Operational Risk Control Strategies and Employee Performance of Commercial Banks in Cameroon

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Abstract
This study investigates the extent to which operational risk control strategies influence employee performance of commercial banks in Cameroon. Primary data was obtained by administering close-ended questionnaires to respondents of 14 selected commercial banks in Cameroon. Data analysis was based on descriptive statistics and Ordinary Least Squares regression. Results showed that amongst the operational risk control strategies under consideration, risk retention and risk avoidance significantly influence the employee performance of commercial banks in Cameroon whereas risk transfer and risk reduction showed no significant influence on employee performance. Therefore, commercial banks in Cameroon should put more emphasis on internal control, auditing programs, provision for operational loss as well as putting in place codes of conduct, enhancing technology and screening of employees in order to increase employee performance.

Keywords: Commercial banks, operational risk, employee performance, Cameroon.

Introduction

Operational risk control strategies are integral part of risk management in financial institutions and employee performance of banks. Commercial banks are in the risk business as they face numerous risks in their daily operations. According to Gangreddiwar [1], banks are exposed to diverse risks including market risk, credit risk, and operational risk. The study attempts to investigate the extent to which operational risk control strategies influence employee performance of commercial banks in Cameroon. Following the research objective, we make the hypothesis that operational risk control strategies have no significant influence on the employee performance of commercial banks in Cameroon.

Until the Basel II reforms of banking supervision, operational risk was largely a residual category for risks and uncertainties which were difficult to quantify, insure and manage. It became widely recognized as a major risk class in the mid-1990s following several large scale insolvencies in the banking industry such as; Orange County in 1994, Barings Bank in 1995 and Daiwa Bank in 1995 and others [2] that undermined the confidence in the banking system. In these cases, significant losses were incurred due to operational risk failures.

In Cameroon, a majority of bank employees guilty of operational setbacks, fraud related activities, forgery, bribery as well as other malpractices, find it difficult to contribute to employee performance and the overall performance of commercial banks. This therefore justifies the creation of national laws, such as the Central Africa Banking Commission (COBAC) in 1990 and the Pan African Organization for the Harmonization of Business Law in Africa (OHADA) in 1992 for all banking establishments in the Central African Economic and Monetary Community (CEMAC) to regulate the activities of commercial banks in

the country. Despite the above moves, commercial banks in Cameroon still find it difficult to improve employee's performance.

According to a 2001 report from the International Monetary Fund (IMF), Cameroon banking system experienced significant setbacks in the period 1980-1990, partly due to the fraudulent acts of some bank officials which hindered their performance. This explains why by1980s the banking system underwent massive crisis which led to the liquidation of most of the existing banks in the system. By 2016, due to some operational difficulties, Oceanic bank had a fall in its overall performance and its shares were acquired by Ecobank Cameroon. In addition, due to gross mismanagement, COBAC was forced to step in and take over management of the almost bankrupt Amity Bank which was later sold to the Ivorian Banque Atlantique.

Operational risks in banks manifest itself through people, systems, processes and legal risk. With regards to people, it occurs during employee errors, fraud and the death or departure of key personnel. In line with systems, it occurs when there is system failure or shutdown and it encompasses inter-branch connectivity, power backup systems, information technology systems and other technical systems. In line with processes, it occurs as a result of failure in banking procedures. And lastly in line with legal risk, it manifests through failure with compliance to financial and monetary authorities. Hence, there exist ineffective and inadequate operational risk control strategies put in place by the boards and the management committees which tend to hinder bank employee performance.

Materials and Methods

This study adopted a descriptive research design. Descriptive statistics was used to gather information about operational risk control strategies adopted by commercial banks and to explain the relationship that exist between operational risk control strategies and employee performance. We employed purposive sampling technique in order to ensure that sufficient and reliable information was collected from competent bank employees such as managers, assistant managers, internal controllers and human resource managers. A sample of 14 commercial banks operating in Cameroon were utilized. This sample size was chosen based on the availability of data.

