maina, 2011). It is the possibility that a business will not have adequate liquidity to meet its ongoing financial obligation like debt repayment, payroll requirements, dividend payments, government licenses and taxes (Chisholm, 2010).

In order to minimize the effects of financial risks on an organization, managers have to develop appropriate measures of managing risks. Risk management is the process to manage the potential risks by identifying, analyzing and addressing them. The process can help to reduce the negative impact and emerging opportunities. The outcome may help to mitigate the likelihood of risk occurring and the negative impact when it happens. Shafiq and Nasr (2010) defines risk management as a process, effected by an entity's board of

directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.

Anderson and Terp (2006) defines risk management as a process that seeks to eliminate, reduce and control risks, enhance benefits, and avoid detriments from speculative exposures. The objective of risk management is to maximize the potential of success and minimize the probability of future losses because risk that becomes problematic can negatively affect cost, time, quality and system performance.

Globally, several studies have been conducted on risk management and financial performance of firms. For instance, Ennouri (2013) examined risks management from perspective of supply chain. The study notes that the complexity of the industrial activities and the important mass of flows crossing the supply chain promotes the emergence of risks that must be considered in the decision process. Ennouri (2013) sought to clarify the basics of risk management through a short new suggestion of literature review for risk management. Another study by Romzie (2009) examined risk management practices and risk management processes of Islamic banks from the perspective of a proposed framework. The study identified the four important aspects of risk management processes including: understanding risk and risk management; risk identification; risk analysis and assessment; and risk monitoring. The framework suggested that there was a positive relationship between the aspects of risk management processes and risk management processes.

Liu, Zou & Gong (2013) further examined external risk management practices of Chinese construction firms in Singapore. The study noted that managing external risks are not unlike managing project risks and the same principles that are applied to project risk management may well be used to manage external risks. The objective of the study was to examine how construction firms attempted to manage external risks during the period that they ventured into host countries. Scandizzo (2013) carried out a research on securitizing area insurance: using a risk management approach. The study sought to examine the possibility of developing a risk management instrument by designing a financial security whose value is linked to the average revenue of a given area. While most of the literature concentrates on the determination of value of the indemnity and the payment of such an insurance, this study focused on the fact that, unlike other forms of insurance, area insurance can be cast in the form of a hedging security and, as a consequence, rather than depending only on the demand for diversification.

Moloi (2014) studied disclosure of risk management practices in the top South Africa's mining companies using an annual/integrated report disclosure analysis. South Africa's mining companies were facing many challenges, ranging from industrial actions, uncertainty in legislation, weaknesses in global export markets, and lack of access to capital. Accordingly, sound risk management and adherence to corporate governance principles and practices were essential to the sustainability of these companies. The study sought to provide a brief overview of the risk management practices based on King III requirement on governance practices, and to assess the risk management disclosures in the annual reports thereof. The study found that most South Africa's mining companies did disclose their risk management practices in line with the recommendations of the King III report on corporate governance; however, such disclosures were often lacking detail on actual practices and accomplishments could be enhanced.

Wyk, Dahmer and Custy (2004) studied risk management and the business environment in South Africa. The risk management framework presented, consisting of three elements: type of risk, impact of risks and managerial response to counter adverse risk impacts, may be refined and expanded for potential application to other emerging markets.

In Kenya, several studies have been done on risk management practices and financial performance. Gongera, Ouma, and Were (2013) examined the effects of financial risks on profitability of sugar firms in Kenya. The study established that, a significant, negative correlation existed between firms level of liquidity risk and firms profitability. A significant, strong, negative correlation between firms risk rating and profitability and a strong, positive correlation also existed between firm's efficiency of risk management and profitability. The study concluded that financial risk management practices were therefore useful to sugar industry that operates in dynamic and competitive environments like Kenya.

Amaya and Memba (2015) examined the influence of risk management practices on financial performance of life assurance firms in Kenya using a survey study of Kisii County. The study's specific objectives were: to find out the extent to which underwriting practices, claims adjustment provisions and premium valuation methods influenced financial performance of life assurance firms in Kenya. The study established that adjusting claims and benefits paid to policy holders of insurance firms' increase value of investment. Premium valuation methods had positive influence on financial performance of life assurance firms in Kenya. Amambia, Kalio and Kwasira (2013) examined effects of financial risk management on the performance of Kenya Power with emphasis on credit risk. The study established that credit risk management greatly impacts on financial performance of the Company.

Lagat, Mugo and Otuya (2013) studied the effects of credit risk management practices on lending portfolio among savings and credit cooperatives in Kenya. Results indicate a significant effect of all the risk management practices on lending portfolio except risk evaluation which did not register a significant effect on the lending portfolio of the Sacco's. The findings further show that majority of the Sacco's have largely adopted risk management practices as a means of managing their portfolio.

# 1.2. Statement of the Problem

Proper management of risks ensures that the financial earning capacity of a firm is enhanced and guarantees future firm growth. All business activities involve risks thus all business are undertaken by assuming risks. Returns from investment are basically a compensation for the risk assumed by an organization. Strong financial risk management practices can help banks to reduce their overall exposure to financial risks. This will enhance that they are able to readily compete in the banking industry with other well established financial institutions (Iqbal & Mirakhor, 2007). Schroeck (2012) and Nocco and Stulz (2006) opine that good risks

management practices ensures that firms maximizes their value. The inability to properly mitigate risks leads to poor firm performance since measures are not put in place to mitigate such unavoidable risks. Nocco and Stulz (2006) further add that effective enterprise risk management (ERM) has a long-run competitive advantage to firms. Firms ought to strive to achieve competitive advantage by readily ensuring that they engage in risk mitigation strategies that will consequently lead to better form performance. Firms will be able to foresee risks in advance hence remain afloat when they occur since appropriate risk taking measures will be instituted. Schroeck (2012) proposes that ensuring best practices through prudent risk management would result into increased corporate earnings.

Gongera, Ouma, and Were (2013) examined the effects of financial risks on profitability of sugar firms in Kenya and established a significant, strong, negative correlation between firm's risk rating and profitability and a strong positive correlation between firms of risk management efficiencies and profitability. Lagat, Mugo and Otuya (2013) studied the effect of credit risk management practices on lending portfolio among savings and credit cooperatives in Kenya. These studies have not concentrated on financial risk management practices and financial performance of firms listed at the NSE. This study therefore seeks to fill this research gap. Ogol (2011) studied liquidity risk management practices in micro-finance institutions in Kenya. Priya (2014) evaluated the relationship between liquidity management and profitability of listed manufacturing companies in Sri Lanka.

These studies focused on liquidity management and the usage of currency derivatives to investigate foreign exchange exposure. Inadequate risk management seriously affects firm performance since serious risks can lead to unpredicted losses. Therefore, firms ought to realize the benefit of risk management if they are to benefit from enhance profits. The discussed studies did not evaluate the effects of financial risks on the financial performance of firms listed at the NSE. They also did not address the effects of employee risk management practices on firm performance. These studies were done in other sectors of the economy for instance microfinance sector and hence cannot be reasonably expected to apply in the ever dynamic and competitive banking industry. They did not focus on the influence of corporate hedging and liquidity management practices and employee risk management on firm profitability. This study sought to fill this gap by analyzing specific financial risk management practices on profitability of banks listed at the NSE.

