OPERATIONAL RISK MANAGEMENT AND COMPETITIVE ADVANTAGE IN THE GHANAIAN BANKING INDUSTRY: A CASE STUDY OF ECOBANK GHANA LIMITED

By

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(B.ed Foundations)

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DECLARATION

I hereby declare that this submission is my own work towards the Master of Business Administration (MBA) Finance option and that, to the best of my knowledge, it contains no material previously published by another person nor material which has been accepted for the award of any other degree of the University, except where due acknowledgement has been made in the text.

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DEDICATION

This work is dedicated to my mother, Mrs. Agnes Owusu, my father, Mr. Isaac K. Owusu, also to my uncle, Mr. Michael Pascal Afrifa and his wife Mrs. Grace Ahenkorah Afrifa for your patience, encouragement and emotional support.

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ABSTRACT

The Banking industry today is characterized by intense rivalry coupled with rapid changes in customer expectations, increasing regulatory requirements, technological innovation. Failures in processing activities as a result of human errors, fraud and system failures bring significant losses to banks and these losses are key sources of operational risk. In view of the rising competition within the industry in respect of customer satisfaction and retention, corporate reputation and reward maximization, there is the need for banks to critically align business objectives with risk and control information to enhance operational performance, reduce cost in order to achieve the competitive advantage. The study focuses on how operational risk management and competitive advantage in the Ghanaian banking industry; a case study of Ecobank Ghana Limited. Interviews were conducted at various branches of Ecobank. The findings of the study indicated the components of operational risk and various strategies used to mitigate these risks, it reveals that Ecobank are realizing the significance and importance of operational risk management as a tool for gaining competitive advantage, it also reveals challenges encountered in managing operational risks and strategies utilized to curb challenges posed by operational risk. It is therefore recommended that Banks must link their operational risk management activities to their business objectives and identify the potential hurdles that hinder their competiveness; Operational risk management is the responsibility of all staff including the Board of Directors and management and as such awareness must be created on the need to identify, evaluate, monitor, control and report operational risk issues in accordance with the strategies and policies of banks in ensuring the adequacy of capital against operational risk.

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LIST OF ABBREVIATIONS

ADB	Agricultural Development Bank
ATM	Automated teller Machine
BBA	British Bankers' Association
BOG	Bank of Ghana
CCTV	Closed Circuit Television
CIMG	Chartered Institute of Marketing
ECOWAS	Economic Community of West African States
EBG	Ecobank Ghana Limited
ERM	Enterprise Risk Management
ETI	Ecobank Transnational Incorporated
FAMBL	Financial Atlantic Merchant Bank Ghana Limited
HSBC	Hong Kong and Shanghai Banking Corporation
HEFCE	Higher Education Funding Council for England
KYC	Know - Your – Customer
PWC	Price Water Coopers
RCSA	Risk and Control Self-Assessment

RMA	Risk Management Association
RM	Risk Management
TTB	The Trust Bank
UBS	Union Bank of Switzerland
WTC	World Trade Center

CHAPTER ONE INTRODUCTION

1.1 Background to the study

Banks have become integral parts of human lives all over the world of which Ghana is no exception. Banks propose a wide variety of services to their respective customers. The banking sector is one the most competitive avenues in the service industry. The Ghanaian banking industry is a very competitive corporate environment just like their counterparts elsewhere on the globe. The segment has experienced real change and keeps on enhancing with new regulations and rules looking to look after dependability. This has made the sector more all-around sorted out, creative, aggressive and financially savvy. The transformation of the industry has resulted in an emergence of technologically innovative products and services. Banks have employed these innovative products and services in their operations so as to provide customers with easy accessibility (Koomson, 2011)

Ghana has 27 banks and several micro finance institutions offering similar services to the Ghanaian customer thereby making the competition even tougher. At the dawn of this intense competition banks employ diverse techniques in their operations in an attempt to leapfrog one another in the industry. These techniques however come with a lot of inherent risk issues resulting from human errors, fraudulent activities and failure in bank systems and processes. Banks however, have the least tolerance for risk due to the fact that they ride on people's money.

According Kanchu & Kumar (2013) risk is characterized as anything that can create hindrances in the means for achievement of specific targets. It can be a result of either internal factors or external factors; contingent on the kind of risk that exists within of a specific circumstance. Hence a superior method for managing such a circumstance; is to take certain proactive measures to find any sort of risk that can bring about undesirable results. The idea of risk management was initially brought into business strategy in 1916 by Henry Fayol. However, it just got to be formalized after Russell Gallagher (1956 referred to Dima and Orzea, n.d) published "Risk Management: A New Phase of Cost Control" in the Harvard Business review and argued that "the professional insurance manager should be a risk manager". Risk Management is a procedure that is used in identifying, analyzing and then responding to a particular risk. It is a strategy that is continuous in nature and a helpful tool in decision making process according the researchers. As indicated by the Higher Education Funding Council for England (HEFCE), Risk Management is not simply used to guarantee the decrease of the likelihood of dreadful happenings yet it additionally covers the increment in likeliness of good happenings. The procedure includes: identification, measurement, and management of the risks. A model called "Prospect Theory" expresses that a person is more prone to take on the risk than to suffer a sure loss.

Even though banks in the operations encounter a lot of risks such as credit, legal, reputational, operational etc., the focus of this paper operational risk. The Basel Accord (2007) describes operational risk as direct or indirect losses coming about because of insufficient or failed internal procedures, systems and people or from external events.

Reporting frameworks, malfunctions of the information systems, internal monitoring policies and internal procedures intended to take convenient remedial actions, or the compliance with the internal risk policy guidelines brings about operational risks (Bessis, 2010).

Their preposition is in the direction that among of the various types risks in the banking industry operational risk is the foremost risk bank managements must pay particular attention to in order to have a competitive advantage over others since customers want to put their money in the safest hands. Operational risk is not new. Actually, it ought to be the preeminent risk that banks should oversee, even prior to executing their first trade or making their first loan. What is new is the way to go that operational risk management is a discipline with its own management structure, tools, and procedures, much like market or credit risk. As part of the revision of the Basel Capital Accord, the regulators have introduced a risk-based capital requirement purposely for operational risk indicating how significant the practice is for the survival of the industry. It is in this light that the Bank of Ghana (BOG) issued a regulation to all banks to be fully compliant with the Basel II directive of setting aside a portion of their capital to address operational risk issues that may occur (Koomson, 2011). A deadline was set in 2012 for compliance.

The control of operational risk is fundamentally concerned with great administration, which includes a firm procedure of carefulness and continuous improvement. This is a value-adding activity that affects, either specifically or in a roundabout way, on bottomline performance. Operational risk management activities secure and improve investors' worth.

Senior managers overviewed most realize that much of the time referred to enhanced shareholder worth as an essential advantage of operational risk management (PWC, 2009). Additionally, they cited that internal understanding to operational risk helps protect reputation and lowers operational losses and events. Respondent were of the view that a well-organized operational risk management can add value by enhancing competitive advantage and lessening losses from extensive events that can jeopardize financial status.

Risk management ought to be a constant and developing procedure which keeps running all through the institution's approach and the execution of that approach.

Against this background, this study seeks to explore the various techniques and practices Ecobank bank, one of Ghana renowned banks employs in operational risk management and how this helps them survive in the fiercely competitive Ghanaian banking industry.

1.2 Problem Statement

Kumah et al (2014) are of the view Ghana has seen tremendous foreign direct investments in the banking industry in the last couple of years. This has increased the asset base of the banking industry and positioned Ghana to take advantage of modern banking style. With the improvement in the macroeconomic environment such as, a drop in interest rates and a relatively stable inflation, banking in Ghana has become increasingly competitive institution (Kumah et al, 2014). They added that banks are investing in innovation, product development and information technology infrastructure to stay on top of competition.

Banks are also diversifying their investment portfolios from short-term risk free government securities to often long term risky investments such as retail and corporate loans, mortgage financing and asset leasing. Notwithstanding the above expressed conditions the eventual outcomes of the global financial recessions keep on resonating through corporate meeting rooms, bringing risk management into keener core interest. In the year 2009, "What Directors Think" study led by PricewaterhouseCoopers (PWC) and Corporate Board Member magazine, risk management was plainly of primary concern to directors. What keeps directors up at night? In the survey, 60% of 1,021 respondents said unknown risks represent the most challenge they face as directors. It does not shock anyone, that risk management justifies the most attention from the board: 64 % of directors positioned it the most elevated need after the board's center mission of profitability and shareholder esteem. 66% predetermined they might want to invest more energy in risk management this year than in past years. Operational risk is hence seen as a most imperative test today and is depicted as "life debilitating" in the banking industry. Operational risk losses have regularly prompted the breakdown of numerous financial institutions. Taking after serious operational failures bringing about the restructuring of the affected financial institutions (e.g. NatWest, Allied Irish Bank, LTCM) or in the sale of the entity (e.g. Barings), the accentuation on operational risk within banks has expanded, driving regulators, auditors, and rating organizations to extend their focus to incorporate operational risks as a separate entity other than market and credit risk (Helbok and Wagner, 2006). Even though operational risk management has received global attention in recent time, literatures on the subject matter remain scanty. The researcher therefore finds it meaningful to fill such a gap in the context by investigating operational risk management in the Ghanaian banking industry, precisely Ecobank Ghana Limited.

1.3 Objectives of the Study

The key aim of the study is to identify how relevant operational risk management practices are to the banking industry and whether operational risk management can be a source of competitive advantage within the industry however, the specific objectives include;

1. To identify and examine the constituents/components of operational risk in Ecobank Ltd.
2. To assess how operational risk management has served as a source of competitive advantage to Ecobank Ltd.
3. To analyze challenges faced in managing the various components/constituents of operational risk.

1.4 Research Questions

1. What are the constituents/components of operational risk at Ecobank Ltd?
2. How does operational risk management serve as a source of competitive advantage to Ecobank Ltd?
3. What are the challenges faced in managing the various components/constituents of operational risk at Ecobank Ltd?

1.5 Significance of the Study

The significance of the study can be assessed in three different spectrums namely research, practice and policy.

With regards to research, the findings of the study seeks to add to the body of knowledge in the field of academia and specifically concerning issues with operational risk management in the banking industry in Ghana. This is due to the fact that operational risk management has not really been explored as a subject of study Ghana. This therefore stirs up interest on the subject matter for further research to be conducted in the near future.

The study also seeks to inform policy makers and stakeholders on the need to employ operational risk management effectiveness as key strategy for attaining organizational effectiveness through competitive advantage in the ever evolving Ghanaian banking industry. This stems from the fact operational risk management could be a key indicator that has the tendency of giving organizations a competitive edge over their counterparts. The findings of the study with respect practice, seeks to give evidence of how operational risk management impact on competitive advantage in the banking industry. This assessment provides much room for exploring further to come up with strategies that enhance the practice in the Ghanaian banking industry. Chalking the essence of operational risk management in the banking industry, could give it more gravitas to explore other industries to get concurrent evidence of how the practice serve as a key indicator in enhancing organizational effectiveness with respect to practicality.

1.6 Scope of Study

The study shall concentrate on Ecobank Ghana Ltd. one of the leading banks in the Ghanaian banking industry.

1.7 Limitations of study

Per the scope of the study, it would be pretty much difficult if not impossible to generalize the findings of the study to other organizations beyond the borders of the chosen bank for the study. This stems from the fact that operational risk management practices yielding profits for Ecobank Ghana might not apply to other banks let alone other companies outside the banking industry due to structural differences that might exist.

1.8 Organization of the Study

The study shall be organized into five chapters. Chapter one shall be comprised the background of the study, problem statement, aims of the study, research questions, significance of the study and additionally scope and limitation of the study. Chapter two shall constitute the literature review by providing theories related to the construct under study and review of related studies to the topic under study shall likewise be made accessible here. Chapter three shall embody of methodology and case study profile by giving the research design, population, sample size, sampling technique, materials for data collections, procedure involved in data collection as well as ethical considerations guiding the study and profile of Ecobank. Chapter four of the study shall constitute the analysis of data gathered for the study by using the Thematic Content Analysis and discussion of findings. Data shall be analyzed and interpreted regarding the aims and objectives of the study. Chapter five shall comprise of summary of the findings, conclusion and recommendations for the study as well as recommendations for further studies.

CHAPTER TWO LITERATURE REVIEW

2.0 INTRODUCTION

This chapter is a review of literature on risk management in the banking sector banking with special reference to operational risk management. It talks about risk management issues from diverse observations, with the perspective of giving a hypothetical foundation to the study. It starts with an elucidation on risk management, sought after by assessment of writing on the rationales and kinds of risk management activities and in addition the types of risk that the bank face.

2.1 AN OVERVIEW OF RISK

Willet mentioned in Ale, 2009, defined risk as "the objectified uncertainty concerning the occurrence of an undesired event". According to Tchankova (2002) expressed that risk is an innate part of business and public life. Dynamic market relations always expand the uncertainty of the environment where business and public organization work. In the words of Ewald (1991), "Nothing is a risk in itself; there is no risk in reality. But on the other hand anything can be a risk; it all depends on how one analyses the danger, consider the event". Risk is innate in any walk of life and can be associated with every human decision-making action of which the consequences are uncertain. Risk is that portion of return resulting from surprises of any investment. If we always receive precisely what we expect, then the investment is perfectly predictable and by definition risk-free, (Ross et. al., 2001).