Data was collected through the primary method by administering close-ended questionnaires to respondents. The questionnaires were distributed to managers, assistant managers and human resource officers of the commercial banks' headquarters in Cameroon. Close-ended questionnaire was developed mostly on a five-point Likert scale with answers comprising; strongly agree, agree, neutral, strongly disagree, and disagree. The questionnaire was divided into three sections based on demographics of respondents, operational risk control strategies adopted by these banks and employee performance. Distribution of questionnaire to respondents was done through the drop and pick method as well as face-to-face method.

Multiple regression technique, specifically, the Ordinary Least Squared (OLS) model was used. In addition, descriptive statistics was used to bring out the relationship between the variables of interest. Data was coded according to different variables of the study in order to ease data entry and interpretation. The data was then analyzed using SPSS. Also, pre-test such as the normality test of Shapiro-Wilk and Kolmogorov Smirnov was conducted. This study has three sets of variables which are operational risk control strategies (independent variable), employee performance (dependent variable,) and working experience and gender as the control variables. Table 1 and 2 shows the list of variables, their measurements and supporting author(s).

Table 1: Operationalization of independent variables

Variables	Description	Measures and supporting authors
Independent		
Risk retention	A financial strategy that deals with the deliberate acceptance of risk (Mohamed, 2014).	Achieved by the availability of internal control, auditing programs and setting a budget for risk losses (Wieczorek, 2011).
Risk transfer	A financial strategy associated with	Achieved by available insurance protection

	the act of assigning, delegating, or paying someone to assume the risk (Mohamed, 2014).	(Samad-Khan, 2006).
Risk reduction	Physical strategy that deals with accepting and keeping part or all of the losses that can result from a given exposure (Wieczorek, 2011).	Achieved by employee training, safety inspection, safety systems, detailed work plan (Isoh & Nchang, 2020).
Risk avoidance	Physical strategy which deals with declining to acknowledge the hazard by any means (Nturanu & Mundia, 2019).	Achieved by, compliance with code of conduct, employee screening, risk management training, technological enhancement (Thomas et al., 2017; Kuva et al., 2021).

Table 2: Operationalization of dependent and control variables

Variables	Description	Measures and supporting authors
Dependent		
Employee performance	It relates to job related activities of a worker and how well those activities are well executed (Fonkeng, 2018).	Achieved by employee effectiveness (Fonkeng, 2018; Vuong & Nguyen, 2022).
Control		
Gender of respondent	Dummy variable	1 = Male 0 = Female
Working experience	working experience is ranked lower scale point rating between 1 and 3	1-5 = 1 5-10 = 2 10 above = 3

General Model Specification

$EE = \beta_0 + \beta_i FORCS_i + \beta_i PORCS_i + \varepsilon_i$

Where;

FORCS = Financial operational risk control strategies

PORCS = Physical operational risk control strategies

Hence,

$EE = \beta_0 + \beta_1 R_i + \beta_2 RT_i + \beta_3 RR_i + \beta_4 RA_i + \beta_5 WE_i + \beta_5 GE_i + \varepsilon_i$

Where;

EE = Employee effectiveness determined by the ability of employees being effective in lending task, accounting task, teller operations and IT system management task.

R = Risk retention determined by the availability of internal control, auditing, provision for operational losses.

RT = Risk transfer determined by the availability of insurance protection.

RR = Risk reduction determined by the availability of employee training, detailed work plan, safety inspection, safety system.

RA = Risk avoidance determined by compliance with code of conduct, employee screening, technological enhancement.

WE = Work experience is measured as a dummy variable (control variable)

GE = Gender of respondent is measured as a dummy variable (control variable).

ε_i = Error term.

β_0 = Constant term.

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$ = Regression coefficients

The study applied significance level of 1% (0.01) which corresponds to a confidence interval of 99%. The significance level was then compared with p-values of the respective variables used in the model. A p-value of 0.09 or less was considered to be statistically significant. Also, the probability of F-statistic was compared with the level of significance in order to determine the reliability and overall significance of the model.

