Risk Management Practices in Pakistani Banks with Moderating Role of Organizational Culture

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Abstract

Financial Crisis 2008 put question marks on the management decisions in financial institutions. The organizations realized that there may be incapability to assess the risk exposure and in this way, the area of risk management became important concern for assessing and managing risks around the globe. On the other hand, different organizations have their own well defined and unique culture, and perceived risks according to their own culture and got different results. Therefore, this research has focused to examine the influence of organizational culture on the risk management of Pakistani commercial banks. The study took 19 banks as sample. Primary data was collected through questionnaire by targeting 225 managers around various departments of selected banks. The study concluded that it is necessary for the banks in Pakistan to guide more properly about risk management practices for the better improvement and tackling risk exposures more efficiently. Furthermore, this research has unearth a new understanding about the risk management practices in commercial banks and made valuable addition in the existing theoretical literature in various ways.

Introduction

Pakistan is a developing country having diverse cultural norms in which various local and multinational financial institutes are operating and prosper. In this way, organizational culture is important to study for reinforcement and ebullience among employee for achieving the organizational goals (Chi et al., 2008).Different group of people around diverse areas are working in the organization for achieving common goals and objectives. All organizations define some rule, codes of

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conduct in which people have to work, which form the culture of an organization collectively (Mir, 2015). All the shared beliefs and values of employees working in an organizational boundaries and respond to its external environment collectively are considered as organizational culture. The defined culture of an organization leads it towards success or failure in the market. After the financial crisis (2008), the culture in organization is extensively debated by researchers to find out the effect on decisions taken by management of an organization and now considered as one of the most appropriate determinant for improvement and efficiency of management in an organization (Koompai, 2010). Risk management in financial institutions got more importance after the global crisis (2008), which spread around the globe and its effects were more drastic than expected. After the crisis, financial institutes especially banks are faced more tough conditions related to evaluating and securing from risk exposures because healthy and sound financial institutes are directly relates to prosperity of economy. On the other hand, Organizations have their own culture and values to perceive the various types of risk for assessing and evaluating differently and got different results. This problem diverts the attention towards how organizational culture affect the risk management practices in particular organizations.

Literature Review

Ariffin & Kassim, (2009) argued that efficient risk management in a firm is import to increase its earnings and can be used as long term competitive tools against competitors. Al-Tamimi (2002) studied empirical analysis about risk management practices of commercial banks operating in United Arab Emirates (UAE) and examine how commercial banks face different types of risk by using risk management techniques. The results concluded by the researcher show that for risk identification, inspections by branch managers and financial statement analysis are the most commonly used methods.

Hassan (2009) studied risk management practices of Islamic banks and concluded that Islamic banks in Brunei Darussalam faced foreign-exchange risk, credit risk and operating risk as main risk. Practically, the Islamic banks are efficient in risk assessing and analysis, risk monitoring and risk identification and credit risk management in Brunei Darussalam. Ariffin, Archer and Karim (2009) investigated a study on risk management methods practiced in different Islamic banks operating in fourteen countries and argued that efficiency of risk management practices can be achieved only when each type of risk is evaluating on their category basis. Furthermore, conventional as well as

Islamic banks faced the similar type of risks in nature and found no difference in them.

Another study conducted by Abu Hussain and Al-Ajmi in 2012,indicated that credit risk, liquidity risk and operational risk are the major risk faced by banking sector andlevel of risk is high in Islamic banks than conventional banks operating in Bahrain. Nair, Prurohit and Choudhary (2014) revealed in their study that government of Qatar plays pivotal role for the development of banking industry and results showed that performance and risk management are directly related to each other and have important effects on the various aspect of risk management practices.

Ishtiaq (2015) found positive relationship between different aspects of risk management and risk management practices. Kulchmanov, Hassan and Rashid (2016) conducted research to investigate the risk management practices and financial performance of Islamic bank of Kazakhstan and found that the risk management practices of Islamic banks are influenced by limited awareness of risk management and limited use of technology.

Organizational culture

Leskaj, Lipi and Ramaj (2013) studied the impact ofvarious aspects of organizational culture on banking system performance in Albania and further investigated to determine the impact leads to increase the effectiveness of organizations. The study argued that rather though the importance of organizational culture in the determination of performance, management in selected banks didn't pay attention and consider organizational culture second option for the effectiveness in their organizations. Mir (2015) investigated the study to explore how risk management in banking industry is associated with the culture adopted by the targeted Paksiatni banks. This research revealed that an organization maybetter perform through strong culture and it is necessary to study culture and this can help the organization to be effective and increase the long term performance of an organization. The study also indicates the importance of risk management techniques and effect of organizational culture on the risk management practices in the targeted bank operating in Pakistan.