2.2 SOME KEY RISKS IN THE BANKING SECTOR

Banking is the intermediation between those with the money and those looking for funds to bring their business ideas to reality (Koomson, 2011; Kanchu and Kumar, 2013). Thusly, over the span of offering financial services, banks expect different types of risk (both financial and non-financial). Besides this risk inalienable to provide of services shifts from one service or product to the other.

These risk have been arranged by different authors in various approaches to add to the structures for their analysis however the basic ones which are measured in this study are credit risk, market risks (which incorporates foreign exchange risk, interest rate risk, liquidity risk), operational risks (which now and again contain legal risk, and all the more as of late, strategic risk) and reputational risk. All of the above can again be categorized into two broad categories namely; Financial risks and Non-financial risks. Below is a brief discussion of the various types of risk encountered by banks in their operations.

2.2.1 Credit Risk

As indicated by Kanchu and Kumar (2013), credit risk is the likelihood that a bank borrower/counter party fails to meet the commitments on concurred terms. Innate to banking, credit risk implies that installments may be past due or not made by any stretch of the imagination, which can bring about cash flow issues and influence a bank's ability to meet its liquidity problems (Young and Theodore, 2003). Over 70% of a bank's balance sheet for the most part identifies with credit risk and consequently saw it as the chief reason for potential losses and bank failures (Young and Theodore, 2003). The issue is that banks have a similar point of interest in making advances/loans to entities with whom they have a continuous relationship, consequently making extreme focuses in geographic and industrial sectors.

2.2.2 Market Risks

In the expressions of (Elmer FunkeKupper; referred to in Koomson, 2011), Market Risk is characterized as the risk to profit emerging from changes in principal economic factors, for example, exchange rates or interest rates, or from fluctuations in bond, commodity prices. Market risk is by and large measured as the risk that the value of a portfolio will reduce because of the adjustment in value of the market risk factors. There are three basic market risk factors to banks and these are liquidity, foreign exchange rates and interest rates risk. Market risk management gives an expansive structure to measuring, observing and managing liquidity, foreign exchange rate, interest trade and equity and additionally commodity price risk of a bank that should be firmly incorporated with the bank's business system and strategy

2.2.3 Liquidity Risk

Greuning and Bratanovic (2009) suggested that a bank confronts liquidity risk once it doesn't have the ability to productively suit the redemption of deposits and other liabilities and to cover funding increments in the advance and investment portfolio. The Basel Committee on Bank Supervision, in its June 2008 consultative paper, characterized liquidity as the capacity of a bank to reserve increments in assets and meet commitments as they get to be expected, without bringing about inadmissible losses.

Liquidity is essential for banks to make up for anticipated and startling balance fluctuations and to give funds for growth (Greuning and Bratanovic, 2009). Effective liquidity risk management along these lines helps banks to overcome cash flow commitments, which are indeterminate as they are influenced by external events and other agents' conduct.

2.2.4 Interest Rate Risk

Interest rate risk when all is said in done is the potential for changes to a nation's interest rates to lessen a bank's income or worth. The vast majority of the credits and receivables of the balance of banks and term or saving deposits, generate revenue and expenses that are influenced by interest rates and since interest rates are unpredictable, so are such profit. As per Greuning and Bratanovic (2009) the mix of an unpredictable interest rate environment, deregulation and a developing cluster of on and off-balance sheet product have made the management of interest rate risk a developing test. In the meantime, informed utilization of interest rate derivatives, for example, financial futures and interest rate swaps can help banks oversee and lessen the interest rate exposure that is innate in their business.

2.2.5 Foreign Exchange Risk/Forex Risk

Foreign exchange risk is the risk that a bank may experience losses as a consequence of unfavorable exchange rate movement amid a period in which it has a vacant position, either spot or forward or both in same foreign currency (Kanchu and Kumar, 2013).

Bessis (2010) characterizes foreign exchange risk as accruing losses because of exchange rate changes. Such loss of profit may happen because of a crisscross between capital and liabilities and the value of assets designated in foreign currencies or a disparity between feign payables and receivables that are denominated in domestic currency.

2.2.6 Country Risk

This is the risk that emerges because of cross fringe exchanges that are developing drastically in the late years inferable from economic liberalization and globalization (Kanchu and Kumar, 2013). As per them it is the likelihood that a country will be inadequate to service or settle up obligations to foreign lenders in time. It contains Transfer Risk emerging because of plausibility of losses because of limitations on external settlements; Sovereign Risk connected with loaning to government of a sovereign country or taking government guarantees; Political Risk when political environment or authoritative procedure of nation prompts government assuming control over the assets of the financial entity (like nationalization, and so forth.) and preventing release of liabilities in a way that had been consented to before; Cross fringe risk emerging by virtue of the borrower being a resident of a nation other than the nation where the cross border asset is occupied; Currency Risk, a probability that exchange rate change, will modify the expected amount of principal and return on the lending investment.

2.2.7 Operational Risk

Mainelli (2002) expressed that characterizing operational risk is perplexing and even tricky. The term operational risk has just been characterized in the most recent couple of years. Not at all like the meanings of market and credit risk which are generally clear, the meaning of operational risk kept on advancing. The Basel Accord (2007) characterizes operational risk as the risk of direct or indirect loss coming about because of deficient or failed inner procedures, people and systems or from external events. As per the British Bankers' Association (BBA) "Operational risk is the risk of direct or indirect loss coming about because of lacking or failed inner procedures, people and systems or from outer events. “Substantial losses coming from operational risk events (for example the as of late uncovered instances of fraud (e.g. losses brought on by unapproved transactions at the UBS got to be open in September 2011, the fictitious transactions did by Jérôme Kerviel, acquiring losses of a several billion euros for Société Générale, Bernard Madoff's misappropriation of customers' wealth worth many billions of dollars or distortion issue identified with Goldman Sachs uncovered in H1 2010), insufficient compliance with lending standards on the subprime mortgage market, the extortion executed by Nick Leeson at Barings Bank in the mid-1990s or the 9/11 terrorist attacks against the WTC in 2001) have added to expanded consideration being centered around this theme (Asare –Bekoe, 2010). In spite of the fact that the financial and economic crisis which rose in 2007 highlighted the role of credit and market risk, some events stressed operational risk. It is certain that while "the outside world" may be reprimanded for losses coming about because of financial risks, real piece of the operational risk identified with the institution's own operation is regarding its internal operation; subsequently the obligation of the individual establishment may be greater in such regard.

Glitches of the information systems, reporting frameworks, interior checking guidelines and internal techniques planned to take convenient remedial actions or the compliance with the internal risk policy outcome in operational risks (Bessis, 2010). Operational risks, in this way, show up at diverse levels, for example, people errors, procedures and information technology. Since operational risk comes as a result of event, without an effective risks reporting process, some imperative risk may be disregarded, there will be no cause for remedial action and this can bring about deplorable results.

Lopez (2002) asserted that inner processes would be emphatically fixed to a firm's exact product and business lines; they ought to be more particular than the risks because of external events. Ramifications of operational risk events have been experience by the staggering loss of reputation of Arthur Anderson brought about by the Enron scandal, the failure of Barings Bank as a result of rogue trading operations or UBS' loss of US$100m due to trader's error (Muermann and Oktem 2002 cited in Asare-Bekoe, 2010). As mentioned earlier in the literature that operational risk can originate from both internal and external sources, below is a list of the various occurrences that can lead to operational risks.

Operational Failure Risk (Internal Operational Risk)

The risk encountered in the search of a particular approach due to:

- Human

- Procedure or process
- Technology

Operational Strategic Risk (External Operational Risk)

The risk of selecting an unsuitable approach to response to environmental factor, such as:

○ Competition

○ Regulation ○

Government ○

Taxation ○

Political ○

Societal

Hoffman

(2002) and the

Journal of

Compliance

Risk and

Opportunity

(2009)

provided a list

of the major

operational

events from

1993 to 2008

(Table 1.1), which indicates that the majority of these losses have occurred in the financial industry.

Table 2.1 Top Operational Risk Events

Organization	**Loss Amount**	**Date**	**Description**
Daiwa Bank	US$ 1.1 billion	1993 -1995	Loss due to unauthorized trading by an employee.
Barings	US$ 1 billion	1995	Losses due to lack of dual control and checks and balances.
Sumitomo Corporation	US$ 2.9 billion	1996	Huge losses incurred through excessive trading of copper.

Numerous Financial Institutions	US$ 20 million (initial estimates)	2001	Terrorists hijacked four commercial airlines and crashed them into World Trade Center resulting in loss of lives which impacted many businesses.
Citigroup	US$ 70 million	2004	Failure to comply with federal leading regulations
Bernard Madoff Investment Services LLC	50,000,000,000	2008	Securities Fraud
Societe Generale Group	7,762,247,360	2008	Unauthorized Trading – Proprietary accounts
Credit Suisse Group	2,660,700,000	2008	Pricing misdeeds

2.3 RISK MANAGEMENT IN BANKING

Risk Management (RM) is the execution of exercises intended to minimize the negative effect (expense) of uncertainty (risk) in regards to conceivable losses (Schmidt and Roth, 1990; referred to in Koomson, 2011). Redja (1998) additionally characterizes risk management as a systematic procedure for the identification, assessment of unadulterated loss exposure confronted by an organization or an individual, and for the determination and execution of the most suitable techniques for treating such exposures.

Risk management created from a sternly banking activity, connected to an exceptionally robust arrangement of measures and tools in the present day financial environment. This underlines the way that the continued existence of an organization relies incredibly on its abilities to foresee and plan for the change as opposed to simply sitting tight for the change and respond to it (Asare-Bekoe, 2010). As per (Opoku-Adarkwa, 2011) every transaction done by the bank conversely affects the profile of the bank in this way making a close unsound possibility to give ongoing risk upgrade.

Fatemi and Glaum, (2000) set that the procedure of risk management in the banking sectors includes: identification, estimation, and management of the risks. The targets of risk management incorporate the minimization of foreign exchange losses, decrease of the instability of cash flows, protection of earnings fluctuations, and increment in profitability and affirmation of survival of the firm. To guarantee that banks work in a good risk management environment with lessened effect of vulnerability and possible losses, managers need steady risk procedures to channel capital to activities that would provide the most excellent risk-reward ratios. Management needs estimation of the extent of possible losses to be within limits set through cautious internal considerations. They additionally require systems to monitor positions and make motivating forces for judicious risk taking by divisions and people.

Bessis (2010) determines that the objective of risk management is to survey risk with a specific end goal to monitor and control them to serve other key capacities in a bank notwithstanding its direct financial function. These comprise of helping with the release of the bank's definitive procedure by furnishing it with a superior perspective without bounds and accordingly characterizing proper business strategy and helping with creating game changers through the computation of right pricing and the plan of other differentiation methods taking into account clients' risk profiles.

2.4 OPERATIONAL RISK MANAGEMENT IN THE BANKING INDUSTRIES

The control of operational risk is primarily concerned with good management, which includes a fearless procedure of cautiousness and regular improvement. This is a worth including activity that effects, either specifically or by implication, on short and long haul exhibitions. It should, in this way, be a key concern for any business. Since operational risk will influence credit ratings, share prices, and organizational reputation, analysts will progressively incorporate it in their assessment of the management, their technique and the normal long haul execution of the business. As a major aspect of the update of the Basel Capital Accord, the regulators presented a risk based capital requirement particularly for operational risk. Whilst this has been of incredible significance in driving comprehension and advancement in the banking industry, it is the commercial impact of operational risk that is of most noteworthy importance. Operational risk management in banks has been increasingly underlined in the previous decade. Enormous financial scandal, frauds and information technology system disappointments are essential drivers for the more prominent consideration both inside and outside banking institutions to their exposures to and internal handling of such risk (Koomson, 2011). The exposure to various types of operational risk is nothing new for the individual bank, however as Moosa (2007:167 referred to in Koomson, 2011) stresses; "The trend towards more greater reliance on technology, more serious rivalry, and globalization have left the corporate world more exposed to operational risk than any other time in recent memory." For banks, the event of a immense and major “one-off” event in its day by day operations may even be more harming than its credit losses in association with the present collapse of financial markets. On the other hand, the capacity of the bank to legitimately survey and control, or hedge itself against, the negative economic consequences of such events is by all accounts less created than its management of credit and market risks (Dima and Orzea, n.d; Wahlström2009)

The identification of the previously stated contributory factor in operational risk has prompted an expanded mindfulness on the advancement of strong operational risk management systems by banks with the initiative being taken by the Basel Committee on Banking Supervision (Dima and Orzea, n.d; Koomson, 2011). The Committee tackled operational risk as core principles for effective banking supervision (1997) by requiring supervisors to verify that banks have risk management procedures and strategies to distinguish survey, monitor and control operational risk. In its 2003 record, Robust Measures for the Supervision and Management of Operational Risk, the Committee likewise gave direction to banks for managing operational risk, in expectation of the execution of the Basel II Accord, which obliges a capital allocation for operational risks.

2.5 MODELS FOR OPERATIONAL RISK MANAGEMENT

Risk education for acquainting the complex operations at all levels of staff can likewise reduce operational risk. Insurance cover is likewise a fundamental mitigates of operational risk. Operational risk events are connected with feeble connections in internal control processes (Kanchu and Kumar, 2013). They also recognized that management of operational risk depends on the bank's capability to evaluate its procedure for exposure and build up controls and in addition safeguards while accommodating sudden most pessimistic scenario situations.

