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EFFECT OF RISK EVALUATION ON PERFORMANCE OF FINANCIAL INSTITUTIONS

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Abstract

Purpose*:* The purpose of the study was to determine the effect of risk evaluation on performance of financial institutions.

Methodology: The study used explanatory research design. The study used stratified random sampling to select respondents from target population comprising of managers of 46 commercial banks, 52 Micro Finance institutions (MFIs) and 200 SACCOs and a sample size of 239 respondents obtained. Data was collected using questionnaires. Descriptive statistics was presented, while inferential statistics was done using Pearson product moment correlation.

Results: There was a positive influence of risk evaluation [$r = .813$, $p<.05$] on the performance of financial institutions was obtained. The risk evaluation positively influenced the performance of financial institutions. The risk evaluation had positive relationship with performance of financial institutions ($P<0.05$). The null hypothesis $\mathbf{H_{O3}}$ stating that there is no significant effect of risk evaluation on performance of financial institutions was rejected**.** This indicates that for each increase in the risk evaluation**,** there is 0.821 increase in performance of financial institutions.

Unique contribution to theory, practice and policy: The study has established the importance of ownership structure as a system of corporate governance that significantly moderates the relationship between risk management practices and performance of financial institutions can exploit various risk management practices identification, analysis, evaluation and monitoring should be enhanced so as to bring efficiency in the performance of financial institutions. These may be achieved through establishment and implementation of risk identification, analysis, evaluation and monitoring policy framework which will significantly influence performance of financial institutions and enhance shareholder capabilities to evaluate all risks that can hinder the financial institutions from achieving their set objectives

Key words*: Risk evaluation, performance, financial institutions*

1.0 INTRODUCTION

1.1 Background of the Study

Performance is "a reflection of the organization's capacity and its ability to achieve its objectives" (Eccles, 1991). Performance is an indicator explaining the level of development of any society. Recently, the challenges of the global business environment have re-echoed the need for corporate organizations to have more concerns about the success of business firms. Firm performance has been viewed as one of the most important variables that attracted the attention of researchers in both finance and management literature (Gavrea, Ilies, & Stegerean, 2011).

Firm performance is a concept that explains the extent to which an organization achieves objectives. It indicates how organizations have been scrutinizing key business activities over time (Saeidi *et al.,* 2014). Firm performance is an indicator that helps to evaluate and measure how an organization succeeds in realizing business objectives to all its stakeholders (Antony and Bhattacharyya, 2010). Firm performance refers to a firm's ability to achieve its goal through the application of available resources in an efficient and effective manner (Asat *et al.,* 2015). Studies have used different types of performance indicators to measure firm performance.

For instance, measures such as return on investment, return on sale and return on equity are some of the commonly used parameters to measure performance (Saeidi *et al.,* 2014). Thus, for a more comprehensive assessment, organizations have resorted to the utilization of both financial and nonfinancial performance measures. Judge *et al.,* (2003) used both financial and non-financial indicators such as process improvements, customer satisfaction, capacity utilization and product service quality to measure firm performance.

The financial performance assessment is devoid of such a multitude of options and methodologies despite critical importance of financial sustainability. Though an ambition for sustainable institutions has articulated, there was also an opinion that most financial institutions working in this field have been unsustainable. Research studies have shown that this is predominantly connected to the perception of micro borrowers' risk and creditworthiness, and the diseconomies of scale in making small loans (Quach, 2005).

According to Dayson *et al*., (2006), microfinance has been attractive to lending agencies because of demonstrated sustainability and low cost of operations. Results of these studies strongly suggest that bank profitability determinants vary across countries and also among regions of the world (Doliente, 2003). In accordance with the study of Grier (2007), profitability ratios are often used in a high esteem as the indicators of credit analysis in banks, since profitability is associated with the results of management performance. Bank performance indicates bank's capacity to generate sustainable profits. Banks protect the profitability against unexpected losses, as it strengthens its capital position and improves future profitability through the investment of retained earnings. A bank that persistently makes a loss will ultimately deplete its capital base, which in turn puts equity and debt holders at risk.