# 1.3. Research Objectives

# 1.3.1. General Objective

The objective of this study was to establish the effects of financial risk management practices on financial performance of listed commercial banks at the Nairobi Securities Exchange.

# 1.3.2. Specific Objectives

The study was guided by the following specific objectives:

- i. To establish the influence of corporate hedging practices on the performance of banks quoted at the NSE.
- ii. To determine the influence of liquidity management practices on the performance of banks quoted at the NSE.
- iii. To establish the influence of employee risk management training on the performance of banks quoted at the NSE.

# 1.4. Research Questions

- i. How does corporate hedging practices influence the performance of banks quoted at the NSE?
- ii. What is the influence of cash flow budgeting on the performance of banks quoted at the NSE?
- iii. How does employee risk management training influence the performance of banks quoted at the NSE?

# 1.5. Justification of the Study

The study would be of benefit management of companies quoted at the Nairobi Securities Exchange in understanding the influence of various financial risk management practices on financial performance. The various financial risk management practices adopted by organizations have a great influence on the financial performance of the companies concerned. The findings of this study would also be useful to other organizations on setting up financial risk management strategies to improve organizational performance.

The findings of this study would be useful to the Government as it would enable the relevant institution (Capital Markets Authority and the Ministry of Finance at large) in formulating effective policies for improving risk management among organizations. This study would provide bases of reference to policy makers and regulators in financial risks.

The findings of this study would also be valuable to future researchers and academicians as it will extent the existing knowledge besides acting as a source of reference. In addition, the study would suggest areas for further research that future scholars and academicians can further knowledge on.

# 1.6. Scope of the Study

The study sought to find out effects of financial risk management practices on financial performance of listed companies at the Nairobi Securities Exchange. The study targeted officers in Finance Department including the Chief Finance Office, Compliance officers, Chief Accountant, and other accounting officers. The study included secondary data published in annual financial statements.

# 2. Literature Review

# 2.1. Introduction

This chapter reviews studies related to what has been researched or written by others on financial risk management practices and financial performance of organizations. Specifically covers the theories on which the study is anchored, conceptual framework, empirical literature critique of the literature review and research gaps.

# 2.2. Theoretical Review

# 2.2.1. Financial Intermediation Theory

Financial intermediation is a process which involves surplus units depositing funds with financial institutions who then lend to deficit units. As observed by, Adrian (2009) financial intermediaries can be distinguished by four criteria: first their main categories of liabilities (deposits) are specified for a fixed sum which is not related to the performance of a portfolio. Second the deposits are typically short-term and of a much shorter term than their assets. Third a high proportion of their liabilities are chequeable (can be withdrawn on demand) and fourth their liabilities and assets are largely not transferable. The most important contribution of intermediaries is a steady flow of funds from surplus to deficit units.

The role of the financial intermediary is essentially seen as that of creating specialized financial commodities (Nicola, Benjamin & Lindasy, 2012). These are created whenever an intermediary finds that it can sell them for prices which are expected to cover all costs of their production, both direct costs and opportunity costs.

Financial intermediaries exist due to market imperfections. As such, in a 'perfect' market situation, with no transaction or information costs, financial intermediaries would not exist. Numerous markets are characterized by informational differences between buyers and sellers. In financial markets, information asymmetries are particularly pronounced. Borrowers typically know their collateral, industriousness, and moral integrity better than do lenders. On the other hand, entrepreneurs possess inside information about their own projects for which they seek financing (Liman, 2012). Moral hazard hampers the transfer of information between market participants, which is an important factor for projects of good quality to be financed.

Kamau (2011) studied intermediation efficiency and productivity of the banking sector in Kenya found that show that though the banks were not fully efficient in all respects, they performed fairly well during the period under study. The study further found that banks still have reason and scope to improve performance by improving their technology, skills and enlarging their scale of operations so as to be fully efficient. Based on the main conclusions, policies encouraging competition, products diversification to advance loans, risks minimization through increased capital regulation and privatization of some banks were recommended.

# 2.2.2. Modern Portfolio Theory

Modern Portfolio Theory (MPT) proposes how rational investors should use diversification in order to optimize their portfolios. It also discusses how a risky asset should be priced. This does not mean that the early economists ignored financial markets.Fisher (1930) had already outlined the basic functions of credit markets for economic activity, specifically as a way of allocating resources over time and had recognized the importance of risk in the process.In developing their theories of money, John Maynard Keynes (1936), Hicks (1939), Kaldor (1939) and Marschak (1938) had already conceived of portfolio selection theory in which uncertainty played an important role.

In later years, Holbrook (1962) would dispute this, arguing that there was, in fact, no difference between the motivations of hedgers and speculators. This led to an early empirical race. Houthakker (1969) found evidence in favor of normal backwardation and Telser (1958, 1981) finding evidence against it. Williams (1938) was among the first to challenge the casino view economists held of financial markets and questions of asset pricing. He argued that asset prices of financial assets reflected the intrinsic value of an asset, which can be measured by the discounted stream of future expected dividends from the asset. This fundamentalist notion fit well with Fisher's (1930) theory, and the value-investing approach of practitioners such as Benjamin Graham.

Markowitz (1959) realized that as the fundamentalist notion relied on expectations of the future, then the element of risk must come into play and thus profitable use could be made of the newly developed expected utility theory of von Neumann and Morgenstern (1944).Markowitz formulated the theory of optimal portfolio selection in the context of trade-offs between risk and return, focusing on the idea of portfolio diversification as a method of reducing risk -- and thus began what has become known as Modern Portfolio Theory or simply MPT.

As noted, the idea of an optimal portfolio allocation had already been considered by Keynes, Hicks and Kaldor in their theories of money, and thus it was a logical step for Tobin (1958), to add money to Markowitz's story and thus obtain the famous two-fund separation theorem.Effectively, Tobin argued that agents would diversify their savings between a risk-free asset (money) and a single portfolio of risky assets (which would be the same for everyone).Different attitudes towards risk, Tobin contended, would merely result in different combinations of money and that unique portfolio of risky assets.

# 2.2.3. Rational Expectations Theory

Rational expectations is a hypothesis in economics which states that agents' predictions of the future value of economically relevant variables are not systematically wrong in that all errors are random. Equivalently, this is to say that agents' expectations equal true statistical expected values. An alternative formulation is that rational expectations are model-consistent expectations, in that the agents

inside the model assume the model's predictions are valid. The rational expectations assumption is used in many contemporary macroeconomic models, game theory and other applications of rational choice theory (Snowdon, Vane & Wynarczyk, 1994).

The rational expectations hypothesis has been used to support some radical conclusions about economic policymaking. An example is the Policy Ineffectiveness Proposition developed by Thomas Sargent and Neil Wallace. If the Federal Reserve attempts to lower unemployment through expansionary monetary policy economic agents will anticipate the effects of the change of policy and raise their expectations of future inflation accordingly. This in turn will counteract the expansionary effect of the increased money supply. All that the government can do is raise the inflation rate, not employment. This is a distinctly New Classical outcome. During the 1970s rational expectations appeared to have made previous macroeconomic theory largely obsolete, which culminated with the Lucas critique. However, rational expectations theory has been widely adopted throughout modern macroeconomics as a modelling assumption thanks to the work of New Keynesians such as Stanley Fischer (Snowdon, Vane & Wynarczyk, 1994).

