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RESEARCH ARTICLE

The role of Organizational Systems in reducing exposure to financial risks on performance- A Case of Kenya ports authority

Marcelline M. Mwazighe

JOMO KENYATTA UNIVERSITY OF AGRICULTURE AND TECHNOLOGY CBD MOMBASA CAMPUS

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*Corresponding Author

Marcelline M. Mwazighe

Abstract

The success of an entire Organization may rely on managing a broad landscape of exposure to financial risks when carrying out its financial and other business transactions. Organizational systems were adopted in order to design organizations for the purpose of configuring elements or organizations to effectively and efficiently achieve its strategies and deliver intended business, customer and employee outcomes. The systems have been incorporated in many advanced economies like the United States, Europe and Asian continent, later spreading to Latin America and Africa. These systems are basically driven by a business strategy and operating context that requires holistic thinking that includes systems, structures, people, performance measures, processes, culture, and skills that are designed for the future of the organization. The benefits of organizational systems in reducing exposure to financial risks on performance includes the proper use of Information technology, structures, internal control, and communication for the quickest response to security and privacy requirements, overcoming human contact during transactions, minimizing human errors, intervention in internal fraud through software manipulation, in order to save owners costs, increase equity and ability to maximize profits. The researcher sought to carry out its study on KPA, and the rationale behind this investigation was to determine, the role of Organizational Systems in reducing exposure to financial risks on performance.

The Methodology used was both primary and secondary tools of data collection, whereby primary data was collected through self-completion questionnaire which is one of the most effective ways of collecting data. Brymman and Bell (2007). The data would be analyzed using univariate analysis that is analysis of one variable at a time. This kind of analysis provides a frequency table that reports the percentage of each of categories and diagram that is easy to interpret and understand. There is also the use of crosstab and chi square tests as tools for testing the hypothesis. The study reviewed literature on assessing the role of organizational systems on reducing exposure to financial risks on performance concerning, similar research topics. Observation gathered during the research was also incorporated in the findings of the research. The study used both quantitative and qualitative data, to illustrate findings. The target population for the research was forty employees. Lastly the study drew conclusions and recommendations that would contribute to higher success in adopting the purported recommendations.

INTRODUCTION

Acknowledgement

This research has been sponsored by the author who is so grateful to her supervisor Dr Fred Mugambi who guided her through this journal, The citations from other authors enabled the author to complete this article with so much ease, lastly the author thanks the publisher for accepting this journal to be part of other scholars referencing material.

This paper has been purely done for academic purposes and knowledge acquisition through learning from other authors who would want to help many young entrepreneurs and people who are risk takers with the consideration of having more knowledge on reducing financial risks on organizations' that could be encountered on a day to day basis.

The port of Mombasa is possibly the single most important piece of infrastructure in East Africa and has the potential to become the critical transport hub for the region. The port is already the lifeline for most of East Africa's raw material and petroleum product imports. In the next years, East Africa's economies are expected to grow at above 5 percent, which will further increase the flow of goods through East African ports. Over the medium term oil exploration in Uganda is expected to result in a flow of equipment imports and eventually exports of oil and petroleum products, which would all pass through Mombasa. Growing economic activity in southern Sudan would result in additional demands for capacity at Mombasa to handle the raw material imports for an emerging economy. In addition the port has untapped potential to be a transit route for new Kenyan manufacturing exports as two-thirds of the containers bringing imports into the port return empty. The port could also serve as a hub for the transshipment of goods within Eastern and Southern Africa.

The port of Mombasa is operating at full capacity and not very efficiently, with the resulting costs rippling through the economy, affecting manufacturing and other import dependent activities. The situation is particularly acute for container traffic, as the absence of reform and new investment will result in increased vessel delays, port congestion surcharges and higher costs to customers. Moreover the use of IT to speed up clearance procedures and introduce greater transparency to port operations should represent quick and cost-effective solutions to improve efficiency.