The International Monetary Fund (IMF, 2014) survey on financial performance of Sub-Sahara Africa home grown institutions finds that risks were increasing and negatively affected the financial performance of firms in the region. The report further outlines various risks such as;

declining prices for commodity goods, fiscal vulnerabilities, security, and growing capital flows were dynamics for risk management. In some countries for instance in Ghana growing deficits in the national budget and political instability was affecting the local currencies against the major currencies and therefore putting pressure on locally produced goods. While in the case of Zambia, general increase in wages was affecting firms 'income by increasing cost of production. Generally the increasing insecurity rates in Central Africa Republic and Southern Sudan was the main reason behind the continuous factors that affected growth prospects of the local firms in the region (IMF, 2014).

In order to create shareholder value, bank's return on equity (ROE) needs to be greater than its cost of equity. Return on equity, ROE, and return on assets and ROA are the most commonly used ratios, and the quality level of ROE is between 15% and 30%, for ROA is at least 1%. *Wong et al.*, (2008) indicated that the efficiency of banks can be measured by using the ROE which illustrates to what extent banks use reinvested income to generate future profits. According to Riksbank's Financial Stability Report (2002), the measurement of connecting profit to shareholder's equity is normally used to define the profitability in the banks. Jensen Investment Management (2008) mentioned that ROE provides a very useful gauge of profit generating efficiency because it measures how much earnings a company can get on the equity capital.

European Central Bank (2010) looks at financial performance of banks from the perspective of analyzing the main drivers of profitability; earnings, efficiency, risk-taking and leverage. The report goes on to note that the performance however needs to incorporate the views of various stakeholders (e.g. depositors, debt or equity holders and managers). The CAMELS model, a recent tool of financial analysis also provides a framework for measuring financial performance of banks. According to the parameters bank financial performance is looked at in the perspective of the internal strength of the bank, loan portfolio quality, management efficiency, liquidity management and the banks sensitivity to risk.

1.2 Problem Statement

Financial institutions are bestowed with an imperative responsibility to execute in the economy by acting as intermediaries between the surplus and deficit units, making their job as mediators of critical significance for efficient allocation of resources in the modern economy El-Hawary *et al.*, (2007). The stability of the entire economy is affected by a crumple of the financial institutions, as a result a robust risk management system is mandatory to keep the financial institutions up and running (BNM, 2008; Blunden, 2005). Risk management is an issue that needs to be stressed and investigated, especially in the banking industry, where the need for a good risk management structure is extremely important.

In the financial sector, risk management is seen as one of the most essential internal itineraries upon which decisions are made by financial institutions (Pauzuolis & Cvilikas, 2014). A good risk management framework helps the institution to protect from unfavorable consequences (downside risks) and permit the institution to take the benefit of any possible opportunities (up-side risks). Moreover, as the nature of business for financial institutions are accepting and managing credit risk, thus they act as shock absorbers.

There are few local studies on risk management which include; Kimeu (2008) who studied credit risk management techniques of unsecured banks loans of commercial banks in Kenya, Ngare (2008) who studied credit risk management practices by commercial banks, Simiyu (2008) studied techniques of credit risk management in microfinance institutions in Kenya, Mutwiri (2007) studied credit risk management practices by oil companies in Kenya, Muteru (2007) who studied credit risk management practices by Pharmaceuticals manufacturing firms in Kenya, Mwirigi (2006) who studied credit risk management techniques adopted by micro finance institutions in Kenya and Njiru (2003) who studied credit risk management by coffee co-operatives in Embu District.

1.3 Research Objective

The objective of the study was to determine the effect of risk identification on performance of financial institutions.