Rational expectations theory is the basis for the efficient market hypothesis (efficient market theory). If a security's price does not reflect all the information about it, then there exist "unexploited profit opportunities": someone can buy (or sell) the security to make a profit, thus driving the price toward equilibrium. In the strongest versions of these theories, where all profit opportunities have been exploited, all prices in financial markets are correct and reflect market fundamentals (such as future streams of profits and dividends). Each financial investment is as good as any other, while a security's price reflects all information about its intrinsic value (Snowdon, Vane & Wynarczyk, 1994). Financial risks exist because of the unsymmetrical information in the market.

# 2.3. Conceptual Framework

Conceptual frame work is used in research to outline the possible courses of action or the preferred approach to an idea (Mugenda & Mugenda, 2008). It highlights the independent variable and also shows the dependent variable which is also the outcome. The dependent variable will be financial performance of firms listed at the NSE while independent variables will be corporate hedging practices, liquidity management practices and employee risk management training.



Figure 1: Conceptual Framework

# 2.4. Reviewof Financial Risk Management Practices on Financial Performance of Listed banks at the NSE in Kenya

# 2.4.1. Corporate Hedging

Corporate hedging comprises of financial hedging and operational hedging strategies. Financial hedging may be a more cost-effective strategy than operational hedging for many firms since it doesn't involve major redeployment of resources like building factories in other countries. Currency futures, swaps, options, forward contracts are examples of financial hedges that can be used to stabilize operating cash flows. While not a substitute for the long-term, financial hedging can be used to stabilize the firm's cash flow(Hillier et al., 2012). For example, the firm can lend or borrow foreign currencies as a long term basis (Fauver & Naranjo, 2010). Or, the firm can use currency forward or options contracts and roll them over if necessary. Several financial hedging options are available to organizations.

A currency Option is a contract giving the right, not the obligation, to buy or sell a specific quantity of one foreign currency in exchange for another at a fixed price; called the Exercise Price or Strike Price. The players involved in option market are option writer and option holder, (Hillier, Grinblatt & Tittman, 2012). The fixed nature of the exercise price reduces the uncertainty of exchange rate changes and limits the losses of open currency positions. Options are particularly suited as a hedging tool for contingent cash flows, as is the case in bidding processes. Call option is a right without obligation to buy, while put option is right without obligation to sell an underlying at a future date which is known as option period at a particular price called strike price or exercise price (Hillier et al., 2012). Since they involve such flexibility, a premium is paid up front.

A swap is a foreign currency contract whereby the buyer and seller exchange equal initial principal amounts of two different currencies at the spot rate. It involves exchange of stream of currencies or interest rate either between fixed and floating rate of interest, (Hillier et al., 2012).

The buyer and seller exchange fixed or floating rate interest payments in their respective swapped currencies over the term of the contract. At maturity, the principal amount is effectively re-swapped at a predetermined exchange rate so that the parties end up with their original currencies. The advantages of swaps are that firms with limited appetite for exchange rate risk may move to a partially or completely hedged position through the mechanism of foreign currency swaps, while leaving the underlying borrowing intact. Apart from covering the exchange rate risk, swaps also allow firms to hedge the floating interest rate risk (Fauver & Naranjo, 2010).

A futures contract is similar to the forward contract but is more liquid because it is traded in an organized exchange i.e. the futures market. Depreciation of a currency can be hedged by selling futures and appreciation can be hedged by buying futures. Advantages of futures are that there is a central market for futures which eliminates the problem of double coincidence. Futures require a small initial outlay (a proportion of the value of the future) with which significant amounts of money can be gained or lost with the actual forwards price fluctuations. This provides a sort of leverage (Fauver & Naranjo, 2010).

A forward is a made-to-measure agreement between two parties to buy/sell a specified amount of a currency at a specified rate on a particular date in the future. According to Bessembinder, (1991), corporate risk hedging using forward contracts increases value by reducing incentives to under invest. At maturity, the person or firm with the long position pays the forward price to the person with the short position, who in turn delivers the asset underlying the forward contact. Forward cover can be settled through delivery, cancellation, extension and early delivery (Hillier, Grinblatt, & Tittman, 2012). Banks usually act as intermediaries and charge a commission for this service.

The depreciation of the receivable currency is hedged against by selling a currency forward. If the risk is that of a currency appreciation (if the firm has to buy that currency in future say for import), it can hedge by buying the currency forward. The main advantage of a forward is that it can be tailored to the specific needs of the firm and an exact hedge can be obtained. On the downside, these contracts are not marketable, they can't be sold to another party when they are no longer required and are binding (Fauver & Naranjo, 2010).

Stronger evidence of the beneficial effect of hedging with derivatives was reported by Allayannis & Ofek (2011) who investigated the relationship between the use of currency derivatives and foreign currency exposure for a sample of the 378 U.S. of 75 non-financial firms with financial year-ends in 1993. The exchange-rate exposure of the each sample firm was estimated using monthly return data during the three years surrounding 1993 (1992–94). The authors hypothesized that exchange-rate exposure was simultaneously determined by firms' real operations and its currency derivatives hedging strategy. These determinants were estimated by each firm's ratio of foreign sales to total sales, and its ratio of the notional amount of foreign currency derivatives to total assets, respectively. The specific finding of their study was that firms' exchange-rate exposures were significantly positively related to their ratios of foreign sales to total sales, and significantly negatively related to their ratios of foreign currency derivatives to total assets.

While such financial hedging instruments as forward contract, swap, future and option contracts are well known, hedging through the choice of invoice currency, an operational technique, has not received much attention (Jorion, 2011). The firm can shift, share or diversify exchange risk by appropriately choosing the currency of invoice. Firm can avoid exchange rate risk by invoicing in domestic currency, there by shifting exchange rate risk on buyer. As a practical matter, however, the firm may not be able to use risk shifting or sharing as much as it wishes to for fear of losing sales to competitors. Only an exporter with substantial market power can use this approach. Further, if the currencies of both the exporter and importer are not suitable for settling international trade, neither party can resort to risk shifting to deal with exchange exposure.

Another operational technique the firm can use to reduce transaction exposure is leading and lagging foreign currency receipts and payments. To lead means to pay or collect early, whereas lag means to pay or collect late. The firm would like to lead soft currency receivables and lag hard currency receivables to avoid the loss from depreciation of the soft currency and benefit from the appreciation of the hard currency. For the same reason, the firm will attempt to lead the hard currency payables and lag soft currency payables (Jorion, 2011). To the extent that the firm can effectively implement the Lead/Lag strategy, the transaction exposure the firm faces can be reduced. On translation exposure, Managers, analysts and investors need some idea about the importance of the foreign business. Translated accounting data give an approximate idea of this. Performance measurement for bonus plans, hiring, firing, and promotion decisions. Accounting value serves as a benchmark to evaluate a discounted-cash flow valuation, for income tax purposes and legal requirement to consolidate financial statements (Gachua, 2011).