An organization is a system that is designed to purposefully configure elements or to effectively and efficiently achieve its strategy and deliver intended business, customer and employee outcomes. Susan,(2003).Organizational systems are driven by a business strategy and operating context which requires holistic thinking that includes systems, structures, people, performance measures, processes, culture, and skills which are designed for the future, not to be undertaken lightly but as a fundamental process and not a repair job. Susan, (2003)

Trantis,(2000) says that, system as it illuminates energizing processes in organizations. These processes include financial transactions that greatly expose the organization's to financial risks hence the boundary's quality of permeability makes it possible for the organizational system to get feedback from its environment and use it for the purposes of developing greater adaptiveness and thus reducing exposure to these financial risks for the sustainability of the organization to its future.

Global concerns about financial exposure to risks on organizations have been increasing since 2009. According to Trantis,(2000) the reason for this is that financial risks, though not a core competency of non-financial firms, also influence their business operations to a large extend. Financial risks exposure can be of different forms, on one hand, there are external exposures to financial risks depending on changes on financial markets or internal exposure of financial risks, where the company itself is the source of those exposures to financial risks.

The International Swaps and Derivatives Association reported that, Ninety-four percent of the world's largest Fortune 500 companies use organizational systems and other management instruments in order to reduce exposure to financial risks (FSA, Financial Services Authority, 2010). However, smaller firms in the global arena will

normally be subjected to more volatile cash flows, more restricted access to capital, and thus, in theory, more reason to look for ways to mitigate in exposure to these financial risks.

System also illuminates and enables processes through the mechanisms that control and measure the relationships and interactions among the organization's subsidiary parts--individuals, groups, departments, and profit centers. It is meant to work in a way that if something affects one part or a level, the system affects all other parts and levels; no single part of the organizational system can be allowed to sub-optimize, or over-achieve, each part must operate in concert with all other parts. Susan, (2003)

Recognizing, identifying and managing financial risks through organizational systems are core to running a successful organization. This becomes even more critical when dealing with foreign investments and diverse clientele where other types of risk enter the frame. Richard Seymour (2011) writes that Africa's exposure to financial risks has been rampant and so need stronger organizational systems to reduce exposure to these risks for a better performance. Rwanda is winning awards and attracting praise all over the world for the strides it has made on this sector.

In 2005, The Central bank of Kenya issued financial risks exposure and management guidelines, and since then, a survey of 43 financial institutions has shown that 95% have created independent risk-management arms, with roles created for chief risk officers seen as essential for effective oversight. This change has been partly driven by foreign banks entering the African markets, but governments and private institutions will take it upon themselves to develop their own organizational systems that will be reducing exposure to financial risks for optimal performance .Simons, (2000)

1.1 Kenya Ports Authority

The history of the Port of Mombasa dates back many centuries when the ocean going Dhows called at the Port of Mombasa Old Port situated on the North side of Mombasa Island. This was during the famous spice trade between East Coast of Africa, the Indian Peninsula, the Arabian Gulf and the Far East KPA Newsletter, (2000)

As trade grew and with the need to open up the interior of East Africa through the construction of the Kenya Uganda Railway line development of fully fledged Port with a deeper and wider harbour became eminent. The development of the modern Port facilities was therefore started at the Kilindini Harbour in 1896 (KPA Newsletter). KPA is a government parastatal which was established through an act of parliament on 20th January 1978 to manage the Port of Mombasa and other scheduled Ports along the Kenyan coastline. (Kenya Laws cap 391 of laws of Kenya). The Port of Mombasa has deep-water berths with quay length of 3044 meters and maximum dredged depth of 13.5 meters. Due to the rapid increase in the container traffic there was a need to extend the container handling facilities up-country as a result two Inland Container Depots were constructed in Nairobi and Kisumu and hence the Procurement division had a role to play, in facilitating and incorporating organizational systems in reducing exposure to financial risks on its performance, that were likely to be encountered during procuring processes, when transacting with customers .The equipment was be used in the ICD's for the smooth running of the organization. KPA newsletter (2001). The core function of KPA is to provide Marine services to ensure access to the sea including navigation aids tugs, pilots & maintenance of channel basin, effective cargo handling services for containers general cargo dry bulk oils and bulk liquid, land based services including railheads, road links and Inland Container Depots, Dockage to ships including military, and bunkering services and dry dock.