2.0 LITERATURE REVIEW

2.1 Theoretical Review

2.1.1 Risk Management Theory

Wenk (2005), states that the Risk Management model consists of risk identification, risk assessment, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unfortunate events or to maximize the realization of opportunities. Risks can come from uncertainty in financial markets, project failures, legal liabilities, credit risk, accidents, natural causes and disasters as well as deliberate attack from an adversary, or events of uncertain or unpredictable root-cause. Several risk management standards have been developed including the Project Management Institute, the National Institute of Science and Technology, actuarial societies, and ISO standards. Methods, definitions and goals vary widely according to whether the risk management method is in the context of project management, security, engineering, industrial processes, financial portfolios, actuarial assessments, or public health and safety (Simkins & Fraser, 2010).The strategies to manage risk typically include transferring the risk to another party, avoiding the risk, reducing the negative effect or probability of the risk, or even accepting some or all of the potential or actual consequences of a particular risk.

Effective risk management can bring far reaching benefits to all organizations, whether large or small, public or private sector (Ranong & Phuenngam, 2009). These benefits include, superior financial performance, better basis for strategy setting, improved service delivery, greater competitive advantage, less time spent fire fighting and fewer unwelcome surprises, increased likelihood of change initiative being achieved, closer internal focus on doing the right things properly, more efficient use of resources, reduced waste and fraud, and better value for money, improved innovation and better management of contingent and maintenance activities (Wenk, 2005).Effective risk management structure supports better decision making through a good understanding of the risks and their likely impact. In practicing Risk Management (RM), if risks are left unmanaged, they can cause a negative impact on stake holder's value. It therefore means that good risk management enhances shareholders value. By creating a good discipline in risk

management it helps improve governance process and therefore improves effectiveness (Moore; 1983).

According to Dorfman (2007) ensuring that an organization makes cost effective use of risk management first involves creating an approach built up of well-defined risk management and then embedding them. These risk management include financial risks management, operational risk management, governance risk management, and strategic risk management. The theory of Risk Management Theory is applied in the study to determine the effects of risk management on financial performance of financial institutions in Kenya.

2.2 Empirical Studies

Consistent evaluation and rating of exposures of various types are essential to understand risks, and the extent to which these risks must be mitigated or absorbed. Outside audits, regulatory reports, and rating agency evaluations are essential for investors to gauge asset quality and firm level risk. Risk management has moved from the narrow view that focuses on evaluation of risk from a narrow perspective to a holistic, all-encompassing view (Pagach & Warr, 2011).

Enterprise risk management requires the operation of risk evaluation and mitigation. This can only be successful if there is strong leadership support and top management buy-in without which the ERM process is destined to fail. The board of directors and top management needs to be involved in setting the tone from the top and creating a risk culture across the financial institution. The board also secures the integration of ERM in all processes, making available adequate resources and sustained continuous improvement of the level of ERM practices (Manab & Kassim, 2012).

On one side, foreign ownership of financial institutions could give several benefits (Unite & Sullivan, 2003) such as transferring to local financial institutions the skills and technology that enhance risk management; the allocation of credits to the private sector may be improved since it is expected that the evaluation and pricing of credit risks will be more sophisticated, and it is expected that foreign financial institutions will provide more stable sources of credit since they may refer to their parents for additional funding and they have easier access to international markets. Thus, domestic financial markets were less vulnerable to domestic shocks.

A company's accounting control practices such as risk based auditing are widely believed to be crucial to the success of an enterprise as it acts as a powerful brake on the possible deviations from the predetermined objectives and policies. This means that an organization that puts in place an appropriate and adequate system of risk based auditing is likely to perform better than those that do not. In other words, for there to be effective risk management in an organization, auditing must be risk-based. In the instances where there have been lack of or inadequate risk-based auditing, the firms concerned may be prone to fraud and other forms of financial misappropriation (Coram *et al.*, (2008).