Operating exposure is the extent to which the firm's operating cash flows would be affected by random changes in exchange rates (Eun & Resnick, 2004). Operating exposure may affect in two different ways to the firm: competitive effect and conversion effect. Adverse exchange rate change increase cost of import which makes firm's product costly thus firm's position becomes less competitive, which is competitive effect. Adverse exchange rate change may reduce value of receivable to the exporting firm which is called conversion effect (Eiteman, Stonehill & Moffett, 2014).

When the domestic currency is strong or expected to become strong, eroding the competitive position of the firm, it can choose to locate production facilities in a foreign country where costs are low due to either the undervalued currency or under priced factors of production. Recently, Japanese car makers, including Nissan and Toyota, have been increasingly shifting production to U.S. manufacturing facilities in order to mitigate the negative effect of the strong yen on U.S. sales. German car makers such as Daimler Benz and BMW also decided to establish manufacturing facilities in the U.S. for the same reason (Eiteman, Stonehil & Moffett, 2014).

Another way of dealing with exchange exposure is to diversify the market for the firm's products as much as possible. Suppose that GE is selling power generators in Mexico as well as Germany. Reduced sales in Mexico due to the dollar appreciation against the peso can be compensated by increased sales in Germany due to dollar depreciation against the euro. As a result, GE's overall cash flows will be much more stable than would be the case if GE sold only in one foreign market, either Mexico or Germany. As long as exchange rates do not always move in the same direction, the firm can stabilize its operating cash flow by diversifying its export market (Eiteman, Stonehil & Moffett, 2014).

First, firms use other forms of risk management such as operational hedging from global diversification or production management. Second, firms do not usually fully hedge the extent of exchange rate movements. Third, interest rate, exchange rate, and commodity risks are economically insignificant relative to the firm's return. Fourth, firms do not have an economic justification for derivatives hedging if they are large, diversified and of good credit quality, except in special cases, (Yip & Nguyen, 2009). Reviewing the risk management practices of an American manufacturer, HDG plc, Brown (2011) noted that senior managers at the firm acknowledged and managed their translation profit and loss risk since they believed that the volatility in 'reported accounting numbers' resulting from movements in exchange rates, would have an adverse effect on share price since the market penalizes lower than expected earnings more than it rewards higher than expected earnings. More generally, the firm also believed that analysts expected the company to manage the impact of foreign exchange on earnings and, consequently, sought to do so.

# 2.4.2. Liquidity Management Practices

Cash flow budgeting aims at ensuring that the firm's liquidity is appropriate such that it is neither holding excess or insufficient cash to meet its financial obligations as and when they fall due. Liquidity management is very important for every organization that needs to pay current obligations on business, the payment obligations include operating and financial expenses that are short term but maturing long term debt. Liquidity management is undoubtedly one of the most crucial aspects of financial management since an efficient and effective liquidity management is crucial if the survival and prosperity of organizations firms is to be assured. Liquidity risk usually arises from management's inability to adequately anticipate and plan for changes in funding sources and cash needs. Efficient liquidity management requires maintaining sufficient cash reserves on hand while also investing as many funds as possible to maximize earnings (Athanasoglou, Delis & Staikouras, 2006).

By carefully analyzing past revenues from the firm's top clients while budgeting, management will be able to detect trends and client needs that can be translated into assumptions and revenue estimates necessary for development of budgets. Operating expenses and capital expenditures should also be given particular attention during this exercise. The firm may decide to recover for these services by applying an average charge to each client, or it could bear these expenses as its cost of doing business (Ariffin & Kassim, 2011). Whatever method is used, management must know the cost of these services, and must keep them under control to reduce the outflow of cash.

Several strategies exist that firms can use in management of financial risk. Some of these include: Cash flow match where the ladder asset maturities to closely match liability maturities and expected payments. This increases the chances that there will be cash on hand to meet cash demand. Another strategy is diversification of assets. An asset portfolio that is well diversified from all perspectives is less susceptible to a stress situation. Assets can be diversified by issuer, industry, region and asset class (Al-Tamimi & Al-Mazrooei, 2007).

Diversify liabilities on the liability side by market, product, channel, among other variables can also reduces exposure to liquidity risk. Ladder liability maturities with liabilities maturing at staggered dates, the company is not forced to "flood" the market with new sales to maintain the level of in-force business. During a "run-on-the-bank," a company may be unable to issue new contracts or, if they can, only on unfavorable terms (Bhole & Jitendra, 2009).

Several studies have established that liquidity management practices help minimize financial risks to organizations. For instance, Siddiqui (2008) found that Islamic banks in Pakistan were more liable towards considering projects with long-term financing and better performance in terms of assets and return established improved risk management with keeping safe liquidity.

Ogol (2011) studied liquidity risk management practices in micro-finance institutions in Kenya. Emphasis was on; understanding the process of liquidity risk identification by MFIs, the extent to which MFIs were classified, monitor liquidity risks, liquidity risk exposure of MFIs and to identify the various practices that the MFIs adopted in managing the liquidity risks. Primary data was collected through questionnaires distributed to MFIs operating in Nairobi City. Results indicated that MFIs had in place liquidity risk management practices. This was the case when it involved understanding the liquidity risk, identification, analysis/assessment and monitoring. The population of interest in this study consisted of all 41 MFIs listed by the CBK 2002 to which the questionnaires were sent. A total of 30 questionnaires; representing 71% were administered and analyzed.

Maaka (2013) studied the relationship between liquidity risk and financial performance of commercial banks in Kenya. The study adopted correlation research design where data was retrieved from the balance sheets, income statements and notes of 33 banks in Kenya during 2008 to 2012. Multiple regression analysis was applied to assess the impact of liquidity risk on banks' profitability. The

findings of the study were that profitability of the commercial bank in Kenya is negatively affected due to increase in the liquidity gap and leverage.

Priya (2014) evaluated the relationship between liquidity management and profitability of listed manufacturing companies in Sri Lanka over a period of past 5 years from 2008 to 2012. Correlation and regression analysis were used in the analysis and findings suggest that there is a significant relationship between liquidity and profitability among the listed manufacturing companies in Sri Lanka.

Maina (2011) researched on relationship between the liquidity and profitability of oil companies in Kenya and found that that liquidity management is not a significant contributor alone of the firm's profitability and there exist other variable that will influence return on assets (ROA). Kweri (2011) evaluated the relationship between working capital management and profitability of manufacturing firms listed on the NSE. The findings of the study were that working capital management affects profitability of the company and if the firm can effectively manage its working capital, it can lead to increased profitability.

# 2.4.3. Employee Risk Management Training

Training can be defined as a systematic process of acquiring knowledge, skills, abilities, and the right attitudes and behaviors to meet job requirements (Gomez-Mejia, et. al., 2007). Training has been reckoned to help employees do their current jobs or help meet current performance requirements, by focusing on specific skills required for the current need. Training employees in risk management equips them with the relevant skills in averting financial risk thereby optimizing financial performance. Training and development has become one dynamic aspect of human resource management. Organizations are forced to keep up with new trends in the global market. The business world today is changing day in day out with changes ranging from economic to technological. Therefore organizations are forced to train their employees continuously to ensure they have the right skills in running business. Any organization that does not invest in training is bound to fail. It is therefore important for organizations to ensure the right training and development practices are used in training employees. If practices are not well chosen and well conducted the whole process will be considered useless.