2.0 Literature Review

This section reviews the literature by discussing the theoretical frame work of the study and other related literature. It also evaluates the role of Organisational systems in reducing exposure to financial risks on performance, the effects of information technology, functional structures, internal controls, and communication in reducing financial risk on performance and finally the study would draw conclusions on the literature review on organisational systems as a tool in reducing exposure to financial risks on performance, which has a major impact to both investors and customers. Consequently, the other main aim of this literature review is to try and understand what other researchers have written about this topic and appreciate, what fellow researchers have contributed towards the area of study and assess what may need further researching.

2.1 Systems theory

A subset of organizational theory is considered to be systems theory, which includes a series of variations such as von Bertalanffy (1956)'s General Systems Theory, Mulej's Dialectical Systems Theory, Flood and Jackson (1995)'s Critical Systems Thinking, or Beer's (1984, 1985) Viable Systems Theory.

Systems theory opposes reductionism and promotes holism. Rather than reducing an entity (e.g. the human body) to the properties of its parts or elements (e.g. organs or cells), systems theory focuses on the arrangement of and relations between the parts which connect them into a whole. It emphasizes interdependences, interconnectedness and openness as opposed to independence, isolation and closeness. This enables the discovery of emergence, as new attributes of interacting entities that are generated by their analysis as a whole that would not become evident if the parts would be analyzed independently.

Systems theory acknowledges complexity as an attribute of reality and focuses on synergy and the combination analysis and synthesis. Systems theory considers organizations' as systems with relative boundaries which make exchanges with the environment and must adapt to environmental changes in order to survive. They are open systems which interact directly with the environment through inputs and outputs.

2.2 Innovation Diffusion Theory

Organizations are described as a social system, but within organizations, departments or teams can also serve as social systems. Yet the unique issues and elements of departments or teams within a larger organizational context are not addressed in terms of how these boundaries affect the adoption of innovation. For diffusion of innovation theory in organizations, the only system state defined by the theory is what type of decision-making process is in place for adopting and implementing innovations, identified as optional, collective, authority, and contingent innovation-decisions. According to Rogers (2003), the factors which influence the diffusion of an innovation include; relative advantage the extent to which a technology offers improvements over currently available tools, compatibility (its consistency with social practices and norms among its users, complexity its ease of use or learning, trialability the opportunity to try an innovation before committing to use it), and observability (the extent to which the technology's outputs and its gains are clear to see. By analyzing Rogers (2003) diffusion of innovation theory through the lens of the Dubin framework, some gaps in the theory emerge Lundblad and Jennifer, (2003)