Empirical studies on effect of risk assessment on financial performance are reviewed in this section. The studies are reviewed from the global, regional and local perspectives. Rostum and Eikebrokk (2008) conducted a study in Bergen, Norway on assessment of risk and came up with a report that provided a summary of the application and results of a Risk and Vulnerability Analysis (RVA). RVA was a as a response to the results from the internal and external evaluations. They

followed a procedure of risk identification, risk estimation, and risk assessment; the latter creates an ample platform for risk management.

According to McCord (2002), risk assessment of material misstatement at the financial statement level and also at the planning stage, clarifies the direction on performing a combined assessment of inherent and control risk, thus leaving the ability for the auditors to assess other risk factors in an audit. In their examination of the effects of the role of the board of directors in assisting in the formulation of corporate strategies on the auditors' planning judgments, they established that auditors respond to the role of the board when making judgments with respect to control risk assessments.

Keitany (2000), in his study on the internal audit control function and its implication on risk assessment by external auditors, established that the extent of dependence on internal controls were insensitive to the strength of internal audit departments. A study on the impact of risk-based audit on financial performance in Kenya's insurance companies conducted by Kasiva (2012) among 44 respondents that included finance officers, internal auditors, credit officers, relationship officers, and accountants found out that risk-based auditing through risk management should be enhanced to enable the organization concerned to detect risks on time.

Kasiva (2012) further argues that fraud risk assessment is one area that deserves significant reliance on internal audit work. In this light, it is reasoned that due to the fact that internal auditors are more privy with the operations of the firm they work for than external auditors, are particularly suited to carry out fraud risk assessment. In a survey of internal auditors' risk management practices in the Kenya's banking sector, Kibaara (2007) investigated bank internal auditors' risk assessment practices and established that, most banks in Kenya were in the process of drafting the ERM process and strategies in line with risk assessment.

While much empirical works have given diverse reasons for the poor financial performance, research evidence on the effects of risk based auditing practices on the financial performance in the Kenyan context is scanty. Thus inadequate risk based audit could be negatively affecting the financial performance in Kenya. According to Hermanson and Rittenberg (2013) the existence of risk based auditing is associated with superior organizational performance. Although prior research studies (for example, (Simons, 2009; Kiragu 2014) suggest a link between risk based audit practices and financial performance, majority of these studies have concentrated mostly in banks and other financial institutions and the available studies so far have dealt exclusively with large financial institutions in advanced countries. Little is known, at present, about the influences of risk based auditing practices on the financial performance nationally.

The organization identifies and evaluates the risks and decides on precautions. Organization record the findings on the risks identified and implement the measures. According to Royal Society Study Group (2002) risk estimation comprises identification of the outcomes and estimation of both the magnitude of the consequences and the probability of those outcomes. The addition of risk evaluation completes the process of risk assessment which is a vital stage in credit risk management. On the other hand, controls exist for approving decisions regarding financing alternatives and accounting principles, practices, and methods and also the management identifies

and analyzes departmental risks relating to circumstances such as changes in the operating environment. Organizations carry out risk assessment to a great extent.

Risk evaluation must be an integral part of an institution's business plan. Decisions to enter, leave, or concentrate on an existing business activity require careful assessment of both risks and potential returns. Risk evaluation practices must be defined for each business activity that is pursued. Finally, business activities not part of the institution's focus must be eliminated so that avoidable risks are not assumed due to lack of management oversight. In addition, the specific risks of each business activity of an institution must be defined and the means to measure the risks must be developed. Similarly, databases must be developed to obtain proper and consistent risk measurement across the entire organization (Salomon Brothers, 1993). Credit risk evaluation techniques, for example, should be the same in corporate lending, as in personal banking. Only then the aggregate credit quality reports have meaning to senior management.