Training and development of employees is becoming an optimal answer to complex business challenges, and the management of human resources is taking central role in modern management. Through the process of employee training and development, the management of human resources provides constant knowledge innovation, creates conditions for mutual knowledge and experience exchange and proactive behavior, in this way contributing to competitive advantage and satisfaction of all participants in business procedures. Under the theory that a company is set up in order to create maximum value for all stakeholders, all activities related to operations are as of necessity exposed to risk (Calandro et al., 2006).

Increasingly, high performing organizations today are recognizing the need to use best training and development practices to enhance their competitive advantage. Training and development are an essential element of every business if the value and potential of its people is to be harnessed and grown. The implementation of training and development programs are critical factors that most organizations need in order to enhance employee performance. Therefore, for effective use of human resource the level of training and skills of an employee is very critical for any organization. Companies can reap the rewards of providing training to their employees because well-trained workers help increase productivity and profits. Investing in employee training is always geared towards enhancing worker retention rates, customer satisfaction and creativity for new product ideas. Effective training saves labor by reducing time spent on problem-solving and saves money in the long run by producing a better workforce.

Kabiru (2010) examined the effect of risk management practices on the financial performance of commercial banks in Kenya. The objectives of this study were to analyze the risk management practices undertaken by Commercial Banks in Kenya and to determine and assess the effect of these risk management practices on their financial performance. The risks facing financial institutions were mainly classified into; strategic, operational, credit and market risks. In managing these risks, the risk management approach adopted by the owners and/or management was influenced by the organizational culture and support, whether or not risk management was integrated in the setting of organizational objectives, whether there was a documented risk management policy or framework, how the risk identification process is conducted, the risk analysis process, evaluation and treatment of risk; risk monitoring and review; and last but not least ensuring that there is effective risk management.

# 2.5. Measurement of Financial Performance

Financial institutions such as banks and credit unions have very different ways of reporting financial information (Flemings, 2004). Financial performance is studied and measured by different researchers (Shah et al., 2011) using different measures. Matolcsy & Wright (2011) measured firm performance by ROA (Return on Assets= EBIT / Average total Assets – in book value), ROE (Return on Equity =net profit / equity - in book value), Change in market value of equity, Change in market value of equity, adjusted for dividends and risk). Yasser et al. (2011) used return on equity (ROE) and profit margin (PM) for the measurement of firm performance

ROA refers to the amount of net income returned as a percentage of total assets. It can be decomposed as follows: Return on Assets= EBIT / Average total Assets – in book value. ROE refers to the amount of net income returned as a percentage of shareholders equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. Each insurance firm's ROE has been obtained for its annual reports. This study will use ROA as the measure of financial performance of companies listed at the NSE.

# 2.6. Critique of Literature Review

This chapter has reviewed several studies conducted on financial risk management practices and financial performance of companies. Some of these studies include: Allayannis and Ofek (2011) investigated the relationship between the use of currency derivatives and foreign currency exposure for a sample of the 378 U.S. of 75 non-financial firms with financial year-ends in 1993. Brown (2011) noted that senior managers at the firm acknowledged and managed their translation profit and loss risk since they believed that the volatility in 'reported accounting numbers' resulting from movements in exchange rates, would have an adverse effect on share price since the market penalizes lower than expected earnings more than it rewards higher than expected earnings. Ogol (2011) did study liquidity risk management practices in micro-finance institutions in Kenya. Priya (2014) evaluated the relationship between liquidity management and profitability of listed manufacturing companies in Sri Lanka over a period of past 5 years from 2008 to 2012.

#### 2.7. Research Gaps

Allayannis and Ofek (2011) investigated the relationship between the use of currency derivatives and foreign currency exposure. The study focused on one aspect of corporate hedging in relation to exposure and ignored the effect on performance. The study was also carried out in a developed country and the focus was on non –financial firms. Ogol (2011) did study liquidity risk management practices in micro-finance institutions in Kenya. Liquidity management is one aspect of financial management and hence the study ignored the other aspects, additionally, the study focused on micro finance institutions.

Priya (2014) evaluated the relationship between liquidity management and profitability of listed manufacturing companies in Sri Lanka. Just like the previous studies stated above the focus was on liquidity management, the author also studies manufacturing companies and ignore the other listed firms in Sri Lanka. None of the studies stated above sought to evaluate the financial risks and financial performance of firms listed at the NSE. This study therefore seeks to fill this research gap.

#### 2.8. Summary

This chapter has reviewed literature as presented by various scholars and researchers on the subject of foreign exchange rate risk management and organizational performance. It first presented the theoretical framework after which it presented the conceptual framework, empirical and measurement of financial performance, critique of the existing literature and research gap.

#### 3. Research Methodology

#### 3.1. Introduction

This chapter sets out various stages and phases that were followed in completing the study. It involves a blueprint for the collection, measurement and analysis of data. Therefore, in this section the research identifies the procedures and techniques that were used in data collection, processing and analysis. Specifically, the following subsections were included; research design, target population, sample design, data collection instruments, data collection procedures, data validity and reliability, and finally data analysis.

# 3.2. Research Design

Research design refers to the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in the procedure (Yin, 2009). The study adopted a descriptive research design. According to, Creswell (2008), a descriptive study is concerned with finding out the what, where and how of a phenomenon. Descriptive research design will be chosen since it can enable the researcher to generalise the findings to a larger population.

Surveys allow the collection of large amount of data from a sizable population in a highly economical way. It allows one to collect quantitative data which can be analyzed quantitatively using descriptive and inferential statistics. Therefore, the descriptive survey was deemed the best strategy to fulfill the objectives of this study (Creswell, 2008).

# 3.3. Target Population

The target population refers to a group of individuals, objects or items from which samples are taken for measurement (Mugenda, 2008). Target population is the specific population about which information is desired. The target population of this study comprised of all the 43 listed banks at Nairobi stock exchange as at December, 2014.

# 3.4. Sampling Technique

According to Chandran (2004), a sampling technique is a way of selecting a portion of population so that the selected portion represents the population adequately. The sampling methods are classified as either probability or non-probability. The study used a census approach since the target population is small.

# 3.4.1. Sample Size

According to Mugenda (2008), sample size reflects the representative degree of the entire population from which the research findings are generalized. Kumar (2010) asserts that, the sample must be carefully selected to be representative of the population and the researcher also needs to ensure that the subdivisions entailed in the analysis are accurately catered for. The sample size for this study was the 44 listed banks at the NSE. The researcher intends to collect financial performance data for all the listed banks between the years 2009 to 2014 due to data availability limitations.

# 3.5. Data Collection

Data collection tools are the instruments which are used to collect the necessary information needed to serve or prove some facts (Mugenda, 2008). The study collected both primary and secondary data.

#### 3.5.1. Primary Data Collection

Primary data were collected using a questionnaire. The questionnaire was designed to comprise of two sections. The first part was designed to determine fundamental issues including the demographic characteristics of the firms and the persons filling in the questionnaires, while the second part consisted of questions where the three variables were be focused. The questionnaire was designed in line with the objectives of the study.

The structured questions were used in an effort to conserve time and money as well as to facilitate easier analysis as they are in immediate usable form; while the unstructured questions were used so as to encourage the respondent to give an in-depth and felt response without feeling held back in revealing of any information (Mugenda, 2008).