2.3 conceptual framework

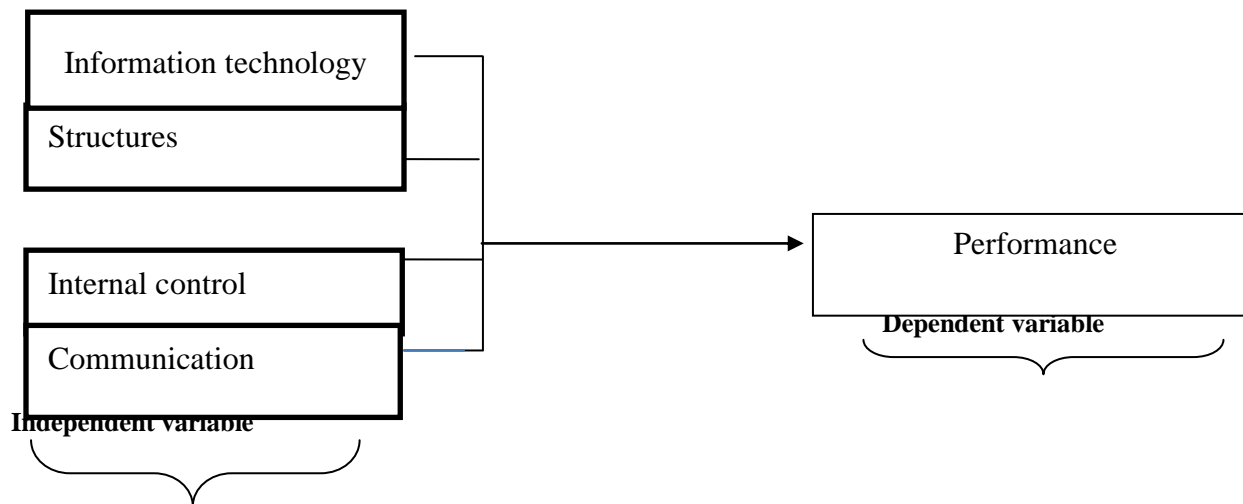


Fig.1.1

source: author

2.3.1 Information technology Information Technology (IT)

Information technology (IT) is another factor that is indicated as a top priority in effective reduction of exposure to financial risks on organizational performance. Organizations are large scaled and it would be difficult for members to communicate and share information without information technology infrastructure (Hasanali, 2002).

Information technology can enable prompt searches, access to and retrieval of data, and support communication in organizations. Most of the financial institutions use the international standards system, methodologies or framework to protect their information. Information technology provides data security according to employee level, limiting a user's access by time, line of business, business activity and individual risk. IT tools collect data used in the past so that companies can learn through experience and avoid repeating mistakes Lundblad and Jennifer, (2003)

Top management is also responsible for controlling and evaluating the risks of IT. IT managers share this responsibility, but the final report will be sent directly to the CEO. IT is related to all aspects of the business processes, including access to a shared infrastructure consisting of knowledge, human assets, core competencies, resource allocation, performance management, project tasking and communication support ,Mutsaers, Zee and Giertz, (1998)

The IT services are that interdependent network that are continuously updated, upgraded and renewed by the ISPs, driven by business requirements. The faster changes in an IT service network is achieved, the better the IT service network can follow the changing business environment. Van Bon et al., (2007). To achieve these changes collaboration between staff of different structural functions and different teams in the ISPs is required. That collaboration is clustered in IT software development processes Van Bon et al., (2007). These (workflow) processes flow within and throughout as part of organizational systems. Hasanali,(2002). argues that agile software development practices need to be structured, for which they develop a soft-structured framework.

Effective reduction to financial risks monitoring requires identifying and measuring all material which are exposed to financial risks. Consequently financial risks monitoring activities must be supported by information systems that would provide senior managers and directors with timely reports on the financial condition, operating performance, and exposure of the whole organization. Rizzi, et al. (2011)

KPA is generally trying to reduce its exposure to financial risks through information technology, its organisational structures, internal control, and communication. These risks are encountered during procurement processes, financial transactions human resources functions when running the staff payroll, and creditors and debtors' management.

The sophistication of IT in reducing exposure to financial risks by integration of financial supply chain management, procurement supply chain management and human resource supply chain management software, has helped the organization in major reduction of consumer complaints, details of transaction patterns, and approval and denial rates between the organization and the and the customers, details for new customers and their resultant to financial risks exposure. Larger, more complicated institutions would expect to have much more comprehensive reporting and effective systems in place that allow for example more frequent reporting, tighter monitoring of complex compliance transactional activities, and the aggregation of the risks on a consolidated basis across all business lines and activities. Rizzi, et al. (2011)

Rashed et al., (2010) ascertains that, empirical research in the supply chains shows that information sharing helps in improving performance Information sharing can be stimulated with (sharing) events. FSCM has tried to integrate and provide business solutions and information visibility which has enabled efficient processes, minimal contact with human which poses as a major factor in exposure to financial risks.