As indicated by the Risk Management Association (RMA), the business units are predominantly in charge of overseeing operational risk on a normal premise. The reported additionally uncovered that as the trend for market and credit risk is towards expanding centralization, operational risk, by its inclination, is decentralized. In operational risk there is no position to report, couple of approvals to ask for, or hard policy cutoff points to quantify against. The organizations have this risk regardless, and can't transfer the obligation regarding management of it.

Review discoveries by the RMA distinguish three basic models for operational risk management. The culture of the institution decides the choice of any of the three models. They are as follows: head office operational risk function, dedicated but decentralized backing and the last but least internal audit assuming a lead part in operational risk management. The preceding talks underneath offer a distinctive reprieve down of the aforementioned approaches as given by the Risk Management Association (RMA).

2.5.1 The Head Office Operational Risk Management Approach

This is the style gaining greatest recognition. Regularly led by a head of operational risk who reports to the chief risk officer, the model ordinarily incorporates few Head Office workers not more than six. It is supplemented by workers devoted to supporting various work units, as a major aspect of the corporate function but working under a typical structure. Different parts of the model and extra organizational units that assume essential parts are:

- The Board of Directors is taking dynamic enthusiasm for looking into operational risk procedures and significant matters.
- Committees for operation risk are being built up to increase mindfulness or alertness and prioritize resources.
- Other Risk-Related capacities (eg. Legal, Compliance, Human Resources, Information technology) have obligation regarding particular issues on risk operational.

The Head Office operational risk management function is in charge of improvement of far reaching operational risk management procedures, methodologies and framework, and making recommendations to the business units. In this developing model, the most widely recognized obligations are to:

- Establish operational risk strategies.
- Build up and convey normal tools.
- Determine indicators.

- Evaluate advantages of programs.
- Examine relations to credit and market.
- Merge cross-enterprise information.

Furthermore, this capacity concentrates on cross-enterprise operational risk management activities, for example, creating financial capital procedures and creating loss databases. Contingent upon the association with the business units, they might likewise seek advice from or take an interest in operational risk management assignments with business units.

2.5.2 Organizations utilize a mixture of stand-alone tools to help control operational risk.

Operational risk management is adding to a far reaching set of measures to identify and evaluate of operational risk. Individual firms utilize a broad variety of methods. This research focused on five procedures:

- Self-risk evaluation.
- Risk mapping.
- Risk indicators.
- Escalation activators.
- Loss event database.

As indicated by the RMA, 71% of review members utilized or plan to utilize every one of the five measures. As of now, the most esteemed and most utilized instrument is self-risk assessment. Then again, the tool that most firms are hoping to develop next is the internal loss event database.

2.5.3 Internal Audit taking a lead role in operational risk management approach.

Approaches to measure capitals on operational risk are enhancing, however organizations are not content by the outcomes so far. The bulk of organizations that reacted (31 out of 55) are attempting to quantify financial capital for operational risk. On the other hand, the crevice between what main organizations want to attain and what they find themselves capable of accomplishing stays important. Majority reports that they are not content with their methodology.

Significant advancement is being made within the firms; on the other hand, a sound differing qualities of methodologies is being connected along a range of top-down and more risk-based, bottom up methodologies. As no single methodology is adequate, a good number of businesses at present utilize different systems to bind an outcome. Generally, if one trend does exist it is the development toward risk-based and base up approaches. Also, the firm will need to conquer three significant hindrances:

measurement, data and management.

2.5.4 The New model of Operational Risk Management

The Risk Management Association has recommended that another structure for operational risk is developing, comprising of an arrangement of incorporated procedures, tools, and alleviation methods. In any financial firm every part is vital, and they supplement each other. Their study uncovered that upon reflection on these segments and in addition interview results, a proposal of a enterprise-wide operational risk structure that brings everything into a coordinated whole can be made.

The structure as per the RMA has five key parts which mirror the organization's way of life, including the making decision style, formal procedures levels and the features of the core business. Their review concentrated essentially on the initial three parts. On the other hand, all are laid out below for reference and future studies.

- **Strategy.** Risk management starts with the establishment of the general procedures and goals of the organization and the consequent objectives for various work units. When objectives and measures are resolved, the enterprise can recognize the related innate risks in its goals and strategies. Both hazards (negative events, for example, a noteworthy loss that have huge effects on profits) and opportunities, (eg. New products that rely on upon taking operational risk) are measured. A company is then ready to set a risk desire. In particular, it can establish what risk the firms have knowledge of, will tolerate versus those that would be avoided or transferred. It is the premise for decision making.
- **Risk policies.** Operational risk management policies are a strict correspondence to the whole arrangement about the organization's way to deal with operational risk management. Policies commonly incorporate a description of operational risk, the firms approach and linked tasks and obligations, main standards for management and associated technologies.

- **Risk management procedure.** This procedure characterizes the general process for operational risk management, which incorporates:

  Controls - Description of internal controls or selection of other reduction technique, for example, insurance policy for identifiable risks.

  Evaluation – Measures and plans to guarantee that measures are being taken after and focus on the relentlessness level. These may incorporate procedure flows, self-evaluation procedures and audit procedures.

  Measurement – A blend of economic and noneconomic processes, escalation triggers, risk pointers and financial capital to focus existing risk levels and advancement to objectives.

  Reporting – Information for management to prioritize resources and build awareness.

- **Risk mitigation.** These are particular measures or processes intended to decrease the exposure, recurrence, or relentlessness of an event. The measures can likewise avoid or transfer a component of operational risk. Illustrations incorporate firm's coherence arranging, insurance compliance assessment, merger integrations, IT security and project management.

- **Operational management.** The regular procedures for managing operations, for example, technology, front and back-office tasks, management reporting, performance enhancement and management of people, each has a part of operational risk management implanted in it.

- **Culture.** There is always a balance between culture and prescribed policies, or the value of the individuals in the institution. In operational risk, cultural aspects for examples, communication, training, performance management, sharing of knowledge help make quality decision.

2.6 KEY SUCCESS FACTORS AND COMPETITIVE ADVANTAGE IN THE BANKING INDUSTRY

Significant success factors have been labeled in numerous ways contingent upon the reason for which they were utilized (Fung 2006). For the purpose of this paper, Rockart's (1979 cited in Koomson, 2011), definition will be used. He defines critical success factors as "the limited number of areas in which results, if they are satisfactory, will ensure successful competitive performance for the organization". Critical success factors are those factors that must go right for the organization to achieve its mission. They provide management with a measure on which improvement efforts can be focused (Martin and Palakshappa 2003).

The British company Accenture has identified the following as success factors resulting from effective operational risk management that can give banks over their competitors. There are various potential advantages gotten from a very much organized and effectively run operational risk management methodology, including:

- **Freeing up capital**

  Capital is a scarce resource, particularly under the new Basel III capital prerequisites. Capital establishes the organizations' revenue capability, subsequent to every risk taken entails a comparing state of capital. The more structured a company is from an operational risk view point, the more capital it can assign to revenue generating transactions.

- **Making Better decision**

  Model outcomes can bolster superior decision-making by offering new knowledge; for instance, a model can demonstrate the possible result of the bank penetrating a new market with an alternate legitimate structure.

- **Lower cost of capital**

  As rating agencies give great consideration to efficient risk management in their rating procedure, there is a straight connection between the rating of the institution and quality of risk management. These can have direct impact on the cost of capital.

- **Lower costs of operating**

  Monitoring tools and enhanced controls can assist companies' identity possible risk activities before they bring about losses. Much of the time, the number of possible risk events the banks encounters can be decreased, escalating general operations effectiveness.

- **Reduction in profit and loss volatility**

  Huge operational risk loss events can impose a critical effect on the volatility of the income statement account bringing about inability to achieve projected return. This can bring about a fall in the firm's market value. Good operational risk management can facilitate the reduction in volatility, particularly as it identifies with meeting income and revenue targets.

 Improved client and employee satisfaction

It is commonly comprehended that clients and workers desire to work for or with an institutions with reputation for high quality and low error rate. Less performing banks and weaker organizations are inclined to losing clients resulting in reduction in contribution to margin. Workers are responsive to quality issues in their workplace and good workers may feel the need to leave and look for employment where there is job security.

 Optimized insurance coverage and premiums

The more an institution is acquainted with its risk profile, the better it can distinguish its needs in terms of insurance coverage. Much of the time, enhanced risk information may take into account an improved bargaining position on the payment of premium.

 Better regulatory compliance

Regulatory compliance is a crucial element of transacting business and source of competitive advantage. The operational risk management role has an essential part in assisting to guarantee regulatory compliance.

2.7 REVIEW OF RELATED STUDIES

A study conducted by Koomson (2011) focuses on operational risk management and competitive advantage in the Ghanaian banking industry with the aim of identifying the importance of operational risk management practices in the firm and whether it can be a source of competitive advantage. Closed-ended questionnaires were administered to two hundred and fifty (250) respondents from seven selected banks. The findings of the study indicated that even though operational risk is quite new in the Ghanaian Banking industry, its effects are being realized. It also reveals that Ghanaian banks are realizing the significance and importance of operational risk management as a tool for gaining competitive advantage and are allocating the requisite resources for it. Some recommendations were made and prominent amongst them were that Banks must relate their operational risk management activities to their organization goals and recognizes the possible barriers that hamper their competiveness.

Another related study was conducted by Asare-Bekoe (2010) on risk management at Ecobank Ghana Ltd. He identified that due to the complex and diverse nature of operational risk, Ecobank Ghana Limited‘s main strategy for managing risk, is to develop a strong operational risk management culture amongst its entire staff and has therefore committed significant resources to it in the last two (2) years. Most of the efforts towards this have been in the form of sensitizing and training staff on how their daily work activities can contribute to operational risk and what they can do to avoid potential losses.

The bank has also invested in an operational risk management application (Ops Risk Management System) developed for it by HSBC to assist in identifying lapses in every aspect of the bank‘s activities which can result in operational losses. The bank‘s reward system has also been adjusted to include recognition for being operational risk conscious. The Board of Directors and the Managing Director of Ecobank Ghana Limited have keen interest and are directly responsible for the management of operational risk in the bank. They set the appropriate environment necessary for handling operational risk in the bank by approving the framework and strategies for managing it. The responsibility for executing the framework and implementing the strategy is however vested in all heads of units and departments since the sources of operational risks cuts across the entire operations of the bank. To assist in coordinating the effort of all the staff and management working within or managing operational business units of the bank, there is an operational risk manager within the risk function who ensures that adequate knowledge, systems and resources are available to handle operational risks. He also participates in preparing, testing and reviewing the business continuity and disaster recovery plan of every business unit.

Opoku-Adarkwa (2011) also conducted a similar study by focusing on First Atlantic merchant Bank Ghana Limited (FAMBL) with the purpose of assessing the bank‘s risk profile as well as evaluating its risk management structure to determine its soundness and compliance to international best practices. The researcher moreover investigated whether well-organized risk management translates into improved performance of banks. It combines and further develops relevant previous findings from two major areas of research: risk management, enterprise risk management (ERM), and their effect on bank performance. Analytical based approaches were adopted in assessing the risk condition of FAMBL. By applying analytical tools such as ratios, tables and charts, to the bank‘s 2010 financial statements, and those of years 2009 and 2008 serving as references for comparison. Trends and relationships in the financial statements and other financial data were also established. This helped in making well-reasoned analysis of the bank‘s capital adequacy, balance sheet structure and composition, profitability and reliability of earnings, credit exposure size and quality, liquidity, interest rate and currency risks situations.. The study also revealed that FAMBL had a fairly adequate risk management structures to ensure sound management of financial and operational risks. There was an appropriate environment in place for managing risk, in that; the governance structure was solid with clear obligations and lines of authority set out.

CHAPTER THREE METHODOLOGY AND CASE STUDY PROFILE

3.0 Introduction

This chapter presents a vivid elaboration of the research paradigm and design employed in order to achieve the objectives of the study. The chapter further presents a discussion on the population, sample and sampling techniques, instrument and statistical procedures used for the data analysis. It also elaborates on issues of ethical considerations and data collection method and presents an overview of the framework within which the study was carried out.

3.1 Research Design

According to Wahyuni (2012) research design/methodology refers to the framework used to conduct a research, within the context of a particular paradigm (set of philosophical assumptions). A research design is also defined as the scheme, outline or plan that is used to generate answers to research questions (Orodho, 2003). The research design therefore becomes the key which guides the entire research process. It helps to understand the nature of research being conducted by the researcher. The function of the research design is to ensure that the evidence obtained enables you to effectively address the research problem logically and as unambiguously as possible. A methodology is therefore shaped by the perspectives the researcher chooses to approach a study. For the purposes of this study, however, the researcher chose the qualitative and quantitative research methodology. The case study design, which is a type of qualitative research design, was further used in the research process to ensure consistency in the choice of research paradigm, methodology and design. The researcher chose to use these methods and paradigm because they best suit the nature of this particular research.

3.2 Population

Neuman (2007) is of the opinion that population is the name for large general group of many cases from which a researcher draws a sample. According to Walliman (2011), research population refers to the collective term used to describe the total quantity of cases, which are relevant subjects to the study. The population for this study made up of the employees of Ecobank branches in the Greater Accra Region (Tema Branches). With Ten branches of Ecobank in Tema and a minimum of nine (9) employees as the benchmark, the estimated population of employees is one hundred and fifty (150).