#### 3.5.2. Secondary Data Collection

Secondary data was obtained from reliable sources such as the latest Nairobi Securities Exchange handbook, NSE fact sheet and statistical bulletins, CMA/NSE annual reports and statistical bulletins and periodical publications from the NSE. This data were collected through a data collection form.

#### 3.6. Data Collection Procedure

This study collected quantitative data using a self-administered questionnaire through drop and pick later method where the researcher delivered the questionnaires in person at the respondents' places of work. However, where it proved difficult for the respondents to complete the questionnaire immediately, the researcher left the questionnaires with the respondents so as to pick them up on a later date. Questionnaires are the most commonly used methods when respondents can be reached and were willing to co-operate. These methods can reach a large number of subjects who are able to read and write independently.

#### 3.7. Pilot Testing

Pretesting involves the testing of the research instrument in order to ascertain the suitability in actual field conditions (Kumar, 2010). A pilot study was conducted to test the reliability and validity of the research instruments. A pilot test helped to test the reliability and validity of data collection instruments. Validity refers to the extent to which an instrument measures what is supposed to measure data need not only to be reliable but also true and accurate. If a measurement is valid, it is also reliable. The researcher selected a pilot group of 4 individuals from 2 banks who have similar demographics as those listed at the NSE to test the reliability of the research instrument. The aim was to correct inconsistencies arising from the instruments, which will ensure that they measure what is intended (Kumar, 2010).

#### 3.7.1. Validity

The researcher carried out a pilot study to pre-test the validity and reliability of data collected using the questionnaire. Validity is the degree by which the sample of test items represents the content the test is designed to measure. Content validity which will be employed by this study as a measure of the degree to which data collected using a particular instrument represents a specific domain or content of a particular concept. Mugenda (2008), contend that the usual procedure in assessing the content validity of a measure is to use a professional or expert in a particular field. The content validity of the research instrument will beevaluated through the actual administration of the pilot group. The study will use both face and content validity to ascertain the validity of the questionnaires. Face validity is actually validity at face value.

As a check on face validity, test/survey items are sent to the pilot group to obtain suggestions for modification (McBurney &White, 2007). Content validity draws an inference from test scores to a large domain of items similar to those on the test (Bowling, 2009). Content validity is concerned with sample-population representativeness i.e. the knowledge and skills covered by the test items should be representative to the larger domain of knowledge and skills.

#### 3.7.2. Reliability

According to Bowlin (2009), reliability refers to the consistency of measurement and is frequently assessed using the test-retest reliability method. Reliability is increased by including many similar items on a measure, by testing a diverse sample of individuals and by using uniform testing procedures. The survey instrument was subjected to overall reliability analysis. A Cronbach Alpha coefficient of 0.70 or more will imply that there is a high degree of data reliability.

#### 3.8. Data Analysis and Presentation

Kumar (2010) observed that a researcher needs to have the following information about the statistical data analysis tools namely: descriptive, inferential and test statistics. Before processing the responses, the completed questionnaires were checked for completeness to ensure consistency. The data was then be coded to enable the responses to be grouped into various categories. Data collected will be purely quantitative and were analyzed by descriptive analysis including SPSS (V. 17.0) and MS Excel to describe the factors influencing adoption of mobile money services in institutions of higher education.

describe the factors influencing adoption of mobile money services in institutions of higher education. The findings were presented using tables and charts. The Likert scale was used to analyze the mean score and standard deviation. Percentages, tabulations, means

and other measures of central tendencies will be used to present the data.

In addition, the researcher conducted a multiple regression analysis in order to establish the relationship between dependent and independent variables. Regression analysis was used to predict the value of the dependent variable on the basis of the independent variables. Regression analysis is concerned with the study of the dependence of one variable, the dependent variable, on one or more other variables, the explanatory variables, with a view to estimating and/ or predicting the population mean. The multivariate regression equation to be adopted is:

 $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$ 

Whereby:

- $\succ$  Y = Financial Performance
- $\succ$  X<sub>1</sub> = Financial hedging strategies
- $\blacktriangleright$  X<sub>2</sub> = Liquidity management practices
- > X<sub>3</sub> = Employee risk management training
- $\triangleright$   $\epsilon$  = Error term/Erroneous variables
- $\beta_0$  = the minimum change in Y when the rest of the variables are held at a constant zero
- $\beta$  = measure of the rate of change i.e.  $\beta_1$  measures the rate of change in Y as a result of a unit change in X<sub>1</sub>.

#### 4. Data Analysis Results and Discussions

#### 4.1. Introduction

This chapter presents the data collected from the field, analysis and interpretation. The study sought to establish the effects of financial risk management practices on financial performance of listed banks at the Nairobi Securities Exchange. To achieve this, the study was guided by three objectives: To establish the influence of corporate hedging practices; to determine the influence of liquidity management practices and establish the influence of employee risk management training on the performance of banks quoted at the NSE. Data was collected using questionnaires as the data collection instruments whose presentation and interpretation is given below through the use of a frequency distribution tables, mean and standard deviation; and multiple regression analysis.

#### 4.1.1. Response Rate

The study targeted a sample of 43 listed banks at the Nairobi stock exchange as at December, 2014. Out of the 43 distributed questionnaires, 32 were filled and returned. This translated to a response rate of 73%. This response was good enough and representative of the population and conforms to Mugenda (2008) stipulation that a response rate of 70% and above is excellent. The findings are shown on the Table 1.

	Frequency	Percentage
Response	32	73
Non-Response	11	27
Total	43	100

Table 1: Response Rate

#### 4.1.2. Validity and Reliability Analysis

A pilot study was carried out to determine reliability of the instrument used in the collection of data. This was to ensure that the instrument collect reliable and valid data. Reliability analysis was subsequently done using Cronbach's Alpha which measures the internal consistency by establishing if certain item within a scale measures the same construct. Cronbach's alpha of well above 0.7 implies that the instruments were sufficiently reliable for the measurement. As most item total correlations were reasonably high, the construct validity of the instruments was considered reasonable.

Variable/Construct description	No. of Item	<b>Coefficient Alpha Reliability</b>
Corporate Hedging	5	0.818
Liquidity Management practices	5	0.792
Employee Risk Management	5	0.824
	1 1 1 1 1	7

Table 2: Validity and Reliability Analysis

#### 4.2. Demographic Information

The analysis in this section relates to the years the banks have been in operation, position in the banks and the period worked with the banks.

# 4.2.1. Period the Banks had been in Operation

The study sought to determine the number of years the bank had been in operation. The findings are shown on Table 2.

Years	Frequency	Percentage
Below 5 Years	5	18
6-10 Years	4	11
11-15 Years	12	38
16-20 Years	4	11
Over 20 Years	7	22
Total	32	100

Table 3: Period the Bank had been in Operation

As indicated in Table 2, majority of the respondents 38% indicated that their banks had been in operation for between 11-15 years, 22% for over 20 years, 18% for below 5 years and the least 11% for between 6-10 years and 16-20 years each. These findings show that the companies had been in operation for long enough to develop to cope with the effects of financial risk management practices on financial performance. Therefore the findings are more representatives and reliable for the study.

# 4.2.2. Position Held in the Bank

The respondents were asked to indicate the positions they held in their companies. The results are shown on Table 3.