IT tries to reduce these risks by responding to security and privacy requirements, as well as issues such as monitoring and visibility of human activities in the system, detecting human error, internal fraud through software manipulation, external fraud by intruders, obsolesce in applications and machines, reliability issues, mismanagement and of course the effect of natural disasters. These risks are definitely manageable, but it takes a significant amount of skills to do it. Rizzi, et al. (2011)

Greg Hughes, chief strategy officer in Symantec Corp. recently claimed "IT risk management is more than using technology to solve financial risks security problems, with proper planning and broad support, it can give an organization the confidence to innovate, using IT to outdistance its competitors".

2.3.2 Organizational structures

Organizational systems entails the management and implementation of processes that will help in the reduction of exposures to risk by ensuring that the risk management process is applied at all relevant levels and functions of the organization as part of its practices and processes, *risk management*, (2009)

Most people state that their organization changes its guidelines or policies in order to manage exposures to financial risks. Most of the organizations implement changes and review their organizational structure every year. Moreover, Grabowski and Roberts, (2000) suggest that, exposure to financial risks and its management is primarily associated with the fluidity of organizational structures. It is a flexible approach to respond in different ways and respond quickly in the face of changing conditions.

Stank, Daugherty and Gustin (1994) believe that organizational structure involves an organization's internal pattern of relationships, authority and communication. Structure is comprised of formal lines of authority and communication and the information as well as data that flow along these lines. Thus, organizational structure defines the lines of authority and communication, serves to allocate tasks and resources and provides a means of coordination.

Hunter (2002) supports the idea that organizational structure provides the authority to predetermine the way employees work. Structure and processes of an organization are most effective when their design functions match their environment and have a positive impact upon the organization's strategies.

Therefore, one of the most important aspects for effective management of exposure to financial risks is through structures. Structure provides the concept, guideline, direction and support to the employee that is conducted by the steering committee. They design and teach employees to share and use a common vocabulary. The employees work as a team in order to prevent a silo mentality and incorporate resistant employees in the process (Hasanali, 2002). NSW Department of State and Regional Development (2005) believe that setting clear objectives and guidelines is necessary for reducing exposures to financial risks.

The business and financial world is in constant fluctuation. The environmental condition will change and some new things will develop gradually over time, while others may sweep the market quickly. Structure must be reviewed regularly and adjusted to adapt to changing financial environments. The management's role is to recommend policies for managing exposures to financial risks, the committee's role is to respond to review and approve them, and it is the management's role once more to implement them and report back on their operation (Carey, 2001).

Moreover, Grabowski and Roberts (2000) suggest that reducing exposures to financial risks is primarily associated with the fluidity of organizational structures, responding in different ways and responding quickly in the face of changing conditions is a flexible approach.

DeLoach (2004) focuses on enterprise-wide risk management process (EWRM) to manage risks and to create and protect enterprise value. EWRM is built on a well-defined organizational structure. Risk management responsibilities and authorities are assigned to appropriate personnel. They decide what must be done for developing and accessing risk management alternatives and selecting a structural approach to evaluating risk management options. The effectiveness of alternative strategies is balanced within established risk parameters and limits.

2.3.3 Internal Control

According to COSO Guidelines, internal control is defined as "a process, effected by an entity's board of directors, management, and other personnel," but more specifically states that it is: Designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance. (*Internal Control – Integrated Framework*, 33 (Digital Edition).

Established policies, directly or through application of technology help ensure that management's risk responses are carried out. Control activities can be categorized based on the nature of the organization's objectives to which they relate for example operations, reporting, and compliance. Once selected and developed, they support the implementation of risk responses and are deployed through policies and procedures.

Whether preventive or detective, automated or manual or applied at the entity or process level, control activities contribute significant value to the organization if designed and operating effectively.