3.3 Sample Size and Sampling Technique

A sample is a subset of the population that has been selected for the study. The purposive sampling method was employed by the researcher in this study. This process involved a deliberate choice of the research respondents due to the depth of knowledge they possessed on the research topic. The researcher decided what needed to be known in relation to a particular research problem and set out to find people who could and were willing to provide the information by virtue of their experience and knowledge (Bernard 2002, Lewis & Shephard 2006). The researcher employed this technique of sampling because in his view, the Branch Managers, the Operations Managers, staff at the operations department, Finance department and Risk units were the set of individuals who had the required knowledge, training and experience in the implementation of Ecobank's operational risk management procedures and were therefore, in the best position to respond more accurately to questions as compared to the other members of staff. In all, the researcher was able to sample 9 respondents made up of Branch Managers, the Operations Managers, Risk Units staff, Finance staff and staff at the operations department. Ecobank Head Office, Tema Main, Safe Bond and Tema Community Eleven branches were chosen for this research study.

3.4 Data Collection Instrument

The data collection method involved the use of the interview method, the method of observation and document analysis.

3.4.1 Interviews

This was one of the sources of data for this research. The semi-structured form of interviewing was conducted. An interview guide was carefully crafted with both closed and open-ended questions to enhance the quality of information gathered. It made the interview process simple yet effective. The researcher did, however, ask certain questions not included in the interview guide as he picked up things said by the respondents. But, by and large, all the questions included in the interview guide were asked and a similar wording was used from one interviewee to another.

The interviews were conducted over a period of 3 working days. Each interview averaged about 15 minutes and was conducted on a one-on-one basis in all branches. The interviews bordered on issues of operational failure and strategic risk, management strategies, the impact on their competitive advantage through operational failure and strategy risks, challenges encountered in managing operational risks and strategies utilized in curbing these challenges.

Table 3.1: List of interviewees

Interviewees	Number of people interviewed
Operations Managers	3
Branch Managers	2
Operations Staff	2
Finance dept. & Risk units	2

3.4.2 Observation

This method of observation was another data source used for the research. By this method, the researcher observed how the various operational risk management systems functioned, the panic and fire alarms in case there's robbery situation and fire outbreak, also observed various cameras on some of the ATMs, a daily routine checks on the alarm systems, CCTVs etc.

3.4.3 Document analysis

Document analysis is the systematic exploration of written documents. In this research, the researcher examined annual reports, corporate profiles and newsletters, executive summaries, and product brochures of Ecobank Ghana. This was in the bid to gather information on operational risk management.

3.5 Sources of Data

Two main sources of data collection in research have been identified, these include: primary and secondary data sources. According to Malhotra and Birks (2007), primary data are data originated by the researcher for the specific purpose of addressing the research problem. It is what the researcher originally collects from the sample or target population.

In this study both primary and secondary data sources were used. The primary data used are those responses of employees obtained through interview. Secondary data for this study are collected from the bank's annual reports.

3.6 Ethical Consideration

Ethics in research refers to the norms of conduct that distinguish between acceptable and unacceptable behaviour (David & Resnik, 2011).First, a letter of introduction was obtained from the school to introduce the researcher to the Management of Ecobank

Ghana Ltd. for permission to carry out the research within the chosen branches of the bank. Informed consent information is attached to each interview guide explaining the purpose and nature of this study.

Interviewees are also assured of anonymity and confidentiality of their responses. Likewise, participants voluntarily participated in the survey without any coercion. Furthermore, all documents such as professional and academic articles and other published papers collected are duly credited and acknowledged in the reference list.

3.7 Data Analysis

This section discusses the thematic content analysis that was used to analyze the data gathered for the study.

3.8 Profile of Ecobank

Ecobank Transnational Incorporated (ETI) is the parent company of Ecobank Ghana Limited (EBG). ETI is a public limited liability company incorporated in the Republic of Togo and was established as a bank holding in 1985 under a private sector initiative with the support of the Federation of West African Chambers of Commerce and Industry and the Economic Community of West African States (ECOWAS). ETI commenced operations with its first subsidiary in Togo in March 1988. The dual objective of Ecobank Transnational Incorporated (ETI) is to build a world-class pan African bank and to contribute to the economic and financial integration and development of the African continent. This is the mission and vision of ETI.

Ecobank Ghana was incorporated on the 9th of January 1989 as a limited liability company under the Companies code to engage in the business of banking and started operations as a merchant bank in February 1990 with only one branch located at No. 19 Seventh Avenue, Ridge West. This branch now serves as the Head office for Ecobank Ghana. Since then, the bank has become one of the leading names in Ghana's banking industry. Ecobank obtained a universal banking license from the Bank of Ghana (BOG) in 2003 and pioneered electronic visa cards in Ghana that same year. Currently, Ecobank Ghana is now the largest bank in Ghana with a network of 78 branches and a presence in 8 of the country's 10 regions following the merger with The Trust Bank Ghana (TTB) Ghana Limited.

The bank offers a range of banking and financial products including current accounts (personal and corporate), savings accounts, loans, fixed deposits, money transfer services, regional cards and electronic banking products. With this wide range of products, the bank serves multinational companies, domestic businesses, government and nongovernmental agencies, salaried workers, religious organizations, educational institutions, health institutions, clubs and associations as well as individuals. Ecobank Ghana also has three wholly owned subsidiaries that offer a variety of non-banking financial services to complement the banks broad range of financial services. The subsidiaries are Ecobank Investment Managers Ltd., Ecobank Stockbrokers Ltd., and Ecobank Leasing Company Ltd.

Ecobank Ghana's mission is to become a strategic part of a world-class African banking group. The bank's vision is to provide its customers convenient, accessible and reliable banking products and services. In line with this, the bank seeks to create a unique Ghanaian institution through a determined focus on its customer, employees and shareholders and an absolute commitment to the achievement of excellence in the delivery of financial services.

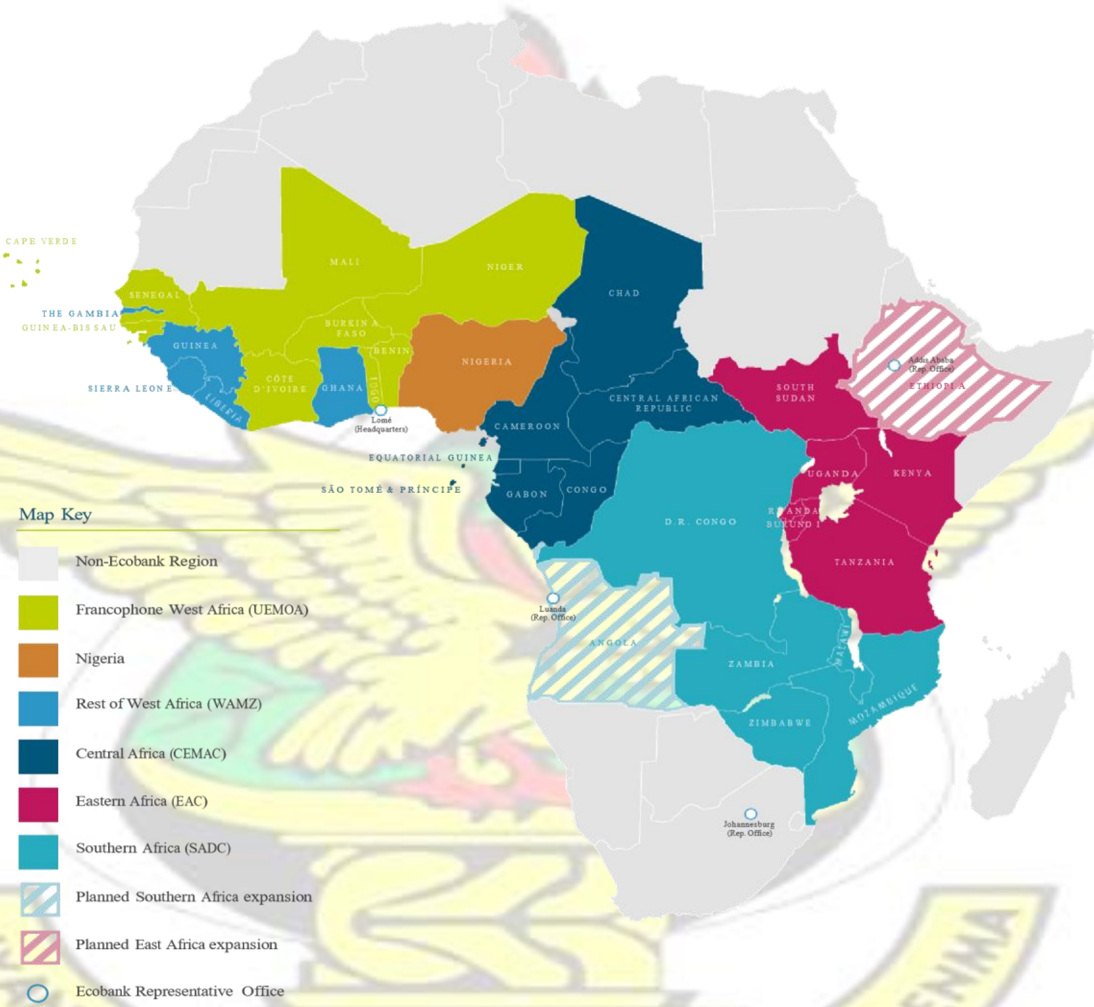
Awards won by Ecobank Ghana Limited includes Corporate Initiative Ghana: Best Bank in Advisory Services – 2001, Corporate Initiative Ghana: Best Bank in Customer Care – 2001, Corporate Initiative Ghana: Bank of the Year Award – 2001, Corporate Initiative Ghana: Best Bank in Trade and Finance – 2002, Corporate Initiative Ghana: Bank of the Year Award – 2002, Corporate Initiative Ghana: Best Bank in IT – 2003, Corporate Initiative Ghana: Best Bank for 2003, Corporate Initiative Ghana: Best Bank in IT – 2004, Corporate Initiative Ghana: Bank of the Year – 2004. The bank was recently named the "Best Bank in Ghana" by the leading international finance magazine, Euromoney, at the 2012 Euromoney Awards for Excellence Dinner held in London. The bank has also been named as the bank of the year by CIMG (Chartered Institute of Marketing, Ghana), the organizers of the Ghana Banking Awards.

Figure 3.1: Geographical Coverage Area of Ecobank in Africa

6 E2014cobank Highlights Group – Abridged Annual Report 2014

Unique pan-African footprint

Our operations in Middle Africa are grouped into six geographical clusters according to size and shared attributes. Our international operations outside of Africa form a seventh cluster.



CHAPTER FOUR DATA PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

4.0 Introduction

The study sought to evaluate the relevance of Operational Risk Management as a source of competitive advantage to Ecobank Ltd. This chapter presents the findings from the data collection process and discusses the findings in relation to earlier literature.

4.1 Understanding of Operational Risk

Prior to investigating the main objectives of the study, the researcher sought the interviewees' general understanding of operational risk, they explained operational from both the internal and external dimension. According to them, operational risk is any kind of risk that emanates from the failure of internal processes, people, systems and other external events. During the interview process, the researcher gathered that the bank had processes and procedures that have to be followed in their daily operations. One of the interviewees' (Branch Manager) cited an example that, when a cheque is received, it is supposed to be confirmed and if that is not done and the cheque goes through the system, then there is a failed process on part of people. Therefore, the loss that might arise due to this practice is a practical example of failed internal process. However, with regards to external operational risk issues regarding external fraud, robbery and disasters were mentioned.

This definition by the interviewee is in congruence with the definition posited by the Basel Accord (2007). According to the Basel Accord (2007), operational risk refers to the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. It can therefore be concluded that the branch managers of the Tema branches of Ecobank are abreast with the theoretical ramifications of operational risk as a major character in the banking sector. In a broader spectrum, the researcher augments that Ecobank as a banking institution has measures in place in terms of training to keep its employees informed about the developmental issues as far as operational risk management in the bank is concerned.

4.2 Constituents of Operational Risk at Ecobank

With regards to general constituents of operational risk, the interviewees' asserted that, there were two general constituents of operational risk namely internal and external. The interviewees' further gave examples of the internal and external constituents of operational risk in order to provide an in-depth understanding about the constituents of operational risk.

4.2.1 Internal Constituents of Operational Risk at Ecobank

The interviews exhibited that internal constituents of operational risk comprised of human risk which is ordered into intentional or dishonest act (frauds by workers, unapproved policy and process violation, collusion, or sabotage) and accidental reasons (errors or mistakes due to lack of understanding of procedures and policies failed processes, system failures, non-compliance with regulatory authority for instance, when an employee is given fine by regulators because he/she failed to follow a procedure is an operational lost due to an internal process, errors by people such as keying a wrong figure as well as failed systems such as faulty ATMs and faulty internet banking systems.

It was identified in the literature that operational risk can originate from both internal and external sources as posited by Lopez (2002).Below is a list of the various occurrences that can lead to internal operational risks.

Operational Failure Risk (Internal Operational Risk)

The risk encountered in the search of a particular approach due to:

- Human
- Procedure or process o Technology

Bessis (2010) opined that operational risks emerge at different levels, such as people errors, procedures and information technology.