Position	Frequency	Percentage
Top Level Management	9	29%
Supervisor	18	55%
Subordinate	5	16%
Total	32	100%

Table 4: Position Held in the Bank

As indicated in Table 3, majority of the respondents 55% were supervisors, 135 were in top management level and the least 16% were subordinates. These findings show that the respondents were majorly supervisors who clearly understood effects of financial risk management practices implemented by their organization thus the findings are more reliable for the study.

# 4.2.3. The Period Worked with the Bank

The respondents were asked to indicate the number of years they had worked with the Bank. The findings are well illustrated in Table 2.

Years	Frequency	Percentage
Below 5 Years	5	16
6-15 Years	9	29
16-20 Years	15	46
Over 20 Years	3	9
Total	32	100

Table 5: The Period Worked with the Bank

As shown in Table 4, majority of the respondents 46% had worked with their Banks for between 16-20 years, 29% for between 6-15 years, 16% for below 5 years and the least 95 for over 20 years. These findings show that over 84% of the respondents had worked with their current banks for over 6 years hence were able to understand how these organizations operated.

# 4.3. Corporate Hedging

Several financial risk management practices on financial performance were identified against which the respondents were requested to indicate the extent to which they applied to them in their organizations. A five point Likert scale was provided ranging from: where 1=strongly disagree, 2=Disagree, 3= Undecided, 4=Agree and 5 = Strongly Agree. From the responses, descriptive measures of central dispersion: mean and standard deviation were used for ease of interpretation and generalization of findings. The Findings are shown in Table 6.

Statement	Mean	St. dev
We enter into contract to sell/purchase a set amount of foreign currency at a pre-determined price in a given	4 00	0.924
future date	4.00	0.724
We always transact using forward contract in foreign currency	3.86	1.194
We use spot rate existing on the day of transaction for majority of our foreign currency transactions	3.73	1.251
Spot Rate allows us to manage foreign exchange fluctuations	3.76	1.188
We use currency options when dealing in foreign currency denominated transactions		1.106

Table 6: Corporate Hedging

From the findings in Table 6, enter into contract to sell/purchase a set amount of foreign currency at a pre-determined price in a given future date had the highest mean of 4.00 with a standard deviation of 0.924 followed by use currency options when dealing in foreign currency denominated transactions which had a mean of 3.92 with a standard deviation of 1.106, transact using forward contract in foreign currency had a mean of 3.86 with a standard deviation of 1.194, Spot Rate allows us to manage foreign exchange fluctuations had a mean of 3.76 with a standard deviation of 1.188 and use spot rate existing on the day of transaction for majority of our foreign currency transactions had the least mean of 3.73 with a standard deviation of 1.251. This finding concurs with the findings of Bessembinder, (1991)that corporate risk hedging using forward contracts increases value by reducing incentives to under invest. At maturity, the person or firm with the long position pays the forward price to the person with the short position, who in turn delivers the asset underlying the forward contact.

# 4.3.1. Extent to which Corporate Hedging Affects Financial Performance of Organizations

The respondents were requested to indicate the extent to which corporate hedging affects financial performance of organizations. The results are shown in Table 7.

Extent	Frequency	Percentage
Disagree	4	11%
undecided	5	16%
Agree	19	60%
Strongly Agree	4	13%
Total	32	100%

Table 7: Extent to which Corporate Hedging Affects Financial Performance of Organizations

As shown in Table 7, majority of the respondents 60% agree that corporate hedging affects financial performance of organizations, 16% were undecided, 13% strongly agreed and the least 11% disagreed.

# 4.4. Liquidity Management Practices

The respondents were requested to indicate the extent to which statement on Liquidity Management practices applied to their organization. The results are shown in Table 8.

Statement		St. dev
We outline the expected collections from our budgeted period income	3.41	1.234
We identify any other expected cash receipts	3.76	1.343
We review our accounts payable balance at the end of every period to identify	2.78	1.228
when these items will be paid		
We identify noncash expenses	3.14	1.251
We identify income from operating and non-operating activities	3.59	1.257

 Table 8: Liquidity Management Practices

As shown in Table 8, identify any other expected cash receipts had the highest mean of 3.76 with a standard deviation of 1.343 followed by identify income from operating and non-operating activities which had a mean of 3.59 with a standard deviation of 1.257, outline the expected collections from our budgeted period income had a mean of 3.41 with a standard deviation of 1.234, identify noncash expenses had a mean of 3.14 with a standard deviation of 1.251 and review our accounts payable balance at the end of every period to identify when these items will be paid had the least mean of 2.78 with a standard deviation of 1.228. These findings are consistent with Athanasoglou, Delis & Staikouras (2006) that efficient liquidity management requires maintaining sufficient cash reserves on hand while also investing as many funds as possible to maximize earnings.

# 4.4.1. Extent to which Liquidity Management Practices Affects Financial Performance of Organizations

The respondents were requested to indicate the extent to which liquidity management practices affects financial performance of organizations. The results are shown in Table 9.

Extent	Frequency	Percentage
Disagree	4	11%
undecided	5	16%
Agree	12	37%
Strongly Agree	11	36%
Total	32	100%

Table 9 : Extent to which Liquidity Management Practices Affects Financial Performance of Organizations

As indicated in Table 9, majority of the respondents 37% agreed that liquidity management practices affects financial performance of organizations, 36% strongly agreed, 16% were undecided and 11% disagree. This shows that liquidity management practices had effects on financial performance of many organizations.

# 4.5. Employee Risk Management Training

The respondents were requested to indicate the extent to which employee risk management training affects financial performance of organizations. The results are shown in Table 9.

Statement	Mean	St. dev
We identify the objectives of training	3.03	1.343
We ensure that the training is effective for an employee within the company	2.92	1.402
We identify the design, conduct and evaluation of the training programme	3.59	1.257
We conduct interviews on specific questions and record the results	3.14	1.251
We usually have a checklist to guide us on our day to day operations.	3.54	1.216
Table 10. Employed Bigh Management Training		

Table 10: Employee Risk Management Training

As shown in the research findings in Table 10, identify the design, conduct and evaluation of the training programme had the highest mean of 3.59 followed by usually have a checklist to guide us on our day to day operations which had a mean of 3.54 with a standard deviation of 1.216, conduct interviews on specific questions and record the results had a mean of 3.14 with a standard deviation of 1.251, identify the objectives of training had a mean of 3.03 with a standard deviation of 1.343 and ensure that the training is effective for an employee within the company had the least mean of 2.92 with a standard deviation of 1.402. These findings are in agreement with Calandro et al.(2006) that under the theory a company is set up in order to create maximum value for all stakeholders, all activities related to operations are as of necessity exposed to risk.

# 4.5.1. Extent to Which Employee Risk Management Training affects Financial Performance of Organizations

The respondents were asked to indicate the extent to which employee risk management training affects financial performance of organizations. The results are shown in Table 11

Extent	Frequency	Percentage
Disagree	1	5%
Undecided	2	7%
Agree	13	37%
Strongly Agree	16	51%
Total	32	100%

Table 11: Extent to which employee risk management training Affects Financial Performance of Organizations

As shown in Table 11, majority of the respondents 51% strongly agree that employee risk management training affects financial performance of organizations, 37% agree, 7% were undecided and 5% disagreed. This indicates that employee risk management training was crucial for better performance of the companies.