The Bank Secrecy Act and the USA Patriot Act require programs to be in place for anti-money-laundering, reporting of suspicious activity, large cash transactions, customer identification and more. The Gramm-Leach-Bliley Act requires safeguards for customer information, privacy, and information security. The Sarbanes-Oxley Act requires internal control reviews across most departments, which are a subset of the bank wide risk assessment process. Basel Committee on Banking Supervision, (2006)

An institution internal control structure is critical to the effectiveness of its reduction to exposures to financial risk on organization performance. Establishing and maintaining an effective system of controls, includes the enforcement of official lines of authority and the appropriate separation of duties, is one of the management's more important responsibilities

When properly structured, a system of internal controls promotes effective operations and reliable financial and regulatory reporting, safeguards assets, and helps to ensure compliance with relative laws, regulations and institutional policies. Internal controls should be regularly tested by an independent internal auditor or for smaller or less complex institutions, by personnel independent of the function they are assigned to review.

2.3.4: Communication

Most organizations accept that good communication is extremely important. Different employees have different views and discussion between them is therefore based on different conclusions.

They simply want to get a clear message across and discussion may be an appropriate channel to deliver messages. Other employees may wish that senior management discuss future plans with staff. Internal communication should support business strategy and improve business processes as well as performance Quirke, (2000).

Communication is an important skill for leaders and top-level management. The effective leader or managers who are good at communication can set clear mutual expectations, objectives and goals. Communication ensures that the team members understand and support not only where the team is now but also what they want to be Clutterbuck and Hirst, (2002).

Finniston (2003) said that the gathering, storage, delivery and communication of information in the broadest sense is a growing business. There is an ever-increasing need for communication professionals to ensure that employees are appraised of relevant happenings both inside and outside their organization. A good manager must also be an effective communicator and training in communication must play a larger role in managerial training in the future.

Here, communication is another important consideration for reducing exposure to financial risks. Grabowski and Roberts (2000) claim that communication plays an important role in risk mitigation and risks reduction. It provides opportunities for clarification, for making sense of the organizations progress, and for members to discuss how to improve the organization and the impact of using different risk mitigation, avoidance and risk reduction strategies.

The communication process provides opportunities for members to understand their roles and responsibilities, as the structure of the organization changes. In case, the wide range of people from a broad cross-section of the business. There is involved in the risk identification and assessment process and if there are no "taboo" subjects who prevent conventional wisdom within the organization being challenged when necessary. Financial institutions need to consider the concept of verifiability. If a different group of members were making the same decision about the importance of risks, it would come to the same conclusion (Carey, 2001).

2.3.5 Data presentation, analysis and interpretation

The researcher prepared questionnaires and administered them to the respondents in the Finance division which were fortunately answered and brought back by the forty (40) of them whom were picked as the sample size out of 400 employees in this division

The finance division entailed, Customer service section, Funds control, and financial accounting which in total accounted for the forty employees.

Finance division	percentage %
Customer service	40
Funds control	30
Financial accounting	30
Total	100

Author

Source

2.3.6 Data analysis

The study used quantitative method to collect data and the basic techniques for analyzing quantitative data were examined. There are different kinds of analysis that depend on the relationship between variables. Brymman and Bell, (2007).

The researcher used univariate analysis, which is the analysis of one variable at a given one time. This kind of analysis provides frequency tables that report the percentage of each of categories and diagram that are easy to interpret and understand. All of number and percentage are produced with SPSS .we tested our hypothesis using cross tabs and chi square tools

2.3.7 Reliability and Validity

Reliability is concerned with the question of whether or not a result is stable (Bryman and Bell,(2007). The idea of reliability is important for measuring so that we can produce consistent results.

Validity is concerned with “the integrity of the conclusions that are generated from a piece of research” (Bryman and Bell,(2007). The process of survey, the questionnaire was pilot tested to assess whether the questions were easily understood so that the right information was gathered pilot to ensure the questionnaire is understandable and acceptable. Therefore, this research can be safely said to be highly valid.