It is pretty much clear in comparison that there is a great linkage between the existing prepositions on the make-up of internal sources of operational risks. The first three components that pop up when dissecting internal sources of operational risk are people, process and systems. This categorization was alluded to by the interviewees of the study. During the interview process, the researcher gathered that fraudulent act by employees, failure in systems and processes are the key internal sources of operational risk. This thus gives a clear indication that the interviewees of Ecobank Ghana Ltd. are well informed with respect to the internal constitution of operational risk. It is always stated that understanding a problem is key to finding remedies for it hence the branch managers of the bank are likely to solve problems in this regard since they fully understand what makes the problem.

4.2.2 External Constituents of Operational Risk at Ecobank Ltd

The interviews demonstrated that the external constituents of operational risk at Ecobank are any risks that are outside the control of the bank. External fraud and imminent labour actions, environmental disasters, political issues were identified as examples of external operational risk at Ecobank Ltd. For external components of operational risk, the interviewees mentioned external fraud and physical disasters such as power outages and flood.

A branch manager made a specific example with regard to environmental disasters citing the recent June 3 Accra floods that, the Agbogbloshie Branch of the bank remained closed several days after the floods because the branch was severely affected. All these are potential sources of external operational risk but unlike other risk sources the bank has very little control over since it is much difficult to anticipate these kinds of risks.

Greuning and Bratanovic (2009) also recognized advancement in modern banking environment, such as greater dependence on sophisticated technology, increasing retail operations, growing e-commerce, outsourcing of functions and activities, and greater use of structured finance (derivative) techniques that claim to reduce credit and market risk have contributed to higher levels of operational risk in banks.

The various external sources of operational risk as identified by the interviewees affirm existing literature as indicated by (Lopez 2002; and Greuning and Bratanovic, 2009).

Below is a list of the various occurrences that can lead to external operational risks.

Operational Strategic Risk (External Operational Risk)

The risk of selecting an unsuitable approach to response to environmental factors, such as:

○ Competition

○ Regulation ○

Government ○

Taxation ○

Political ○

Societal

Table 4.1 and Figure 4.1 below show the total losses and fines suffered by Ecobank from the period 2010 to 2014. The survey showed operational losses and fines increased every year, it increased by 11.66% in 2011, 47.69% in 2012, 25.08% in 2013 and 29.09% in 2014. The surveys demonstrated that if operational risk is not well managed, the profitability of the bank is affected therefore reducing shareholders value. This is one of the reasons why Ecobank saw the need for a separate unit entirely for operational risk management.

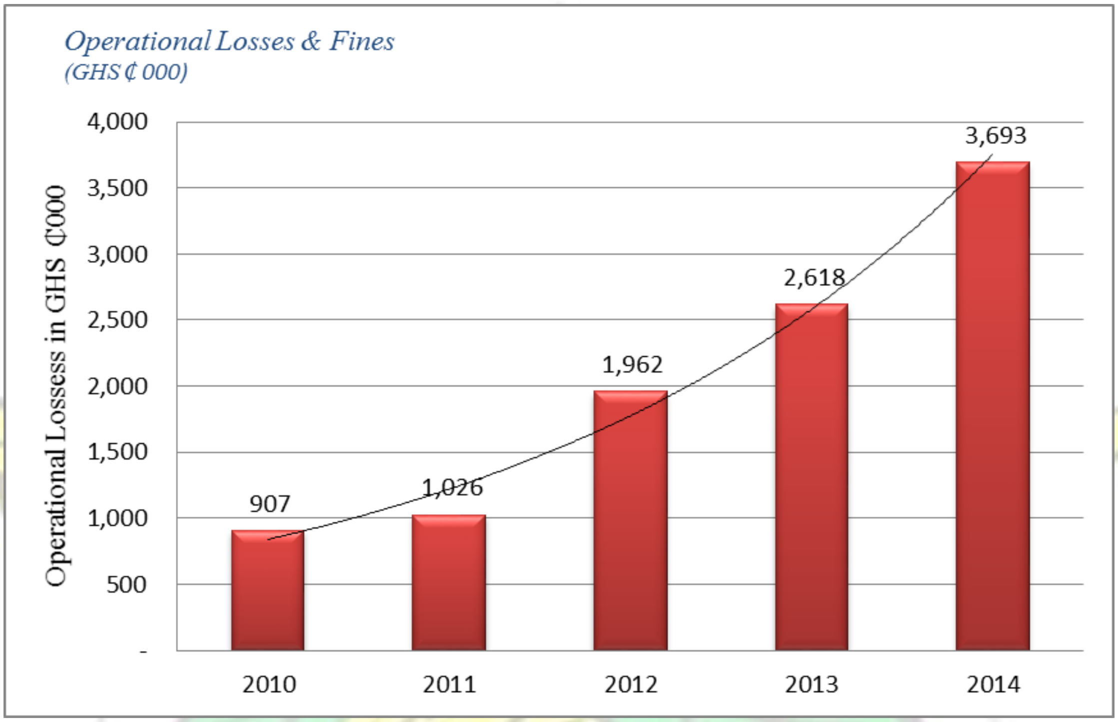
Table 4.1: Operational Losses and Fines

Operational Losses & Fines	**Amount**
	GHS ₵000
2010	907
2011	1,026
2012	1,962
2013	2,618

2014	3,693
Total	**10,206**

Source: Finance and Operational Risk Department of Ecobank

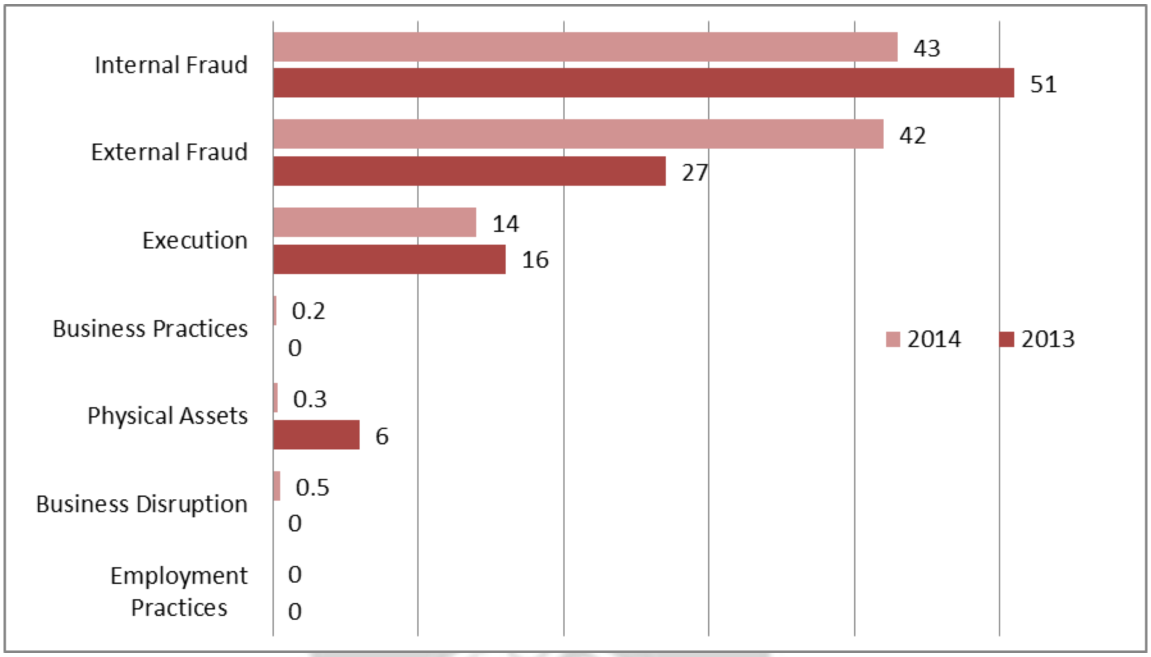
Figure 4.1: Total Operational Losses and Fines from 2010 to 2014



Source: Finance & Operational Risk Department of Ecobank

Figure 4.2 below also shows the operational risk losses and events profile that Ecobank encountered in the 2014. The survey shows that frauds continue to be the main driver of increases in operational losses. Internal frauds constituted 43% (2013: 51%). External frauds constituted 42% of the total operational risk losses, an increase from 27%.

Figure 4.2: Net Operational Losses; Percentage of total (%)



Source: 2014 Annual Report

4.3 Strategies put in place to manage and control internal and external constituents of Operational Risk at Ecobank Ltd.

The researcher gathered some of the measures put in place to manage and control both internal and external operational risk at Ecobank.

4.3.1 Strategies Utilized in Managing Internal Constituents of Operational Risk at Ecobank

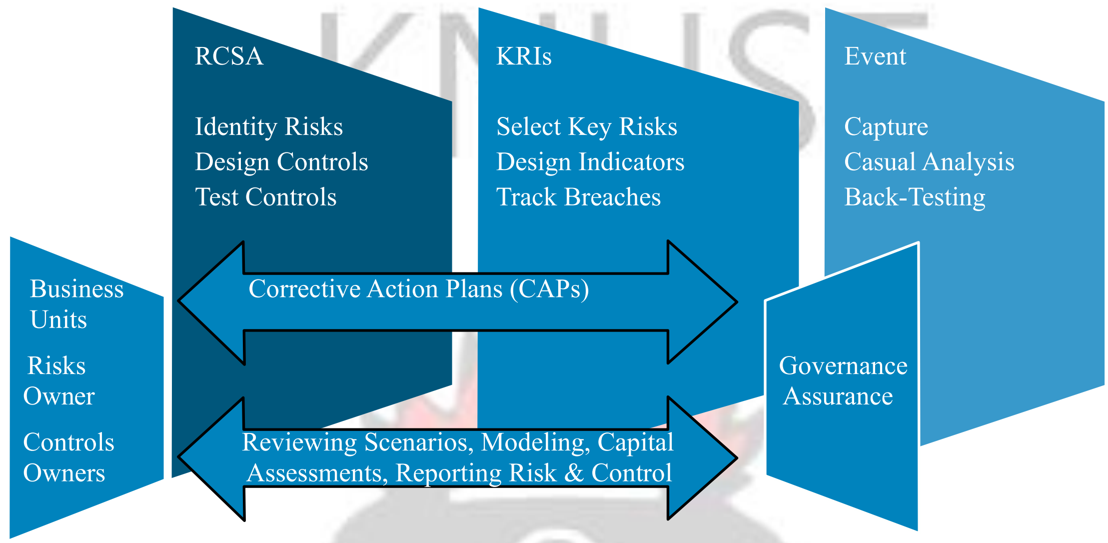
With regards to internal operational risk, the interviewees made mention of the following strategies:

Generally, it was mentioned that, there is an array of measures against people and systems that play principal roles in managing internal operational risk at Ecobank. For people, the researcher gathered that, Ecobank has a policy where one person should not begin and end a transaction. Thus, as a control measure against internal operational risk, there should be at least one intervention so that the person cannot input and authorize at the same time. There is therefore a control check in place to curb internal fraud and other operational risk associated with people. The interviewees made it clear that no matter the position of an employee of the bank he/she cannot begin and end transaction. This therefore means that as a way to curtail internal fraudulent activities among employees, the signatures of more than one employee are required in order to complete a transaction. It is also clear that this measure helps the bank in detecting errors that might be done by one employee.

Secondly, the branch managers of Ecobank emphasized the use of an effective reporting system as a measure to control internal operational risk at Ecobank. According to them, assurance reports are submitted regularly on daily, weekly and monthly basis. Moreover, at every quarter of the year, there is a risk review called Risk and Control SelfAssessment (RCSA) which help to identify measure and monitor operational risks. Every month, every branch manager sends a report about his/her processes, people, systems, generators, whether they have been serviced, fire prevention measures, whether they are functioning etc. It is indicative from the interview that the frequent reporting is an early detective measure of any internal operational risk. This is due to the fact that frequent reviews of these reports are likely to detect any anomalies in their early stages rectified which otherwise could be more detrimental to the bank in the long run.

Figure 4.3 below show how operational risks are reported and managed at Ecobank.

Figure 4.3: Operational Risk Management Framework



Moreover, the data gathered also specified that there is another measure for controlling internal operational in the form of frequent inspection and auditing. The interviewees remarked that the bank have put in place a site inspection mechanism done from time to time. According to the managers, Ecobank has what they call SWIP. The SWIP involves people from various risk units (Op-risk) who come and inspect the operations of the branch in the knowledge of the staff of the branch for instance they will go to the teller cage and press the panic and fire alarm button to check whether it will trigger the alarm. According to the interviewees the inspectors are risk detection and management experts from the Risk Department of the bank even though all employees have been braced with some level of knowledge in dealing with risks. The timely inspection of these risk experts is therefore another detective and preventive measure cushion the bank against operational risks.

Furthermore, the interviewees also remarked that the bank also uses the mystery shopping approach as a mechanism to manage and control internal operational risk of the bank. The mystery shopping involves the inspections done by third parties without the knowledge of any of the employees in a particular branch and their identity is never disclosed.

Also, the survey shows that there are alarm systems (panic and fire alarms) that help in managing situations such as fire outbreaks and robbery cases. From the researcher's observation, though these alarms are routinely checked daily for it functionality, it was discovered some branches don't follow suit.

Lastly, the survey also shows that CCTVs are located in their various banking halls to monitor transactions and operating activities. These CCTVs are routinely checked daily for it functionality and are often serviced.