# 4.6. Performance

The respondents were asked to indicate the performance of their Companies in terms of Returns on Equity over the last six years. The findings are shown in Table 12.

Years	Mean	St. dev
2009	3.49	1.283
2010	3.62	1.187
2011	3.24	1.256
2012	3.68	1.107
2013	3.28	1.248
2014	3.73	1.262

Table 12: Performance

As shown in Table 12, the year 2012 had the highest mean of 3.68 with a standard deviation of 1.107 followed by 2014 with a mean of 3.73, 2010 had a mean of 3.62 with a standard deviation of 1.187, 2009 had a mean of 3.49 with a standard deviation of 1.283, 2013 had a mean of 3.28 with a standard deviation of 1.248 and 2011 had the least mean of 3.24. This shows that the performance of the companies for the period had increased.

# 4.7. Regression Analysis

A regression analysis was conducted to determine how corporate hedging, liquidity management practices and employee risk management training was related to financial performance. The statistical package for social sciences (SPSS) was used to code, enter and compute the measurements of the multiple regressions for the study.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate					
1	0.938	0.879	0.518	0.137					
Table 13: Model summary									

Table 13 shows a model summary of regression analysis between three independent variables corporate hedging, liquidity management practices and employee risk management training and dependent variable financial performance. The value of R was 0.938; the value of R square was 0.879 and the value of adjusted R square was 0.518. From the findings, 87.9% of changes in the financial performance were attributed to the three independent variables in the study. Positivity and significance of all values of R shows that model summary is significant and therefore gives a logical support to the study model.

Model	Sum of Squares	df	Mean Square	F	Sig.			
Regression	.137	3	0.0456	6.8	.433			
Residual	.19	28	0.0067					
Total	.156	31	0.0502					

Table 14: ANOVA

ANOVA statistics of the processed data at 5% level of significance shows that the value of calculated F is 9.91 and the value of F critical at 5% level of significance was 1.96 Since F calculated is greater than the F critical (6.8>1.96), this shows that the overall model was significant.

Madal	Unstandardized Coefficients	Standardized Coefficients		4	Sig.
Model	В	Std. Error	Beta	ι	
(Constant)	8.033	2.976		2.699	.0026
Corporate Hedging	0.701	.837	.397	.838	.0046
Liquidity Management Practices	0.490	.268	.096	1.83	.00485
Employee Risk Management Training	.626	.267	.964	2.345	.00256

Table 15: Coefficients

From the Table 14:, the regression model can be written as:  $Y=8.033 + 0.701X_1 + 0.490X_2 + 0.626X_3 + \varepsilon$ 

The regression equation above has established that taking all factors into account constant at zero, financial performance will have an autonomous value of 8.033. The findings presented also show that taking all other independent variables at zero, a unit increase in corporate hedging would lead to a 0.701 increase in the financial performance. A unit increase in liquidity management practices would lead to a 0.490 increase in the financial performance. A unit increase in servant leadership would lead to a 0.419 increase in the financial performance. A unit increase in servant leadership would lead to a 0.419 increase in the financial performance. All the variables were significant as the P-values were less than 0.05.

# 5. Summary, Conclusion and Recommendations

# 5.1. Introduction

This chapter presents the summary of the findings on the effects of financial risk management practices on financial performance of listed companies at the Nairobi Securities Exchange. It also provides the conclusions and recommendations based on the objectives of the study.

# 5.2. Summary of the Findings

This section presents a summary of the findings as per the research objectives and the research questions.

# 5.2.1. Corporate Hedging Practices

The study found out that banks enter into contract to sell/purchase a set amount of foreign currency at a pre-determined price in a given future date and use currency options when dealing in foreign currency denominated transactions. The study further established

that banks transact using forward contract in foreign currency and that spot rate allows them to manage foreign exchange fluctuations and use spot rate existing on the day of transaction for majority of our foreign currency transactions.

# 5.2.2. Liquidity Management Practices

The study found out that bank identifies any other expected cash receipts, income from operating and non-operating activities and outline the expected collections from their budgeted period income. The study further found out that companies identify noncash expenses and review their accounts payable balance at the end of every period to identify when these items will be paid.

#### 5.2.3. Employee Risk Management Training

The study established that Banks identify the design, conduct and evaluation of the training programme and usually have a checklist to guide them on their day to day operations. The study further reveal that companies conduct interviews on specific questions and record the results identify the objectives of training and ensure that the training is effective for an employee within the bank. The study found out that regular meetings and training of employees on the financial risk management would enhance their knowledge and skills.

#### 5.3. Conclusion

The study concludes that banks listed at Nairobi stock exchange have entered contracts to sell or purchase foreign currencies and use currency options and forward contracts when dealing with foreign exchange transactions. The study further concluded that spot rate allows banks to manage foreign exchange fluctuations and use spot rate existing on the day of transaction for majority of our foreign currency transactions.

The study also concludes that banks identifies cash receipts and income from operating and non-operating activities and outline the expected collections from their budgeted period income. The study further concludes that banks identify noncash expenses and review their accounts payable balance at the end of every period to identify when these items will be paid.

The study further concludes that on employee risk management training banks identifies the design, conduct and evaluation of the training programme and usually has a checklist to guide them on their day to day operations. The study further concludes that banks conduct interviews and record the result which identifies the objectives of training and thus efficiency for employees at the banks.

#### 5.4. Recommendation

The study recommends that there is need for the management of commercial banks in Kenya to maintain the liquidity level at safe level as liquidity risk negatively affects the financial performance of commercial banks in Kenya. Banks should continue lending to their potential customers to increase their profitability through interest rates. Banks should also raise liquid holdings in order to reduce liquidity risk. Further the study recommends that banks should develop strategies to meet their short term obligation through enhanced disbursement of loans to their customers.

The study recommends that training could be organized for staff so that they learn more about the concept of financial risks management on financial performance. Effective communication with employees to make them aware of the financial risks management in the banks is highly recommended as it will help them understand the way around financial management. The study also recommends that risk management techniques should be emphasized and made more effective in the banks.

# 5.4. Limitations of the Study

The main limitations of this study were that some respondents were not able fill in the questionnaires and some respondents decided to withhold information which they considered sensitive and classified. This reduced the probability of reaching a more conclusive study.

The findings of this study may not be generalized to all banks but can be used as a reference to commercial banks in developing countries since they face almost the same challenges due to the same prevailing economic situations as opposed to commercial banks in developed countries. The results thus cannot be generalized to all banks. This is because different banks may have different strategies for managing risks.

Commercial banks financial risk management keeps on changing from period to period depending on prevailing economic situations and demand by central bank. The findings therefore may not reflect the true effect of financial risk management across the banks for a period of 5 years.

#### 5.5. Recommendation for Further Research

The study recommends that similar research could be replicated in other companies which have implemented financial risk management on financial performance so as to establish whether there is consistency on the effects of financial risk management on financial performance of listed companies at the Nairobi Securities Exchange. The research would greatly benefit banks, companies, government and academicians who would be provided with information regarding the effect of financial risk management on financial performance.

The study suggests that a further study can be done on the effects of financial risk management by use of detailed questionnaire on the financial performance of other financial institutions like the micro finance institutions (MFIs) and development financial institutions (DFIs).

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