Abbas, Hayat and Nisar (2017) conducted research on the relationship between knowledge management and organizational effectiveness with moderating role of organizational culture in health sector. Their results supported the positive impact of organizational culture in service sector with strong relation between knowledge management and organizational effectiveness and further concluded that organizational culture and knowledge management can be used as competitive advantage against competitors. Arfat et al., (2017) investigated how the leadership effects in work engagement with the different kinds of organizational culture as moderating role in private and public Pakistani banks. They suggested that transformational leadership style is suitable in private banks who adopt supportive culture. Further the study argue that types of organizational culture (supportive and bureaucratic) are suitable for both private and public banks with specific characteristics.

In this way, this study covers a wide area of banks to examine the impact of culture in the risk management techniques practicing the targeted banks and results provide better perception for banking industry operating in Pakistan as whole. In addition, the available literature recognize its constraint and revealed that the study results cover the services sector only (Danish, Munir & Butt, 2012). In the stability and growth of service industry, banks have significant share in this sector. Hence, the current study carried out to examine the effect of organizational culture on various aspects of risk management in Pakistani banks. Considering the fact, the current study has developed conceptual framework given below in figure 1.

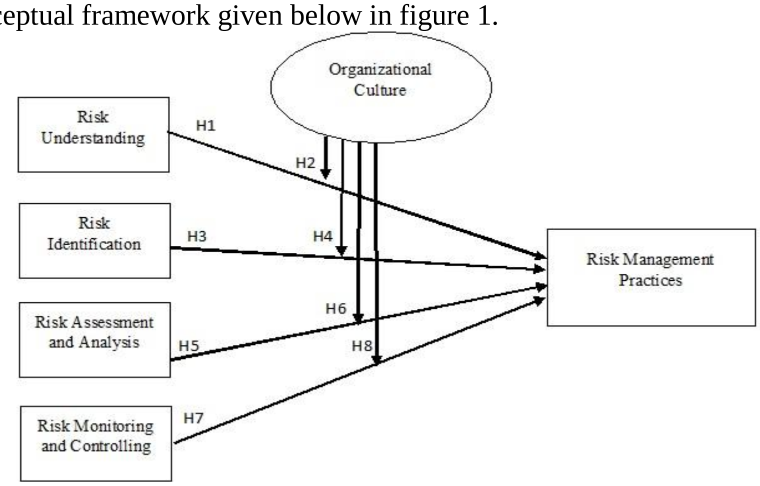

Figure 1: Conceptual framework and hypotheses of the study

Research Methodology

This study has chosen diverse categories of banks as population because of their increased deposits, market shares, loans and advances, and number of branches (Ishtiaq, 2015). Twenty ninebanks make the whole population in which 6 large banks, 15 medium banks, 8 small banks are included. Considering the divers nature of said population, nineteen (19) banks (about 65%) have been selected including 4 large, 10 medium and 5 small banks. The questionnaire used in this research comprised of sixty (60) items which are adopted from the earlier studies (Al-Tamimi, 2002; Abu Hussain & Al-Ajmi, 2012; Ishtiaq, 2015; Dai, Chan, & Yee, 2018) to get response from the respondents of the selected banks. Questionnaire is distributed to the managers serving in different departments of selected banks. In this study, total two hundred and twenty five questionnaires were delivered, out of which one hundred and ninety seven (197) were responded back. Nineteen (19) questionnaires were found incomplete and excluded for further analysis. Hence, remaining 178 responds finalized for further analysis with response rate about 79% in this study. In the questionnaire method, more than 70% response rate is reflected as effective (Babbie, 2010).

Results and Discussion

Correlation analysis is conducted in this study to find out the association among the variables by using Pearson correlation.

Table 1: Correlations Analysis

		Mean	S.D	1	2	3	4	5	6
1	RU	3.9	0.79	1					
2	RI	3.7	0.66	.193**	1				
3	RAA	3.8	0.63	.198**	.945**	1			
4	RM	3.8	0.70	.363**	.299**	.376**	1		
5	OC	3.9	0.41	.273**	.306**	.356**	.443**	1	
6	RMP	3.9	0.77	.342**	.177*	.241**	.341**	.520**	1

In the table 2, it can be concluded that correlation among dependent variable, RMP and independent variables RU, RI, RAA, RM and moderating variable OC is positive and all the variables found significant. The results also compatible with previous studies such as, Al-Tamimi, (2002); Hassan, (2011) and Ishtiaq, (2015).

Regression Analysis

The regression analysis in table 2 represents that all the studied variables are significant to outcome and discussed below individually.

Table 2: Regression Analysis

Independent Variables	Coefficient (β)	Std. Error (e)	T	R Square	Significance (p)
RU	.329	.068	4.825	.117	.000**
RI	.207	.086	2.393	.032	.018*
RAA	.292	.088	3.300	.058	.001**
RM	.371	.077	4.818	.117	.000**

*Dependent Variable: RMP Acceptance Level: **0.01 Level of significance, *0.05Level of significance*

