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Examining Impact of Formal Training on Risk Management Approaches in Commercial Banking: with Special Reference to Guyana's Commercial Banking Sector

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Abstract

For optimal financial stability, regulatory compliance, and operational resilience, commercial banks must manage risks effectively. This research looks at risk management practices in commercial banking, with a particular emphasis on Guyana, drawing on Enterprise Risk Management (ERM) framework, Contingency Theory, Institutional Theory, and the Resource-Based View (RBV) theory to build a construct on which the findings could be explored. A quantitative study design was employed to examine the effects of formal risk management training on banking personnel' views of risk effectiveness. The results show a significant connection between training and risk management efficacy, stressing the importance of ongoing professional development, specifically, in the discipline of risk management. The findings offer policymakers and banking institutions valuable insights into how to improve risk management techniques.

Keywords: *Contingency Theory, Credit Risk, Enterprise Risk Management, Financial Risk, Institutional Theory, Operational Risk, Resource - Based View.*

Introduction

Risk management is an important practice in the commercial banking sector. It ensures compliance with financial regulations, prudent strategic decisions, and financial stability for banks within the system, and by extension the economy. The development of risk management practices in banking is shaped by several theoretical constructs, including Resource-Based View (RBV), Contingency Theory, Institutional Theory, and most importantly Enterprise Risk Management (ERM). Each of these theoretical constructs offer a unique insight into how banks should hone their risk management practices, as individual institutions, and across the wider industry [6, 21, 2]. The ERM framework speaks to an approach to managing risk that focuses on aligning banks appetite for risk with their key strategic objectives. [20].

Contingency Theory brings to light the need for adaptable approach to managing risk in line with the changing nature of organizational and regulatory frameworks [17]. While Institutional Theory emphasizes the role of internal norms, values, and regulatory expectations in shaping risk management practices [21]. The Resource-Based View provides the impetus for understanding how in practice commercial banks can leverage their resources to manage and mitigate risk. [10].

Literature Review

Four theories underpin practical approaches to effective operational risk management in the banking sector – Enterprise Risk Management framework, Contingency Theory, institutional

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theory, and Resource View (RBV) theory. These theories are relevant to providing academic grounding and understanding of the issue explored in this study.

Enterprise Risk Management (ERM) Framework

According to [6], Enterprise Risk Management (ERM), unlike the more traditional risk management approaches, adopts an integrated strategic approach to managing Risk, whereby Risks are identified and managed at the level of the enterprise rather than within individual departments [20]. From a commercial banking perspective, this approach to risk management ensures organizational objectives for risk mitigation and risk appetite are aligned with their respective risk management strategies. This highlights the importance of the Enterprise Risk Management framework as an essential aspect of banks' risk management approach, especially given the interconnected nature of the Risk they must manage as part of their operations [18]. On the other hand, while ERM provides a holistic approach to managing risks in banking there are several inherent limitations from theoretical and practical perspectives. Research also [11] highlights the complexities of implementing Enterprise Risk Management practices in institutions. For banking institutions, these challenges include coordination of understanding practice, including robust compliance, across departments and branches [18].

Contingency Theory

According to [22], "contingency theories posit that good management will look different based on situational variables" (p. 201). The interpretation here is that contingency theory is premised on the notion that there is no one best approach to managing Risk, especially, in the commercial banking sector. As a result, risk management strategies must be designed to address specific organizational contexts [17].

Commercial banks operate in highly regulated environments [5]. As a result, the application of contingency theory within the realm of effective risk management is premised on banks' capacity to adjust their risk management strategies and practices to adhere to local and international regulations. Commercial banks in Guyana must often navigate regulatory hurdles different from those of their global counterparts; as a result, it would be expected that their approach to risk management, while aligning with best practice international standards, must be designed to adhere to local regulations. Equally, outside or navigating regulatory pressures, contingency theory provides the impetus for banks to implement and, where necessary, adjust strategies related to the adaptation of technology, improving technology infrastructure, changing market dynamics, and leadership [17].

Institutional Theory

According to [13], institutional theory posits that organizations are influenced by internal dynamics such as values and norms that determine how they respond to external dynamics in the sectors in which they are positioned [21]. More specifically, an essential characteristic of the institutional theory of organization is its ability to provide an alternate explanation of concerns about the structure and design of organizations in all sectors. The emphasis on legitimacy, unquestioned beliefs, and stakeholders offers a comprehensive and integrated perspective on organizations' operations [21].

Equally, organizations are constrained by their local manifestations as defined by their respective cultures and, ultimately, by how their internal stakeholders are often characterized as excessively basic. Institutional theory, however, offers a compelling argument for why organizations behave the way they do, especially concerning the strategies and tact they adopt to navigate or guard against industry-related challenges [13, 17].

Regarding the baking sector, this theory helps develop an understanding of commercial banks' approach to managing risks. It also helps to understand banking practices from a risk management perspective concerning strategies they employ to navigate a financial sector which is heavily regulated [17].