The current study adhered to ethical issues. Respondents were informed about the purpose and objective of the study. Also, data collected during the study was kept confidential and used only for academic purposes. The researcher kept honesty and integrity in data collection and analysis to serve effectively the institution and further research. In addition, all borrowed works from previous authors have been duly referenced.

Results

Financial operational risk control strategies were verified using risk retention and risk transfer whereas the physical risk control strategies were verified using risk reduction and risk avoidance. The results obtained can be summarized in the following tables:

Descriptive Statistics

Table 3: Descriptive Statistics

Variables	N	Minimum	Maximum	Mean	Std. Deviation
Risk Retention	32	3.00	5.00	4.2540	.59268
Risk Transfer	32	1.00	5.00	3.2381	.54303
Risk Reduction	32	1.75	4.75	3.1548	.74275
Risk Avoidance	32	1.67	5.00	3.5079	.76947
Employee Performance	32	1.75	4.50	3.4821	.64010
Valid N (listwise)	32				

From Table 3.1 above, our main concern is on the mean and the standard deviation. The descriptive statistics confirm 32 observations as seen on the general information. Looking at the mean, we have 4.2540 for risk retention, 3.2381 for risk transfer, 3.1548 for risk reduction, 3.5079 for risk avoidance, and 3.4821 for employee performance. This shows that risk retention has a higher mean value than risk transfer. Also, risk avoidance has a higher mean value than risk reduction. The mean values permit us to know the average effect of operational risk control strategies on employee performance of commercial banks.

On the other hand, the standard deviation indicates that the variables usually deviate from the mean and higher deviations can cause changes in our expectations. The table therefore shows that risk avoidance has the highest standard deviation with a value of 0.76947, followed by risk reduction with a value of 0.74275, then risk retention and risk transfer with values 0.59268 and 0.54303 respectively. A high standard deviation implies that there is a high dispersion of data points from the expected within the total population while a low standard deviation shows that there is a low deviation from the expected. This therefore shows that the results might deviate and might not be as expected. Henceforth, the descriptive statistics cannot enable us to have an answer to our specific questions and thus, it was important to do inferential statistics.

Inferential Statistics

Table 4: Cronbach's Alpha

Cronbach's Alpha	No. of Items
0.605	5

Looking at the Cronbach's alpha in Table 4, we have a value of 0.605 that is in line with the general acceptable rule, which holds that a Cronbach alpha value that lies between 0.6 - 0.7 shows that the data collected for the study are reliable for analysis.

Multi-collinearity Test

Table 5: Variance Inflation Factor

Variables	Variance Inflation factor (VIF)
Risk Retention	1.017
Risk Reduction	1.546
Risk avoidance	1.461
Risk Transfer	1.146

The Variance Inflation Factor has as assumption to be less than 10 to show that there is no multi-collinearity between the independent variables. From Table 3.3 we observed that there is no multi-collinearity among the variables.

Regression Analysis

Table 6: Regression Analysis of Financial Operational Risk Control Strategies and Employee Performance

Variables	Coefficients	Standard Error	t-statistics	P-value
Constant	1.459	0.711	2.051	0.047
Risk Retention	0.487	0.162	3.001	0.005[***]
Transfer of risk	0.12	0.066	0.181	0.857
Gender	-.347	.231	-1.498	.143
Working Experience	-.077	.138	-.559	0.580
Adjusted r-square	0.134			
F (6,31)	3.069			
P (6,31)	0.40			
Observation	32			

[***]indicates that a variable is significant at 1% level.

From the results above we are more interested in the adjusted r-square, the p-value of the F-statistics, the coefficients and the probability value (p-value) the variables. Looking at the p-value of the F-statistics (0.040), we noticed that it is less than 1% significance level, implying that the model used fits the study. Moreover, the adjusted r-square tells us that the variations of employee performance are explained by the explanatory variables above 13.4% and the others are explained by other variables not used in this study.