Several studies (Keitany, 2000; Rostum & Eikebrokk, 2008; Cohen & Sayag, 2010; Kasiva, 2012) have been carried out relative to the current study variables (risk assessment, risk-based planning, risk management internal auditing standards, and financial performance). However, it appears that there are very scanty if any studies that have been carried out in relation to how risk assessment, risk-based planning, risk management and internal auditing standards influence organizational financial performance in Kenya's financial institutions. This necessitated the current study which sought to bridge the aforementioned research gap.

3.0 RESEARCH METHODOLOGY

The study used explanatory research design. The study used stratified random sampling to select respondents from target population comprising of managers of 46 commercial banks, 52 Micro Finance institutions (MFIs) and 200 SACCOs and a sample size of 239 respondents obtained. Data was collected using questionnaires. Descriptive statistics was presented, while inferential statistics was done using Pearson product moment correlation

4.0 RESULTS

4.1 Demographic Information of the Respondents

A total of 279 questionnaires administered to the respondents but only 236 were used in the analysis and this accounted for a response rate of 81.7% which was found to be very good. This agrees with Babbie (1990) that a response rate of over 70% is very good. Although these are rules of thumb that ignore the compounding effect of sampling, measurement, and coverage errors. The demographic information sought from the respondents included; the gender, age, educational level, department worked, duration the firm has been in operation. All these were relevant in establishing the extent to which personal characteristics may influence risk management practices as summarized in table 1. Majority of the respondents involved in the study were male. Of the 236 respondents included in the study, 58.5% (138) were male, while 41.5% (98) were female. This indicates that there was gender disparity in the employees working in financial institutions in Kenya.

Regarding age, the results showed that 30.5% (72) of the respondents were in the age bracket of 35 and 44 years, 29.2% (62) were in the age bracket of 25 and 34 years and 26.3% (62) were in

the age bracket of 45 and 54 years and 8.9% (21) were over the age of 54 years. The findings showed that dominant 64.8% (153) of the tea firms' employees were in their active working age of below 44 years. The academic levels of employees were varied and 61 (25.8%) had diploma qualification, 104 (44.1%) had degree, 64 (27.1%) having masters, 3% had PhD. The findings indicated that majority of the employees had at least a diploma as the highest level of Education and were in good position to perform well during the adoption of risk management practices. During the study 88 of the respondents (37.3%) held the position of credit officers, 49(20.8%) as risk and compliance, 43 (18.2%) from mortgage department and 56(23.7%) from debt recovery. Regarding duration of operation of the financial institution, the results showed that 50.4% had been in operation for between 26 and 30 years', 16.5% between 16 and 20 years', with 11.9% between 11 and 15 years, while10.6% between 6 and 10 years and 7.2% being in operation between 21 and 25 years. The findings showed that most of the financial institutions had been in operation for more than 20 years.

Table 1: Respondents Demographic Characteristics

	Response	Frequency	Percent
Gender	Male	138	58.5
	Female	98	41.5
	Total	236	100.0
Age bracket	18-24 years	12	5.1
	25-34 years	69	29.2
	35-44 years	72	30.5
	45-54 years	62	26.3
	55– 64 years	21	8.9
	Total	236	100.0
Highest level of education	Diploma	61	25.8
	Bachelors	104	44.1
	Masters	64	27.1
	PhD	7	3.0
	Total	236	100.0
Type of department	Credit	88	37.3
	Risk and compliance	49	20.8
	Mortgage	43	18.2
	Debt recovery	56	23.7

	Total	236	100.0
Duration of operation of the institution	0-5 years	8	3.4
	6-10 years	25	10.6
	11-15 years	28	11.9
	16-20 years	39	16.5
	21-25 years	17	7.2
	26-30	119	50.4
	Total	236	100.0

4.2 Financial Institution Background Information

The background Information of financial institution sought from the respondents included; duration the financial institution implemented risk management compliance, nature of activities and size of the firm. All these were relevant control variable in establishing the extent to which risk management practices maybe influenced by size of the firm as summarized in table 2.