Resource Based View (RBV) Theory

The Resource-Based View theory is premised on the understanding that organizations can use their resources and capabilities to ensure their competitive advantage and, by extension, their positions in the industry in which they are positioned [2]. The salient concept that underlines the Resource Based View theory is that organizations have resources with VRIN characteristics; that is, these resources are valuable, rare, inimitable, and non-substitutable (VRIN), as these resources are the foundation for sustained competitive advantage [10].

Applying RBV's theoretical perspective to the banking sector, examples of intangible resources would include financial capital, technology infrastructure, fixed assets and other tangible resources they own. Equally, intangible resources would consist of banks' reputation, goodwill, and customer relationships they secure because of their efficiency in offering their products and services [25]. Capabilities include managing risks effectively and developing and delivering innovative products and services to customers [23]. Equally, banks, especially those at the top of the industry, possess capacities and resources, such as expertise, corporate culture, and strategic locations that are difficult for competitors to replicate [23].

Overall, the four theoretical perspectives provide critical lenses for examining how commercial banks can leverage risk management strategies to strengthen their operations effectively and, by extension, the industry.

Methodology

This study employed a quantitative research design which takes into consideration a combination of descriptive, and inferential approaches [9, 12]. Additionally, a non-probability purposeful census sampling was employed. According to [26] this method of is a technique where the sample collection process allows all individuals within the population an equal chance of selection for a study. This sample design is appropriate since it ensured that the participants selected have relevant experience and insights into risk management policies and practices, thereby adhering to the purpose of the technique. Another essential consideration in sampling design is the sample frame [26, 9]. In this case, the sample frame consists of the population of Credit Officers, Senior Supervisors, Credit Managers, and Risk Managers – all 40 senior bank managers from the six (6) commercial banks operating in Guyana. A 20 items Likert scale questionnaire was developed and distributed to participants to gather data and measure their perceptions of commercial banks approaches to managing risk. It was also important to secure informed consent from participants [1]. assuring them of confidentiality, no risk, and their rights in the research process. The following questions were addressed:

1. How does formal training in risk management influence respondents' perceptions of the effectiveness of their bank's operational risk management practices?
2. What is the relationship between formal training in risk management and respondents' perceptions of the effectiveness of their bank's financial risk management practices?
3. To what extent does receiving formal training in risk management impact

perceptions of the effectiveness of credit risk management practices in banks?

Results

This analysis explores the relationship between whether respondents have received formal training in risk management and their ratings of the effectiveness of their bank's operational risk management practices. The Kendall's tau-b correlation coefficient of 0.359 indicates a moderate positive relationship. This suggests that respondents who have received formal training in risk management are more likely to perceive their bank's operational risk management practices as effective.

The p-value (Sig. 2-tailed) is 0.020, which is below the 0.05 threshold for statistical significance. This indicates that the observed relationship is statistically significant and unlikely to have occurred by chance. The moderate positive correlation supports the conclusion that formal training in risk management may contribute to more favourable perceptions of operational risk management effectiveness. The results highlight the potential value of formal training in equipping individuals with the knowledge and skills to evaluate and potentially enhance risk management practices.

The findings also reveal a statistically significant moderate positive correlation between receiving formal training in risk management and perceptions of the effectiveness of operational risk management practices. This emphasizes the importance of formal training programs in improving both the competencies of professionals and their confidence in risk management practices.

Table 1. Non-Parametric Correlation Between Formal Training in Risk Management and Perceived Effectiveness of Operational Risk Management Practices

Variables	**Received Formal Training in Risk Management**	**Effectiveness of Operational Risk Management Practices**
Kendall's tau-b Correlation Coefficient	1.000	0.359*
Significance (2-tailed)	-	0.020
Sample Size (N)	40	40

Note: **Correlation is significant at the 0.05 level (2-tailed).*

The study also investigates the relationship between respondents having formal training in risk management and their perceptions of the effectiveness of their bank's financial risk management practices. The Kendall's tau-b correlation coefficient is 0.309, indicating a moderate positive relationship. This suggests that individuals with formal training in risk management tend to perceive their bank's financial risk management practices as more effective. The p-value (Sig. 2-tailed) is 0.047, which is below the 0.05 threshold for statistical significance. This indicates that the relationship is statistically significant and unlikely to be due to random chance. The moderate positive correlation implies that formal training in risk management could positively influence how respondents evaluate the effectiveness of financial risk management. Equally, the findings demonstrate a statistically significant moderate positive correlation between formal training in risk management and perceptions of the effectiveness of financial risk management practices. This highlights the value of formal training in equipping professionals to evaluate and contribute to the effectiveness of risk management strategies.