In the table, the value of $\beta = .329$ and $p \leq .01$ for risk understating shows significant to risk management practices in the targeted banks of Pakistan.It shows that risk understanding is the building block of risk management practices and found common understanding among the employees of targeted banks. So, all the results leads to the acceptance H1 hypothesis.The results for risk identification represents positive significance with risk management practices, as the values of $\beta = .207$. The significance level is also less than .05 leads to acceptance of H3 hypothesis. It is concluded from the results that identification of risk has greatimportanceto improve management of various risks in selected banks.The results of risk assessment and analysis indicating strong influence on risk management practices and found significant at .001. It can be evaluated from above results that targeted banks in Pakistan have proper system to assess and analyze the different kind of risks. Hence, H5 hypothesis also acceptable according to the results showed. β value for risk monitoring and controlling is .371 and significant level is .000 indicating the positively significant to risk management practices. The results showed the selected banks have proper and effective monitoring and control for different risk prevailing in the business. The results also compatible to the acceptance of H7 hypothesis that risk monitoring and control has direct relation with risk management practices. The findings are also well matched with previous studies like Al-Tamimi, (2002); Hassan, (2011) and Ishtiaq, (2015).

Moderating role of organizational culture

Regression analysis was carried out to investigate the impact of OC on risk management practices of targeted banks and results of related study variables are discussed below.

The table given below showed the results for moderating effect of organizational culture (OC) on the relationship of risk understanding (RU), risk identification (RI), risk assessment and analysis (RAA), risk monitoring and control (RM) and risk management practices (RMP). The product of RU and OC showed that the coefficient value of interaction is .0067, which is considered as negligible or no impact on RMP. Similarly, the value of Rsquare which is .000 shows no change due the OC on the relationship of RU and RMP. The value of p is .9609 which is much higher than the significance level .05 further indicate the insignificance of the considered model. From the above discussion, it is concluded that no evidence is found as the moderating role of organizational culture on the relationship of risk understanding and risk management practices which leads to rejection of H2 hypothesis in the study. In case of RI, it can be evaluated that value of R^2 is .0082 which represents the level of variance is very low. The value of coefficient on interaction is -.2990, which weaken the relationship of RI and RMP. Furthermore, the value of $p > .05$, which shows that there is no significance among the considered variables. It can be explained that no moderating effect of organizational culture (OC) is found in the relationship of RI and RMP. On the basis of overall results, H4 hypothesis is not acceptable in the study.

Table 3: Results of Multiple Regression Analysis

	Model 1		
	Coefficient	Change in R^2	Significance
Constant	-0.213	0.0000	0.9609
RU	0.1817		
OC	0.8315		
Int_1	0.0067		
Int_1= RU × OC			
Constant	-4.0978	0.0082	0.1616
RI	1.1923		
OC	2.0163		
Int_1	-0.299		
Int_1= RI × OC			
Constant	-4.928	0.0117	0.0934
RAA	1.4466		
OC	2.1799		
Int_1	-0.3508		
Int_1= RAA × OC			
Constant	-2.2727	0.0056	0.2426
RM	0.7681		
OC	1.4337		
Int_1	-0.1611		

Int_1= RAA × OC

The value of R square is .0117 argued that level of variation is negligible for the relationship of RAA and RMP. Coefficient (β) show the negative value which is -.3508 at interaction of RAA and OC. Furthermore, the value of p in the model is .0934 which is greater than significance level 0.05 and hence, it represents that no impact of OC on the relationship of RAA and RMP in this study and hence, the rejection of H6 hypothesis. For RM, the value of R square depicts the level of variations among the variables due to moderating role of organizational culture (OC), which is negligible at .0056. The interaction level in the model showed the value of p which is .2426 represents insignificant and organizational culture (OC) as moderator has no impact on the association of risk monitoring and controlling (RM) and risk management practices (RMP). It is concluded that H8 hypothesis is rejected and the relationship of risk monitoring and risk management is not effected by organizational culture as moderator.

Conclusion

It is concluded from the results that understanding related to risk among the employees of targeted banks is at good level and they take risk understanding as acentralfeature of managing various risks in general. In case of risk identification, targeted banks found difficulties to line up their major risks, so the targeted banks need to apply more sophisticated techniques for identifying their major risk and after that they can categorize according to exposure of risk involved in them. Furthermore, it is concluded that risk assessment and analysis in banks can be enhanced more in banks and used it as opportunity tool against competitors. From the results it is confirmed that risk monitoring and controlling in banks operating in Pakistan is strong and proper attention carried out for risk exposure. Banks are required to guide more properly about risk management practices for the better improvement and tackling risk exposures more efficiently.

Organizational culture as moderator used to find out the influence on the relationship of risk management practices and various other aspects. The study investigated that organizational culture has strong correlation and significance with risk management practices but no result of organizational culture as moderator found in support that influence the relationship of risk understanding, risk identification, risk assessment and analysis, risk monitoring and controlling and risk management practices. From the results, it is concluded that overall banks operating in Pakistan are practiced common risk managements as per the criteria provided by the SBP. The targeted banks in the study adopted these techniques as legal requirement implemented by the supervisory authority (SBP) to maximize the shareholders wealth, but not adopted them as the common and compulsory part of the culture at ground level prevailed in these organizations. Hence, the results found insignificant in this study that culture didn't affect the risk management practices in the targeted banks of Pakistan.

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