Table 2: Financial institution Background Information

	Response	**Frequency**	**Percent**
Duration the financial institution implemented risk management compliance	0-1years	7	3.0
	2- 4 years	56	23.7
	5-7 years	39	16.5
	8-10 years	47	19.9
	11-15 years	37	15.7
	15 years and above	50	21.2
	Total	**236**	**100.0**
Nature of activities	Commercial Banking	109	46.2
	Investment banking	28	11.9
	offshore banking	17	7.2
	Foreign Banking	3	1.3
	Investment (including funds)	9	3.8
	Stock brokers	17	7.2
	Deposit Taking	53	22.5
	Total	**236**	**100.0**
Size of the Firm	Large (Over 40 Bn Assest)	40	16.9

Medium (10-40 Bn)	56	23.7
Small (below 10m)	140	59.3
Total	**236**	**100.0**

Regarding duration the financial institution has implemented risk management compliance, the results showed that 21.2% had implemented risk management compliance for more than 15 years', 19.9% between 8 and 10 years', with 16.5% between 5 and 7 years, while 15.7% between 11 and 15 years. The findings showed that most of the financial institutions had implemented risk management compliance for more than 5 years. This concurs with Hull, (2012) that commercial banking in virtually all countries has been subject to a great deal of regulations. One of the regulations is the minimum capital commercial banks must keep absorbing loss if unexpected things happen. This kind of capital requirement is, in particular, conducted by Basel Committee which aims to enhance the key supervisory issue and improve the quality of banking supervision (Bis.org, 2014).

On the nature of activities the commercial bank 109 (46.2%)of the respondents identify the financial institutions engage in commercial banking activities, 22.5% deposit taking, with 11.9% in investment banking, 7.2% in offshore banking and stock brokers. This indicated that most of the financial institutions engage in banking. On the size of the firm most of the financial institutions 140(59.3%) had a small asset base of below 10 million, with 32.7% being medium sized with 10 to 40 million asset base and 16.9% with large asset base of over 40 billion. This indicates that commercial banks hold deposits, bundling them together as loans and operating payments mechanism.

4.3 Descriptive Statistics of Risk Evaluation

The respondent's views on the risk evaluation were sought and their responses presented in table 3. The findings showed that all the statements representing risk evaluation had a mean score of above 3.78, indicating that the respondents highly rated the variable.

Table 3: Descriptive Statistics of Risk Evaluation

	Mean	Std. Deviation	Skewness	Kurtosis
Our organization identifies and evaluates the risks and decide on precautions	4.3856	1.02710	-2.089	3.998
Controls exist for approving decisions regarding financing alternatives and accounting principles, practices, and methods	4.0890	.88277	-1.560	3.613
The organization record the findings on the risks identified and implement the measures	4.1229	.93499	-1.508	2.968
Auditors understand companies' risk	3.9449	1.02373	-1.233	1.471

Easy to assess risks at the companies	3.7839	1.24794	-.975	.029
Auditor's involvement in risk evaluation process	3.7839	1.05987	-.943	.526
Auditors identify changes in financial performance	3.8178	1.18351	-1.164	.520
Risks are evaluated with assumptions and uncertainties being clearly considered and presented.	3.8814	1.23198	-1.149	.320
Risk is evaluated in terms of both quantitative and qualitative value.	3.9492	1.16215	-1.344	1.147
Risks are subdivided into individual levels for further analysis	3.8729	1.10740	-.978	.371
Mean	**4.0353**	**1.01611**	**1.991**	**19.529**

The overall skewness was 1.99 and kurtosis of 19.53, indicating that the distribution of values deviates from the mean. From the 10 statements used to explaining risk evaluation had an overall mean score of 4.04 indicating that respondents agreed on risk evaluation measures. This agrees with Strutt (2003) that risk analysis is set of stages of systematic assessment which may involve a number of different analyses like establishing acceptable or tolerable levels of risk, evaluation of risks, determine whether the risks are as low as reasonably practicable, and determine risk reduction measures where appropriate. Risk analysis and assessment comprises identification of the outcomes, probability of those outcomes and estimation the magnitude of the consequences. This concurs with Royal Society Study Group (2002) that risk estimation comprises identification of the outcomes and estimation of both the magnitude of the consequences and the probability of those outcomes. The addition of risk evaluation completes the process of risk assessment which is a vital stage in credit risk management. The organizations carry out risk assessment to a great extent.