The number of male workers to female workers in the finance division was 70% to 30 % respectively, this was a clear indicator that most men would prefer math subjects to female counterparts hence the upper hand in knowledge and skills in this sect, though in the customer service section it is highly populated with female employees who could easily solve problems that are customer oriented whether internal or external and are resulted from exposure to financial risks cause by human errors or system failures.

The researcher found out that 80 % of the respondents strongly agreed that Communication is an important skill for leaders and top-level management. The effective leaders or managers who are good at communication can set clear mutual expectations, objectives and goals. Communication ensures that the team members understand and support not only where the team is now, but also what they want to be in the future (Clutterbuck and Hirst, 2002). The communication process provides opportunities for members to understand their roles and responsibilities as the structure of the organization changes. Financial institutions need to consider the concept of verifiability, which if a different group of members were making the same decision about the importance of organizational systems in reducing exposure to financial risks on performance then it should come up with the same conclusion. Carey,(2001). By virtue of professionalism and reliability 75 % of employees working in finance division strongly agreed that information technology if properly handled could stand alone as a competitive strategy for an organization to help it in its future sustainability in the most competitive business arena, hence Where transactions are handled by a computer system many essential checks can be provided for in a program. Error reports are then printed out by the computer and it is important that these reports are acted upon with due care. It is also important to ensure that computer checks are not being duplicated since this would enhance efficiency and performance and hence reduce financial risks exposure in an organisation.30% of the employees in this division disagreed that structures play a major role in reducing exposures to financial risks since their argument was that as a result of empowerment from top managers everyone got involved and so financial risks exposures that resulted from human error or fraud or deliberate and malicious practises would easily happen. More so 65% of employees in funds control agreed that internal controls if properly structured, promoted effective operations and reliable financial and regulatory reporting, safeguarding assets, and helped to ensure compliance with relevant laws, regulations, and institutional policies *Risk Management Guidelines for Banks and Financial Institutions,(2010)*

4.0. Conclusion

According to the uncertainty of conditions, all industries are facing a large number of exposures to financial risks. For this reason, the Operational oriented businesses like KPA should emphasize on organizational systems in reducing exposure to financial risk on performance through;

(1). A framework of reducing exposures to financial risk and risk management is derived from Standards Australia and Standards New Zealand (2004) and the International Organization for Standardization (ISO/DIS 31000, 2008).
 (2). This research, studied some critical success factors that were necessary for effective organizational systems on reducing exposure to financial risks on organizational performance. A set of these factors were studied. Those factors discussed to answer the research questions are;

- Information Technology
- Functional structures.
- Internal Controls
- Communication

These four factors can enhance the role of organizational systems in reducing exposure to financial risks on performance in KPA.

5.0. Recommendations

An organizational system played a big role in reducing exposure to financial risks on performance. The objective of risk reduction is not to prevent the risk totally but to contain it to an acceptable level.

Before considering which methods are more appropriate in reducing exposure to financial risks on performance, the organization will firmly need to consider the adequacy and appropriateness of any existing controls.

(1) Risks Reduction

The objective is not to prevent the risks totally but contain it to an acceptable level.

(2) Risk reduction strategies

Risk reduction strategies aim to minimize the frequency and the severity of negative impacts of exposures to financial risks. An example of risk reduction strategy is the preparation of contingency plans to expedite recovery from losses.

(3). Training

Carey (2001) shows that the ability to respond to changing conditions in an organization's operations relates to a range of activities including the development of risk training courses and the involvement of staff in responding to early warning systems.

NSW Department of State and Regional Development, (2005), suggest that reduction of exposure to financial risks in organizations has become a part of good business practice and should include training of staff appropriately. The main reason for an education and training program is not only to ensure that members are comfortable with the system, but also to increase their expertise and knowledge. Training not only uses the new system, but also new processes and understands the integration within the system – how the work of one employee influences the work of others.

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