The above strategies as outlined by the interviewees of Ecobank Ghana Ltd. are in conformity with what is referred as the Head Office Operational Risk Function propounded by Risk Management Association (RMA). This approach is regularly led by a head of operational risk who reports to the chief risk officer, the model ordinarily incorporates few Head Office workers not more than six. It is supplemented by workers devoted to supporting various work units, as a major aspect of the corporate function but working under a typical structure. All these strategies help to regulate or manage their internal operational risks.

4.3.2 Strategies Utilized for Managing External Constituents of Operational Risk at Ecobank.

In terms of external operational risk, the survey disclosed the following strategies:

Firstly, the interviewees made mention of employment of security personnel at all branches and installation of CCTV cameras around all of their Automated Teller Machines (ATMs). This measure according to interviewees helps manage or prevent burglary cases. These cameras are frequently tested to check whether they are in conditions and are functioning as it should. This approach means that management of the bank is actively involved in managing the operational risk of the bank. This is because policies are made at higher levels to ensure the installations of these security cameras.

Secondly, the interview with managers also revealed that they do have frequent monitoring around their offsite ATMs to ensure that people place no devices around and into them to compromise their security. This strategy is also effective in combating breaking into the teller machines.

Another strategy outlined by the managers is that the disaster contingency plans that help manage other external risk outside their control and the provision of backups for emergencies. According to them, the bank has backups for emergencies such as fire, flood, robbery cases etc. In times of such emergencies, the bank has good alliance with external agencies such as the Ghana Police and the Ghana Fire Service who come in to rectify the situation at hand.

Ecobank has also put in measures to control emergencies in fire outbreak by training people to take care of such emergency situations (firefighters). The interviewees further stated that, the bank have people in charge of communication to the staff and external agencies in times of emergencies. Apart from that, the bank has organized evacuation plans for such emergencies (assembling points).

It is clear from the interview that Ecobank Ghana Ltd. has a comprehensive management approach for dealing with emergencies (proactive measures) such as fire out breaks and burglary among others. Again this shows that there is holistic approach in dealing with operational risks in a top down manner. Risks policies are made by the management of the bank but the implementation of these policies according to the interviewees are the responsibility of all employees irrespective of their positions but the head of operations is in charge of the Disaster Contingency Plans.

Moreover, processes and passwords are reviewed frequently to make them robust to ensure safety. This is in conformity with the risk policies part of the Enterprise Risk Management approach as a strategy for managing operational risk. Risk policies in accordance with the model are operational risk management policies are a strict correspondence to the whole arrangement about the organization's way to deal with operational risk management.

Policies commonly incorporate a description of operational risk, the firms approach and linked tasks and obligations, main standards for management and associated technologies.

According to the interviewees (branch and operations managers), as a means to control external operational risk, the bank has a policy that if a teller is estimated to need a particular amount for the day for instance about GHC 200,000.00 a day (Tema Main Branch), he/she does not bring out all the money out of the vault at once but rather it is supplied to him/her on demand. Also, when tellers receive a sizeable amount of cash, it is passed to vault and taken away.

For instance, the Tema Main bank also has vault limit which is GHC 4,000,000.00 Therefore if a branch receives more than the GHC 4,000,000.00 the excess is repatriated the next working day. According to the branch manager, even though the vault is a relatively safe place to keep cash there can be circumstances where it can be broken into during robbery attacks which call for the need for repatriation of any excess cash. All these help minimize the amount of money that would be stolen in a robbery situation.

In cases of robbery, Ecobank has a comprehensive insurance that cover its operations. The bank also has an insurance cover for cash in transit which includes cash in the custody of employees and bullion vans but not for customers waiting in the banking halls yet to transact business.

From the preceding paragraphs it is clear that the bank is making use of the Integrated Enterprise Risk Management model which has typical features such as risk mitigation and operation management. Risk mitigation component of the model refers to particular measures or processes intended to decrease the exposure, recurrence, or relentlessness of an event. The measures can likewise avoid or transfer a component of operational risk. Illustrations incorporate firm's coherence arranging, insurance compliance assessment, merger integrations, IT security and project management. The operations management aspect on the other hand deals with the regular procedures of operations management, for example, front and back- office functions, technology, management reporting, performance improvement and people management, each has a part of operational risk management embedded in it.

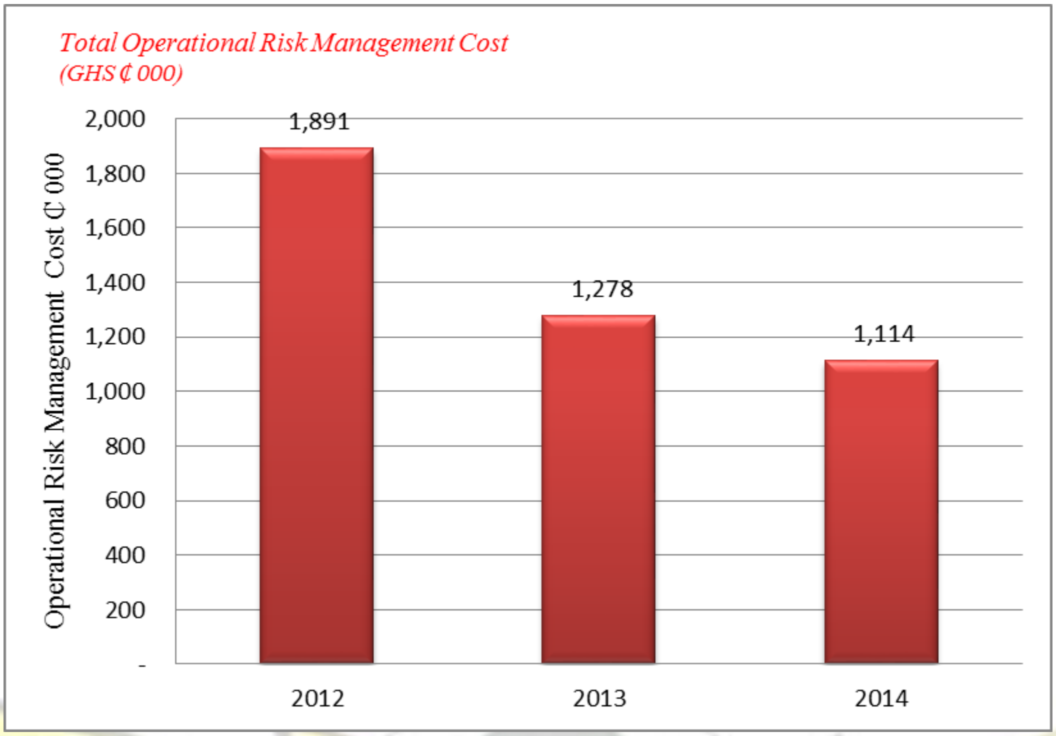
Table 4.2 and Figure 4.4 below show the total cost incurred by Ecobank Ghana Limited in the management of Operational risk. These costs constitute amount spent in purchasing and installing sophisticated software in managing the banks of operating systems, up to date and robust technologies for monitoring operational risk, security systems and staff training on processes and procedures in working to mitigate and reduce operational losses and event. According to the finance department, Ops Risk Unit was separated from the risk management department in 2012 that is why the cost data starts from that year. At first all cost incurred on total risk management (market risk, operational risk, credit risk) were together so it was difficult to track the actual cost on operational risk management. The surveys showed that cost incurred reduce year after year, in 2013 it reduced by 48.04% and by 14.70% in 2014. The reduction in the cost on operational risk management was because cost control policy by the bank. Even though cost on operational risk management was reduced, the losses increased at a decreasing rate. This is because much was spent on the first year when the Ops Risk Unit was formed.

Table 4.2: Entire Cost on Operational Risk Management

Total Cost on Operational Risk Mgt	Amount
	GHS ₵000
2012	1,891
2013	1,278
2014	1,114
Total	**4,283**

Source: Finance &Operational Risk Department of Ecobank

Figure 4.4: Entire Cost on Operational Risk Management from 2012 to 2014



Source: Finance & Operational Risk Department of Ecobank

4.4 How Operational Risk Management gives Ecobank a Competitive Advantage.

The Ghanaian banking industry has become dynamic and highly competitive. With several bank products and services they are in steady completion with each other for customers. This has made banks more customer-focused. When asked their views on the extent to which Ecobank perceive operational risk management as a source of competitive advantage, the survey came up with the following explanations:

One of the most important assertions interviewees made was operational risk is very important because it can collapse a bank overnight. Therefore managing operational risk is very crucial. The interviewees further indicated that managing operational risk helps Ecobank to free-up capital which otherwise would been spent on losses arising from poor operational risk management practices. The observations of the interviewed staffs are direct affirmations to the prepositions of the British Consultancy firm Accenture.

Accenture (2012) posited that capital is a scarce resource, particularly under the new Basel III capital prerequisites. Capital establishes the organizations' revenue capability, subsequent to every risk taken entails a comparing state of capital. The more structured a company is from an operational risk view point, the more capital it can assign to revenue generating transactions. Due to the serious nature of Operational Risk management, bank executives are gradually embracing it. This is evident in banks allocating resource towards operational risk management policies and practices. This proves the commitment of bank executives including the board to develop and maintain risk control systems. Most of the interviews attest to this.

Furthermore, it was discovered that through the interviews, good operational risk management at Ecobank lowers cost in the sense that the deposits taken from customers come at a cost and these deposits are sold to other customers since the primary function of a bank is taking from other surplus unit and giving to the deficit unit. Therefore if operational risk is high it translates into the cost which is passed onto customers and the reverse is also true. In this regard, because Ecobank is able to lower its operational risk, the bank's expenses are lowered and hence prices for customers are also lowered which gives the bank and advantage over its competitors. According to Accenture (2012), monitoring tools and enhanced controls can assist companies' identity possible risk activities before they bring about losses. Much of the time, the number of possible risk events the banks encounters can be decreased, escalating general operations effectiveness. Comparing the information gathered through interviews to that of Accenture, one can firmly conclude that the interviewees in other words the bank is absolutely on top of issues with respect to the role of operational risk in competition in the Ghanaian banking industry. The survey demonstrated that operational risk management can aid in achieving bank objectives. Objective of Ecobank is not only to make profits by giving credits but also to ensure that they tailor their products and services to meet the requirements and expectations of their customers. Without effective management of operational risk, Ecobank cannot monitor its market and credit exposure.

The interview also revealed that operational risk management at Ecobank lowers profit and loss volatility. In the words of the branch managers, it is a regulatory requirement by Bank of Ghana for all banks to ensure compliance of the Basel III directive which is to set aside a percentage of their capital to cater for operational risk issues that might arise out of their day to day business activities. For instance in Ecobank, it is law that operational risk forms 3% of the appraisal of the employees of the bank hence meeting this procedures make the profit and loss follow a particular stable trend rather than being volatile. And this helps in making in realistic budgets. Additionally, this helps in better decision making. In a survey by Accenture in 2012, it was discovered that effective operational risk avoids profit and loss volatility and helps make better decisions. Accenture (2012) added that model outcomes can bolster superior decision-making by offering new knowledge; for instance, a model can demonstrate the possible result of the bank penetrating a new market with an alternate legitimate structure. Moreover, huge operational risk loss events can impose a critical effect on the volatility of the income statement account bringing about inability to achieve projected return. This can bring about a fall in the firm's market value. Good operational risk management can facilitate the reduction in volatility, particularly as it identifies with meeting income and revenue targets.

As identified by the interviewees, operational risk management also helps in better compliance and attracts customers in the sense that a bank with a good reputation attracts more customers. According to the managers the policies formed by the management of the bank are made taking into consideration the laws and regulations governing the industry hence going by these policies are well in cognizance with the macro level laws. This according to the managers give the bank a competitive advantage since its reputation is always preserved thereby attracting more customers. Again the British Consultancy firm Accenture also made similar observations. Regulatory compliance is a crucial element of transacting business and source of competitive advantage. The operational risk management role has an essential part in assisting to guarantee regulatory compliance. The bottom line effect of this is reputation which in turn leads to customer attraction according to the managers. The observations of the managers are in congruence with the findings of the Accenture (2012).

It is commonly comprehended that clients and workers desire to work for or with an institutions with reputation for high quality and low error rate. For instance, in Ecobank there is a unit called the Card Fraud Unit who regularly monitors activities or transactions done using the VISA card. When customer travels out of his/her country there is a form that has to be filled by the customer before he/she leaves. If he/she fails to follow suit, any repetitive transaction done using that particular card would be blocked by the Unit and a message would be sent to the customer's branch, until an advice is provided by the customer's branch. Accenture added that less performing banks and weaker organizations are inclined to losing clients resulting in reduction in contribution to margin. Workers are responsive to quality issues in their workplace and good workers may feel the need to leave and look for employment where there is job security.

The interviews also demonstrated that, Ecobank always motivates and encourage their staffs to be resilient in other words they should be robust enough to keep going and also because they are not locally based banks and reports to a parent bank, their processes and procedures in operating are always in conformity to or in compliance with international practices and standards.

The bank's excellent management disciplines, an unrelenting focus on execution, right strategies, robust risk management systems and outstanding customer services have given them a strong financial performance for some number of years, enormous growth in their loans to customers and tremendous increment in customer deposits.

Table 4.3 and figure 4.5 below show the profit before tax from 2010 to 2014. The surveys shows profit increased every year but inconsistently, profit increased by 14.05% in 2011, by 46.21% in 2012, by 25.08% in 2013 and 39.60% in 2014. The highest profit increment was recorded in 2012 and lowest in 2011. The inconsistency in profit was due to the continuous investment in talent, technology, systems to reduce operational losses and fines and other activities that help increase the customer base and provide quality service.