Looking at the coefficients, we focus more on the explanatory variables used in the analysis. Starting with risk retention we have a coefficient of 0.487 with sig-value of 0.005. Since 0.005 < 0.01, the test is statistically significant at 1% level. Risk retention significantly influence employee performance of commercial banks in Cameroon. This is due to the fact that the p-value for risk retention is less than 1% the preselected significant value used for this study. For risk transfer, we have a coefficient of 0.12 with a p-value of 0.857. Given that 0.857 > 0.01, it implies that risk transfer does not have a significant influence on employee performance of the selected commercial banks in this study.

The other variables, namely working experience and gender are the control variables. From the coefficients, we have a coefficient of -0.347 for gender with a p-value of 0.143 and -0.077 for working experience with p-value of 0.580. This implies that gender and working experience has a negative but insignificant influence on the employee performance.

Table 7: Regression Analysis of Physical Operational Risk Control Strategies and Employee Performance

Variables	Coefficients	Standard Error	t-statistics	P-value
Constant	1.964	0.460	4.267	0.000
Risk Reduction	0.147	0.154	0.956	0.345
Risk Avoidance	0.382	0.139	2.752	0.009[***]
Working Experience	-0.153	0.135	-1.138	0.263
Adjusted r-square	0.292			
F (6,31)	5.076			
P (6,31)	0.005			
Observation	32			

[***]indicates that a variable is significant at 1% level.

From Table 7 above, looking at the p-value of the F-statistics (0.005), we noticed that it is less than 1% significance level, implying the model used fits the study. Moreover, there is the adjusted r-square which tells us that the variations of employee performance are explained by the explanatory variables above at 29.2% and the others are explained by other variables not used in this study. We observe that risk reduction has a coefficient of 0.147 with a p-value of 0.345. Since 0.345 > 0.01, it implies risk reduction does not have a significant influence on the employee performance of commercial banks in this study. Also, for risk avoidance, we have a coefficient of 0.382 with a p-value of 0.009. Since 0.009 < 0.382, it shows that there is a significant influence of risk avoidance on the employee performance of commercial banks in this study. For the control variables used, we have -0.153 as coefficient for working experience with a p-value of 0.263. This implies that working experience has a negative but insignificant influence on the employee performance of commercial banks used in the study.

Discussion of Results

To begin with, the p-value of the F-statistic showed that operational risk control strategies influence employee performance of commercial banks in Cameroon. Amongst the financial operational risk control strategies, risk retention showed a positive and significant influence on employee performance of commercial banks in Cameroon. This implies that internal control, internal audit and provision against losses influence employee performance of commercial banks in Cameroon. This study aligns with that of Njuguna et al. [12] who reported that internal audit has a significant influence on the performance of microfinance institutions. And also, the study of Aduloju & Akindipe [13] found that financial risk control strategies (risk transfer and retention) influence organizational performance of small and medium-sized enterprises.

Following the physical operational risk control strategies, risk avoidance showed a positive and significant influence on employee performance of commercial banks in Cameroon. In this study, risk avoidance deals with the setting up of codes of conduct, screening of employees, and enhancing technology which significantly influence employee performance of commercial banks in Cameroon. However, we observed that risk transfer, risk reduction as well as the control variables namely gender and working experience do not have a significant influence on employee performance. Thus, training of employees, insurance policies, putting in place a detailed work plan do not necessarily influence the effectiveness of employees.

Conclusion

The study sought to determine the influence of operational risk control strategies on employee performance of commercial banks in Cameroon. The model in this study looked at operational risk control strategies in terms of financial risk strategies made up of risk retention and risk transfer. Physical risk control strategies comprised of risk avoidance and risk reduction with working experience and gender considered as controlled variables. From our results, risk retention and risk avoidance showed a positive and significant influence on the employee performance of commercial banks in Cameroon. This means that, we reject the null hypothesis and conclude firstly that, operational risk control strategies in terms of risk retention and risk avoidance have a significant influence on the employee performance of commercial banks

in Cameroon. Secondly, risk transfer, risk reduction and the control variables namely working experience and gender were found not significant. Therefore, we conclude that an increase in any of those significant variables will lead to an increase in employee performance of commercial banks in Cameroon and vice versa whereas an increase or decrease in any of the insignificant variables will have little or no influence on the employee performance.

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