Table 2. Correlation Between Formal Training in Risk Management and Perceived Effectiveness of Financial Risk Management Practices

Variables	Received Formal Training in Risk Management	Effectiveness of Financial Risk Management Practices
Kendall's tau-b Correlation Coefficient	1.000	0.309*
Significance (2-tailed)	-	0.047
Sample Size (N)	40	40

Note: **Correlation is significant at the 0.05 level (2-tailed).*

The analysis explores the relationship between receiving formal training in risk management and perceptions of the effectiveness of credit risk management practices. The Kendall's tau-b correlation coefficient of 0.334 indicates a moderate positive relationship. This suggests that individuals who have undergone formal training in risk management are more likely to perceive their bank's credit risk management practices as effective. The p-value (Sig. 2-tailed) is 0.032, which is below the 0.05 threshold for statistical significance. This indicates that the relationship is statistically significant, meaning there is a reliable association between formal training and perceived effectiveness of credit risk management practices. The significance level supports the conclusion that training may positively influence perceptions of credit risk management effectiveness. These results emphasize the role of formal training in enhancing confidence and capability in assessing credit risk management practices.

The findings reveal a statistically significant moderate positive correlation between receiving formal training in risk management and perceptions of the effectiveness of credit risk management practices. This underscores the value of formal training in equipping professionals with the skills and knowledge necessary for effective risk management.

Table 3. Correlation Between Formal Training in Risk Management and Perceived Effectiveness of Credit Risk Management Practices

Variables	Received Formal Training in Risk Management	Effectiveness of Credit Risk Management Practices
Kendall's tau-b Correlation Coefficient	1.000	0.334*
Significance (2-tailed)	-	0.032
Sample Size (N)	40	40

*****Note****: Correlation is significant at the 0.05 level (2-tailed).*

The findings indicate relationships of varying strength between educational attainment, formal training, and perceived effectiveness of risk management practices. Educational attainment showed a moderate positive and statistically significant correlation with perceptions of credit risk management effectiveness, suggesting that higher education is associated with greater confidence in managing specialized and complex risks. However, the weak and statistically non-significant correlations for operational and financial risk management imply that education alone may not strongly shape perceptions in these areas. This suggests that while education provides foundational knowledge, other factors, such as specific training or practical experience, may play a more prominent role in influencing perceptions of effectiveness in operational and financial risk management.

Overall, formal training demonstrated statistically significant moderate positive correlations with perceived effectiveness across all three types of risk management—operational, financial, and credit. These results emphasize the critical role of targeted training programs in shaping professionals' confidence and perceptions of their ability to effectively manage risks. The strong relationship between training and perceived effectiveness highlights that training initiatives are not only essential for competency building but also for fostering trust in the bank’s risk management frameworks.

Discussion

The findings are consistent with the theoretical perspectives discusses in the literature review, emphasizing the strategic importance of Enterprise Risk Management (ERM) in financial institutions [20, 6, 19]. Equally, according to the Resource-Based View (RBV) investing in staff training and development strengthens organizations' internal capacities, establishing risk management as a strategic asset that delivers a competitive advantage [2, 25].

Contingency Theory, posits that the efficacy of training programs is determined by the unique hazards and organizational environment, highlighting the necessity for adaptable and situationally relevant learning methodologies [22]. This is also emphasized by institutional theory [13] which emphasizes the necessity of integrating training activities with regulatory requirements and industry standards, since compliance-driven expectations influence risk management practices. Taken together these theoretical perspectives providers the academic substantiation on which commercial banks can draw to develop robust context specific, flexible risk management practices [15].

The findings also have several implications for practice. First, while education contributes to perceptions of effectiveness, its impact may vary depending on the type of risk being managed. For operational and financial risks, practical and hands-on approaches, such as workshops or scenario-based learning, may be more effective in complementing formal education [14]. Second, the strong association between formal training and perceived effectiveness underscores the importance of continued investment in comprehensive training programs. Banks should prioritize regular, tailored training sessions that address specific risk categories and align with emerging industry trends.

Third, given the significant correlation between training and effectiveness, banks should integrate professional development into their broader risk management [24]. This could include creating career development pathways tied to training achievements to enhance overall risk management capacity. Lastly, the lack of significant relationships for operational and financial risk management suggests that future research should explore additional factors, such as team dynamics, organizational culture, or external regulatory influences, to gain a deeper understanding of what shapes perceptions of effectiveness in these areas.

Conclusion

This study emphasizes the importance of formal training to improving the efficacy of risk management in Guyana's commercial banks. The results show that while those managers who received training have a grasp of risk management concepts, improving their perceptions of effectiveness especially in operational and financial risk management required a more competency-based approach to training. Considering the statistically significant correlation between training and perceived effectiveness, commercial banks ought to prioritize ongoing professional development and ensure that training programs are aligned with industry regulations and emerging risks. Future research should investigate other factors, including organizational culture and regulatory influences, to enhance understanding of the determinants of effective risk management in the banking sector.

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Conflict of Interest

The author has no conflict of interest related to this published article.

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