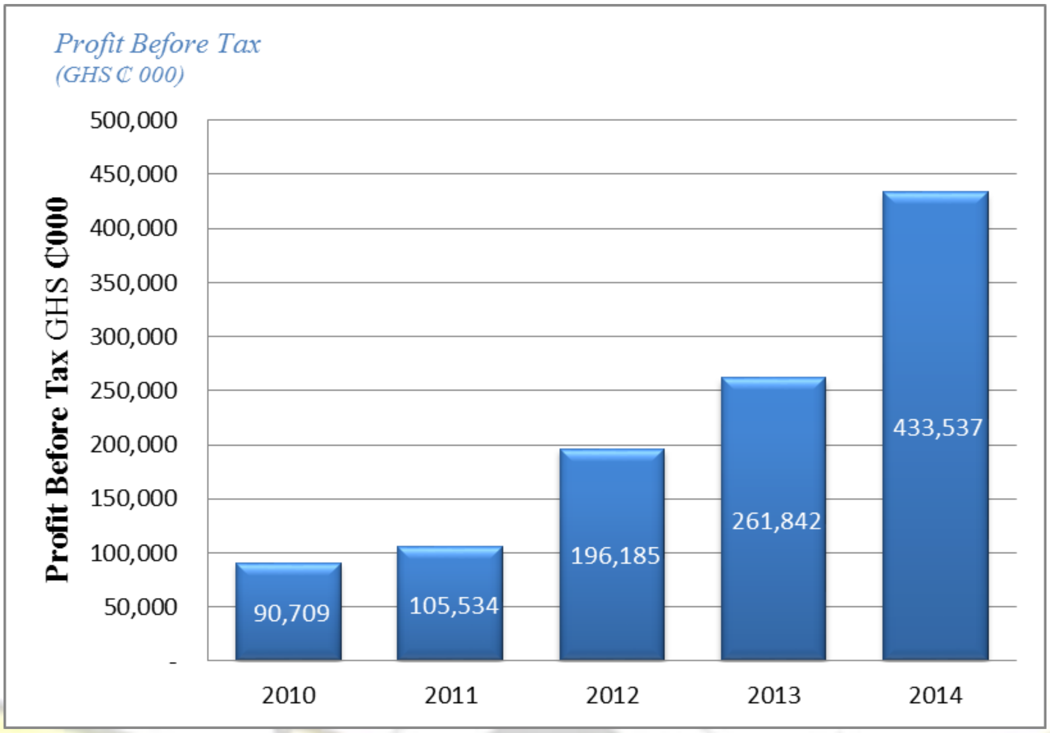
Though profit wasn't consistent, the cost – income ratio kept reducing.

Table 4.3: Profit Before Tax (PBT)

Profit Before Tax	**Amount**
	GHS ₵000
2010	90,709
2011	105,534
2012	196,185
2013	261,842
2014	433,537
Total	**1,087,807**

Source: Ecobank Annual Reports

Figure 4.3: Ecobank's Profit Before Tax from 2014 to 2012



Source: Ecobank Annual Reports

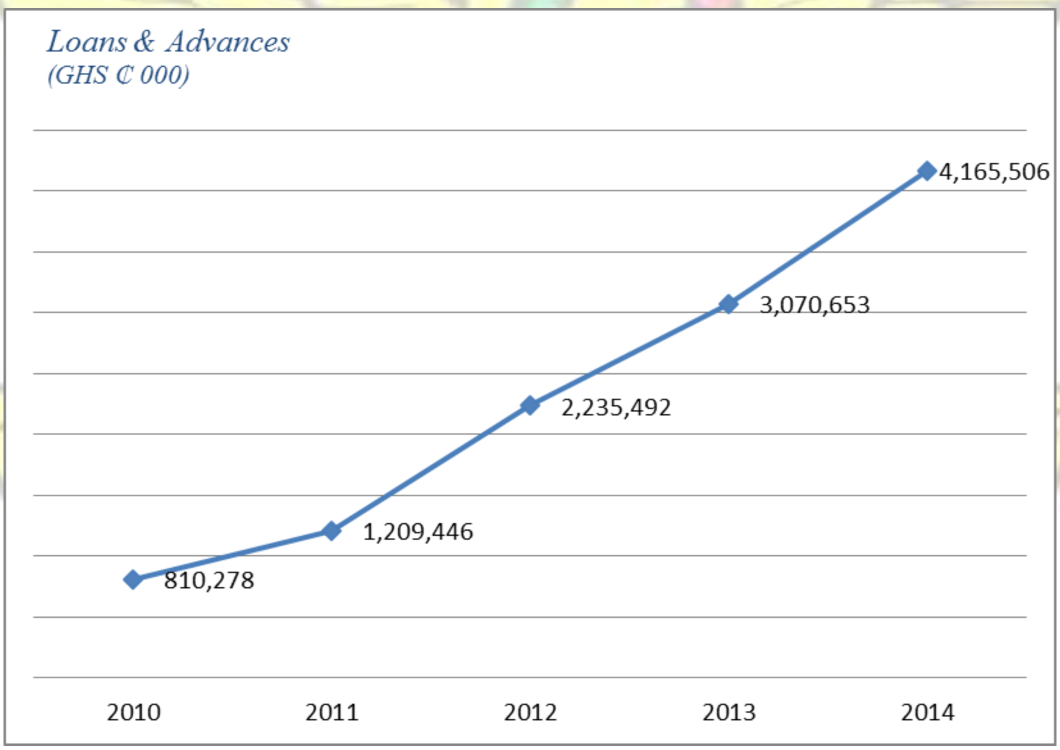
Table 4.4and figure 4.6below shows loans and advances to banks and customers, loans to customers constitute a larger part of the amounts. The reports showed loans and advances increased every year but at different increasing rate, there was an increment of 33% in 2011, 45.90% in 2012, 27.20% in 2013 and 26.28% in 2014. The survey shows that operational efficiency improved significantly and this raised customer confidence and trust in the operations of the bank, this also helped reduced cost that would be transferred to customers. This was one of the key things that made Ecobank gain competitive advantage over the other banks thereby increasing their assets of the bank.

Table 4.4: Loans &Advances to Banks and Customers

Loans & Advances	Amount
	GHS ₵000
2010	810,278
2011	1,209,446
2012	2,235,492
2013	3,070,653
2014	4,165,506
Total	**11,491,375**

Source: Ecobank Annual Reports

Figure 4.6: Loans & Advances to Banks and Customers



Source: Ecobank Annual Reports

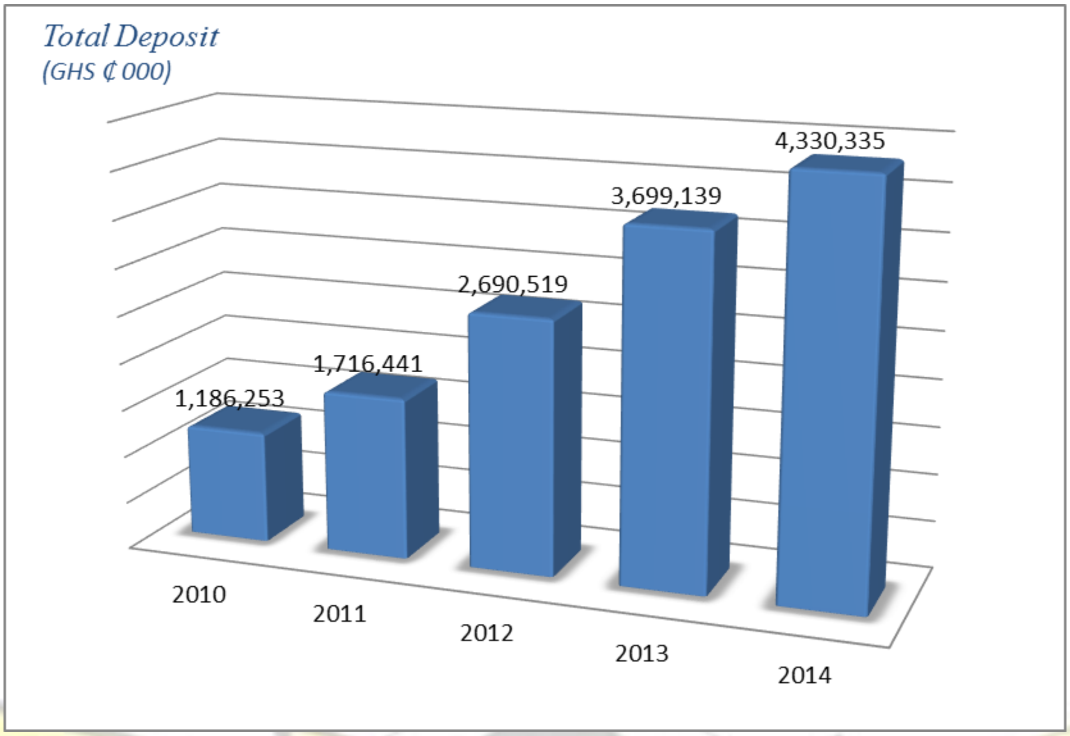
Table 4.5 and figure 4.7 below shows the total deposit received by the bank from customers and banks. Customers deposit constitutes a larger amounts of the total deposit received. Reports show total deposit increased by 30.89% in 2011, 36.20% in 2012, 27.27% in 2013 and 14.58% in 2014. It increased highly in 2011 and 2012 but started increasing at a decreasing rate. This was due to the fact the customers rather channeled their savings into investment securities of the bank. The survey showed that between 2010 and 2014, total deposit increased by 72.61% due to the robust and dynamic risk management systems put in place to monitor and minimize these risks to insure strong business support.

Table 4.5: Total Deposit from Banks & Customers

Total Deposit Received	**Amount**
	GHS ₵000
2010	1,186,253
2011	1,716,441
2012	2,690,519
2013	3,699,139
2014	4,330,335
Total	**13,622,687**

Source: Ecobank Annual Reports

Figure 4.7: Total Deposit from Banks & Customers



Source: Ecobank Annual Reports

4.5 Challenges Encountered by Ecobank in managing Operational Risk

The following challenges were identified by the Interviewees of Ecobank (Tema Branches) in the management of operational risk:

According to the interviewees, the cost of compliance is a challenge. This is because, there is the need to get skilled labour and equipment to ensure operational risk and all these come at a cost. In their explanations, they pointed in the wake of rapid technological advancement which is sweeping through the corridors of the banking industry there is the need for recruiting and training skilled labour. The interviewees added that acquiring the new technologies even now and then are also phenomenal cost let alone operating and maintaining them. It was further gathered that the expertise for operating these new systems needs to be sourced from the developed countries that spend several days if not months in training the staff of the bank thereby increasing the operating cost of the bank.

The interviewees also discovered access to accurate information as another challenge to managing operational risk in Ecobank Ghana Ltd. This is because various divisions of the bank need to conduct frequent tests the systems practically to check the state of affairs of the bank as posited by the interviewed managers. However, in some instances, the reality of issues on the ground is not known because such tests are not performed. Rather nice reports are written which limits the accuracy of information given to the bank. According to the interviewees the reports form core part of policies formulated and implemented by the bank but their ineffectiveness because of the fabrications in report writing was a major challenge for the bank.

According to the interviewees, lack of systematic measurement of operational risk is also another challenge for Ecobank. A manager cited an example that, the bank has put in a measure called Know-Your-Customer (KYC) forms to control money laundering. In this regard, when a customer is opening a new account he/she goes through KYC during which questions concerning how much is going to be deposited among others are asked.

But this information sometimes is kept in hard copies and is not incorporated in the bank system for automatic cross checks against the initial collected information about the customers hence lack of proper systematic measurement. Therefore even though there is a KYC, there is no corresponding automated program to monitor these fictitious transactions because it only exists on paper.

4.6 Strategies utilized by Ecobank to curb challenges posed by Operational Risk.

The interviews outlined the following as measures to curb the challenges posed by operational risk at Ecobank:

The interviewees outlined that, there are systems in place in the form of an Operational Risk Unit set up by management termed (Op-risk) unit. For example, for every branch, the manager becomes the risk controller. Also, for every department there is a risk unit with the head of department being the risk manager assisted by the supporting staff that meet regularly to review risk, assess the operational risk of the bank and report to the head of risk management. Therefore, there is a higher management involvement in the operational risk management from the Managing Director cascading down to all divisions as well as employees of the bank. For example a branch can send an email to the Human Resource Department to ask for leave for employees as a measure to break the chain in case an employee might involve in a fraudulent act. Also as a risk measurement control, every staff is subjected to a 10 day mandatory leave (continuous).

According to the interviewees, there is also an online review which is more effective than the traditional review done on paper. This online review according to the managers is visible to everyone hence more pressure to carry out duties as stipulated. This review ask questions such as number of attempted fraud, number of staff, number of customer complaints among others which are in turn forwarded to the Internal Control Department to be compared to existing audits for reconciliation. This measure compel employees to make authentic reports instead of fabricating one which could well run contrary to existing ones. This makes it more effective since there are sanctions for any misconduct on part on employees.

Furthermore, the internal control reports to the Board of Directors not the Managing Director as a way of preventing the Managing Director from directly influencing the affairs of the Internal Control.