4.4 Factor Analysis Risk Evaluation

The factor analysis results of risk evaluation, indicated that the KMO was 0.789 and the Bartlett's Test of sphericity was significant ($p<.05$). The Varimax rotated principle component resulted in two factor loading on risk evaluation variable that explained 52.77 % of variance with Eigen values larger than 1 (table 4). Only the risk is evaluated in terms of both quantitative and qualitative value was deleted and the other statements retained, computed and renamed evaluation for further analysis.

Table 4: Factor Analysis of Risk Evaluation Rotated Component Matrix[a]

	Component	
	1	2
Our organization identifies and evaluates the risks and decide on precautions		.524
Controls exist for approving decisions regarding financing alternatives and accounting principles, practices, and methods		.704
The organization record the findings on the risks identified and implement the measures		.758
Auditors understand companies' risk		.627
Easy to assess risks at the companies	.519	
Auditor's involvement in risk evaluation process	.817	
Auditors identify changes in financial performance	.784	
Risks are evaluated with assumptions and uncertainties being clearly considered and presented.	.712	
Risk is evaluated in terms of both quantitative and qualitative value.		
Risks are subdivided into individual levels for further analysis		.707
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	.789	
Bartlett's Test of Sphericity (df-45)	.000	
Total Variance Explained	52.775	

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.
a. Rotation converged in 3 iterations.

4.5 Correlations

Pearson moment correlation was used to describe the relationship between independent and dependent variables, depending on the level of measurement. The relationship between independent variable (risk evaluation) and dependent variable (performance of financial institutions) were investigated using Pearson product-moment correlation coefficient as shown in table 5.

Table 5: Pearson moment correlation Results

	Financial	Evaluation
Financial	1	
Evaluation	.813**	1

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed). c.
Listwise N=236

A positive influence of risk evaluation on performance of financial institutions [r = .813, n =236, p<.05] was obtained. This agrees with Pagach and Warr (2011) that risk evaluation positively influenced the performance of financial institutions. Risk management has moved from the narrow view that focuses on evaluation of risk from a narrow perspective to a holistic, all-encompassing view.

5.0 SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of Findings

The third objective of the study was to establish the effect of risk evaluation on performance of financial institutions in Kenya. There was a positive influence of risk evaluation [r = .813, p<.05] on the performance of financial institutions was obtained. The risk evaluation positively influenced the performance of financial institutions. The risk evaluation had positive relationship with performance of financial institutions (P<0.05). The null hypothesis **H_{O3}** stating that there is no significant effect of risk evaluation on performance of financial institutions was rejected**.** This indicates that for each increase in the risk evaluation**,** there is 0.821 increase in performance of financial institutions.

5.2 Conclusions

The risk management practices (evaluation) had positive relationship with the performance of financial institutions. The risk evaluation management practices highly predicted the performance of financial institutions

5.3 Recommendations

The study has established the importance of ownership structure as a system of corporate governance that significantly moderates the relationship between risk management practices and performance of financial institutions can exploit various risk management practices identification, analysis, evaluation and monitoring should be enhanced so as to bring efficiency in the performance of financial institutions. These may be achieved through establishment and implementation of risk identification, analysis, evaluation and monitoring policy framework which will significantly influence performance of financial institutions and enhance shareholder capabilities to evaluate all risks that can hinder the financial institutions from achieving their set objectives

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