According to the interviewees, another control measure for internal fraud is a system that signs out employees from the system of the bank every 30 minutes which require a password from logging in again hence preventing unauthorized users from logging into the system.

Finally, reports of servicing of machines, teller cages etc. are periodically checked by external staff. Moreover tables and teller cages are well demarcated for various things and the most important ones are strictly locked always and only opened when the need arise thereby protecting valuables of the bank.

CHAPTER FIVE SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter presents summary of findings, conclusion as well as recommendations on the operational risk issues in the Ghanaian banking industry. The components and sources of operational risk have been identified; the management procedures of these risks vis-à-vis the challenges encountered in the operational risk have all been explored by the study. Another important investigation conducted by the study has to do with how operational risk management can be a major source of competitive advantage in the banking industry. The conclusions are buttressed with a summary of the findings from the analysis. The chapter also contains some recommendations aimed at ensuring that banks manage their operational risks effectively and efficiently to ensure they gain competitive advantage.

5.1 Summary of findings

The following research questions were posed:

1) What are the various constituents/components of operational risk management in Ecobank?

2) How are operational risk management served as source of competitive advantage to the bank?

3) What are the challenges faced in managing the various components / constituents of operational risk management at Ecobank Ghana limited?

The analysis of the interview granted by the management and staffs of Tema branches of Ecobank Ghana Ltd. shows that the bank has a deep understanding and has a comprehensive procedure for dealing risk that might have arisen during their operation as a bank.

The study revealed that there are two broad constituents of operational risk at Ecobank namely; internal and external operational risks. The internal components include fraud by employees, failed processes, and system failures among others. The external components include external fraud without any internal conniving and environmental or physical disasters such as flood, power outages and fire outbreaks.

It was revealed that the Ecobank has strategies for dealing with both the internal and external operational risks. With regards to internal operational risk, the interviewees spoke about the following strategies. As part of the measures for curtailing internal operational risk, one employee is not permitted to commence and complete a transaction. There must at least be one different signature in the transaction process. This measure serves as barrier to any fraudulent employee and detection tool for any errors committed by one employee. Another internal measure is submission of reports on all aspect of operations of the banks. Covered in this reports according the findings of the study are number of attempted frauds, customers' complaints, number of temporarily staff etc. These reports according to the manager are frequently reviewed and acted to improve upon the operations of the bank thereby curbing operational risk as well.

The managers also named frequent auditing by the internal and external auditors as measures against any internal operational risk. They added that the auditing is done on both routine and impromptu basis to serve as deterrent against any internal fraud. The auditing also helps in errors at early stages before they get out control. The auditors report directly to the Board of Directors instead of the Managing Director who might have an interest in influencing the auditors' report.

The study also revealed that the bank has several strategies for hedging external operational risks as well. The interviewees asserted that most of their ATMs have security cameras installed around them to drive away thieves and ensure their safety.

It also came to light through the interview that has a comprehensive insurance cover for all their operations. This insurance cover cushions the bank and helps it retrieve monies that might be lost through robberies, fires, floods etc.

Another strategy for controlling external operational risk as outlined by the interviewees is frequent review and updates of employee passwords and operating software. These measures according to them are very effective measures for controlling external fraud.

The first competitive advantage gain through effective operational risk management as mentioned by the manager is freeing up capital. The manager explained that the long repercussions of note anticipating and developing mechanisms to deal operational risk can be more devastating and costly than preventing it. Therefore the capital that would have been invested in dealing with escalated problems is rather saved for running the core businesses of the bank.

The study also found that proper management of operational risk lowers operational cost. It is apparent that managing operational risk come at a cost but this cost is by less than cost that might arise due losses resulting loop holes in operations.

It was also discovered from the study that operational risk lowers profits and loss volatility. This is because compliance with laid principles prevents controllable losses and help in meeting set targets. This effective in the long run helps din better decision making the affairs of the bank.

Customer attraction and satisfaction is also another outcome of effective operational risk management as well a competition tool for Ecobank Ghana. Due the safety guaranteed to customers as a result of effective operations the bank attracts customers and satisfy their needs thereby leapfrogging its competitors.

Finally operational risk management also helps in compliance with regulatory. It is clear that a bank that avoids sanctions and fines maintains good reputations and likely to be preferred bank most customers.

The study discovered that despite the aforementioned benefits of operational risk management there are challenges encountered by Ecobank Ghana in the process.

One of the foremost challenges identified by the study is compliance. It was discovered that the cost involved in complying with the new operational risk management procedure are enormous hence making compliance sometimes head for management of the bank as a profit oriented organization.

Access to information was also found to be another challenge to managing operational. Effective operational risk hinges on an accurate or good reports gathered from employees but here like the case some employees forge their reports thereby making weak underpinning operational risk management policies.

Another challenge revealed by study is lack of systematic measure for operations. It was discovered that even in the wake of technological knowhow, some vital information of customers are still kept on paper thereby hindering automatic synchronization which paramount for detecting fraud and other anomalies.

The study revealed that even though there are huge challenges in managing operational risk, Ecobank Ghana put first the interest of its stakeholders and have appropriate measures in place to over the challenges that come with operational risk management. The study demonstrated that the bank invest operational management practices even though they are pretty much expensive.

The bank also formulates policies that help it operate with the frame work of the regulatory authorities both in local and international fronts. As a measure of making access to information easier for management of the bank, an online review system was introduced. This system helps in dissemination of information that than the medieval paper reporting.

5.2 Conclusion

Based on the findings of the study, the researcher concludes that, Ecobank Ltd has good operational risk management practices which have paved the way for the bank to gain some level of competitive advantage in the Ghanaian banking industry. However, there is more room for improvement with regards to the effective monitoring and implementation of its operational risk management practices in order to enhance its level of competitive advantage in the Ghanaian banking industry.

5.3 Recommendations

The researcher recommends the following to Ecobank Ltd.

Firstly, Ecobank should link their operational risk management activities to their business objectives and identify the prospective hurdles that hamper their competiveness. This will ensure the day to day management and control of operational risk.

Secondly, the management of Ecobank must consider more drastic measures to ensure the effective monitoring and evaluation of operational risk management practices of Ecobank Ltd. Through such drastic measures, the bank will be well informed on areas of operational risk management that needs appropriate changes and transformations.

Lastly, the researcher recommends that, although risk management is the responsibility of all staff at all levels, there must be a clear provision of risk management accountability among senior managers to ensure more management responsibility for risk control. Risk must be made more visible, measurable and manageable and ensure an evocative risk values through all procedures and accomplishments.

5.4 Directions for future Studies

The ever growing demand of customers for quality products and services and investors looking out for high earnings, further research needs to be undertaken to extensively delve into operational risk and how Ghanaian banks can continuously assess and quantify operational risk activities in order to be able to effectively manage it.

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APPENDIX

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

(KNUST SCHOOL OF BUSINESS)

This is a research being conducted in partial fulfillment of the requirement for the award of Master of Business Administration (MBA) Finance option on "OPERATIONAL RISK MANAGEMENT AND COMPETITIVE ADVANTAGE IN THE GHANAIAN BANKING INDUSTRY: A CASE STUDY OF ECOBANK GHANA LIMITED.

The purpose is to identity how relevant operational risk is to the banking industry and whether operational risk management can be a source of competitive advantage within the industry. Interviewees are assured of confidentiality and anonymity of the information they provide. You are further assured that any information you provide is purely for academic.

INTERVIEW GUIDE FOR DATA COLLECTION AT ECOBANK GHANA LIMITED	
EXCERPT OF INTERVIEW CONDUCTED BY RESEARCHER	**COMMENTS**
• **INTERVIEWER: What is your general understanding of the term operational risk management?** • **INTERVIEWEES:** In a nutshell, Operational risk results from failure in internal processes, people, systems and some external factors. For example, when a cheque is received, it is supposed to be confirmed and if this not done and the cheque goes through then there's a failed process on part of people.	Interviewees indicate that operational risks or losses are caused by failures in internal procedures and other external factors.

  	The interviewer picks up on the interviewees' responses and probes the topic more deeply.
INTERVIEWER: What are the components or constituents of operational risk at Ecobank? **INTERVIEWEES:** There are two general constituents of Operational risk namely internal and external. Those are the two main operational risk components; all those events and losses suffered by the bank can be grouped under these two components.	
INTERVIEWER: In your opinion, what do you consider as the internal components of operational risk at Ecobank? **INTERVIEWEES:** The internal components includes fraud by employees, failed processes, system failures, non-compliance with regulatory authority for instance when an employee is given a fine by the regulators for failing to follow a particular procedure, this becomes an operational loss due to failed internal process, errors by people such as keying or passing a wrong entry a customers without any fraudulent	The interviewer probes further, focusing his question on the internal components of operational risks that the interviewees' mentions.

intentions and that customer makes away with that money, internal a staff who is supposed to pick money from one point and doesn't bring the money, this becomes a people error, also failed systems such as faulty ATMs and faulty internet banking systems or software.	

INTERVIEWER: What are some of the strategies used in managing the internal operational risk of the bank? **INTERVIEWEES:** Internally for people, we have processes such as a policy where one person should not begin and end a transaction. There should be at least one intervention so that the person cannot input and authorize at the same time. 2. We also have reports that are submitted regularly on daily, weekly and monthly basis. Moreover, at every quarter of the year, there is a risk review called RCSA and every month, every branch manager sends a report about his/her processed, people, systems, generators, fire prevention measures etc. 3. We also have site inspection done from time to time. We also have what we call SWIP. This involves	The interviewer probes further still, focusing on the internal components and strategies used to mitigate and manage internal operational risks.

people from risk units who come and inspect the operations of the branch in the knowledge of the staff of the branch. 4. We also have third parties that come to do inspections without the knowledge of anyone at the branch in question. This is known as mystery shopping. 5. There are also fire and panic alarms installed at the branch, etc.	

INTERVIEWER: In your opinion, what do you consider as the external components of operational risk at Ecobank? **INTERVIEWEES:** Any risk that is outside the control of the bank is an external risk. We can't anticipate our customers perpetrating fraud, we can't imminent labour actions leading to our inability to operate, we can anticipate other environmental factors which we do not have control over. For examples, power outages, floods are all ramified as external components of operational risk.	The interviewer picks up on respondents' remark about external component of operational risk and explores the subject more deeply.

INTERVIEWER: What are some of the strategies used in managing the external operational risk of the bank? **INTERVIEWEES:** We have measures such as providing security such CCTV cameras around our ATMs, comprehensive insurance cover for our operations 2. We also do frequent monitoring around our ATMs to ensure that people place no devices around them to compromise their security. 3. We also have backups for emergencies such as fire, flood, robbery cases etc. 4. We also have people in charge of communication to the staff and external agencies in times of emergencies. 5. Moreover, processes and passwords are reviewed frequently to make them robust to ensure safety. 6. We also have vault limits which is GHC 4,000,000. If a branch receives more than the 4m, the excess is repatriated the next working day. 7. There are also a well-organized evacuation plans for emergencies, etc.	The intervie external further still, and on the used to te components anage strategies operational mitiga external risks.

INTERVIEWER: In what ways does operational risk management enhance competitive advantage through the indicators mentioned earlier? **INTERVIEWEES:** 1. Operational Risk is a very important because it can collapse a bank overnight. Therefore managing operational risk is very crucial. Managing operational risk helps Ecobank to free-up capital which otherwise would been spent on losses arising from poor operational risk management practices. 2. Good operational risk management at Ecobank lowers cost in the sense that the deposits taken from customers come at a cost and these deposits are sold to other customers since the primary function of a bank is taking from other surplus unit and giving to the deficit unit. 3. Operational risk management at Ecobank lowers profit and loss volatility and this helps in making in realistic budgets. 4. It also helps in better compliance and attracts customers in the sense that a bank with a good reputation attracts more customers.	The interviewer makes sure he has exhausted this line of questioning before moving to the next topic.

INTERVIEWER: What are some of the challenges encountered by the bank in managing operational risk of the bank both internally and externally? **INTERVIEWEES: 1.**The cost of compliance is a challenge. This is because, there is the need to get skilled labour and equipment to ensure operational risk and all these come at a cost. • Access to information is also a challenge. This is because various divisions of the bank need to conduct frequent tests to check the state of affairs of the bank. However, in some instances, the realities of issues on the ground are not known because such tests are not performed. • Lack of systematic measure of operates. For example for measuring and controlling money laundering, we have what is called KYC. When a customers is opening a new account he/she goes through KYC during which questions concerning how much is going to be deposited among others are asked. But this information sometimes is kept in hard copy and are not incorporated in the bank system for automatic cross checks hence lack of proper systematic measurement.	The interviewer gives the interviewees a chance to raise more points on the subject matter.

INTERVIEWER: What has been some of the strategies utilized by the bank to curb these challenges outlined? **INTERVIEWEES:** There are systems in place in the form of an Operational Risk Unit set up by management termed Ops Risk unit. 2. There is also an online review which is more effective than the traditional review done on paper. This online review is visible to everyone hence more pressure to carry out duties as stipulated. 3. Again the internal control reports to the Board of Directors not the Managing Director as a way of preventing the Managing Director from directly influencing the affairs of the Internal Control. 4. Another control measure for internal fraud is a system that signs out employees from the system of the bank every 30 minutes who require a password from logging in again hence preventing unauthorized users from logging into the system, etc.	The interviewer gives the interviewees a chance to raise other points.