INFLUENCE OF ENTERPRISE RISK MANAGEMENT STRATEGIES ON PERFORMANCE OF MEDIUM SCALE BUSINESSES IN KISUMU CITY, KENYA

BY

JUVENILE MABELE NYONGESA

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DECLARATION

This research report is my original work and has not been presented for a degree in any university.

Signature …… Date ……

JUVENILE MABELE NYONGESA MBA/BE/05012/2014

This research proposal has been submitted for examination with my approval as a university supervisor.

Supervisor:

Signature……. Date……

Dr. R.K. MULE, Ph.D.

Department of Accounting and Finance

Maseno University

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May I fast of all take this opportunity to thank the almighty God for this far he has enabled me to reach

Secondly, I am so grateful to my supervisor Dr. RK. Mule for his personal commitment to ever direct me at all times, his patience and more importantly his friendly guide in my work not only sharpened my skills in doing any project but brought about success in my research.

Special thanks to my Mother for her advice on never give up until you see fruits, my entire family that has time and again stood firm with me in my undertakings

May our living God bless you abundantly

DEDICATION

I dedicate this project work to my family for their cheerful support and understanding throughout my research period.

May our heavenly father richly bless each one of you in his own way

ABSTRACT

The ability of the management of medium scale enterprises (MEs) to carefully identify the risks that their businesses could face and take appropriate counter-actions will certainly lead to successful and profitable ventures and contribute to economic growth of the nation. By incorporating enterprise risk management into MEs operations, they will be better equipped to exploit their resources, thereby enabling their organizations to transform an expenditure activity into one that yields income. However, most MEs stagnate financially when exposed to various risks it is hypothesized that this is due to lack of risk management strategies. Moreover, studies on risk management have concentrated on large firms. Therefore, this study was aimed at analyzing the influence of enterprise risk management strategies on financial performance of MEs in Kisumu County. Specifically, the study sought to analyze the influence of risk identification strategy on financial performance, analyze the influence of risk assessment strategy on the financial performance, analyze the influence of risk mitigation strategy and to analyze the influence of risk monitoring strategy on the financial performance of MEs in Kisumu County. The study was premised on the portfolio theory and used a descriptive research design.The study population was 331 registered MEs located within Kisumu County.The results showed positive significant none standardized coefficients for risk identification, risk assessment, risk mitigation and risk monitoring with coefficients of 0.88,0.150,0.027,and 0.623 respectively. This means that a % age change in each of the risk management strategies would lead to a change in financial performance by 0.088%, 0.150%, 0.027%, and 0.623% respectively.R^2 is 0.3812 and is significant meaning that the model is valid, has stability for prediction and predicts variance of performance at 38.12%. The study concludes that risk management strategies when enhanced will positively contribute to improvement in financial performance. It is recommended that MEs should improve on insurance of catastrophic risks so as to increase on their profits.

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ABBREVIATIONS & ACRONYMS

CRO	Credit Review Officer
ERM	Enterprise Risk Management
KRA	Kenya Revenue Authority
SMEs	Small and Medium Enterprises
SPSS	Statistical Package for Social Sciences

OPERATIONAL DEFINITION OF TERMS IN THE STUDY

Enterprise Risk Management Strategies: These are strategies evolving to address the needs of various stakeholders, who want to understand the broad spectrum of risks facing complex organizations to ensure they are appropriately managed.

Enterprise Risk Management: Enterprise Risk Management is a strategic business discipline that supports the achievement of an organization's objectives by addressing the full spectrum of its risks and managing the combined impact of those risks as an interrelated risk portfolio.

Financial performance: A subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation.

Hazard: A situation that pauses a level of threat to life, health property and/or environment:

Opportunity: Exploitable set of circumstances with uncertain outcome, requiring commitment of resources and involving exposure to risk.

Risk Avoidance: This is an informed decision not to become involved in a risk situation.

Risk Reduction: Is a selective application of appropriate techniques and management principles to reduce either the likelihood of an occurrence or its consequences.

Risk Retention: Unintentionally retaining the responsibility for loss or financial burden or loss within the organization.

Risk Transfer: Risk shifting through non-insurance means, such as a warranty

Risk: Risk is anything that may happen that impacts the achievement of an organization's objectives. It is an event having a cause and a consequence that could be either positive or negative. Risk encompasses the following three dimensions:

Uncertainty: A state of having limited knowledge where it is impossible to exactly describe existing state or future outcome, more than one possible outcome

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CHAPTER ONE
INTRODUCTION

This chapter gives a synopsis of what the study covers. The chapter is composed of sub-sections including; background of the study, problem statement, objective of the study, significance of the study, scope of the study and the limitations of the study

1.1 Background of the Study

Medium-scale Enterprises (MEs) play a crucial role in the development of a countries economy (Ariyo, 2008). They are of significance importance to the economy of developing countries such as Kenya, where challenges such as poverty eradication and unemployment are considered major issues facing citizens. In Kenya, they account for 45% of the Kenyan gross domestic product (G.D.P) and employ more than 80% of the total Kenyan work force according to Economic Survey (2009). The Kenyan government and other stakeholders in recognition of the importance of this sector to the economy have directed their efforts towards creating sustainable MEs. These efforts however have not had the desired effect, as most small firms are short-lived.

Research conducted on MEs in Africa suggests that there are more MEs closures than establishments, with approximately only 1% of MEs growing from having five or less employees to ten or more (Mead & Liedholin, 1998; cited in Smith & Watkins, 2012). In the course of their operations, enterprises encounter many risks such as political, natural disaster, credit and operation risks. MEs, especially during the start-up and expanding stage consider themselves as a risk. Thus, MEs regularly confront risks offensively to grow, which is in contrast with larger firms that usually take risk defensively in order to ensure operation strength. However, the ability of MEs to withstand risks is lesser compared to that of the larger firms (Virdi, 2005).

In addition, being synonymous with limited resources and weak structural features, MEs are more likely to be exposed to the harmful effects of risks compared to larger enterprises (Henschel, 2006; Raghavan, 2005). Therefore, it is necessary for every small business to manage

its risks in order to reduce and minimize the loss exposure. Smith and Watkins (2012) argue that risk management should be a major concern for MEs particularly because they are more sensitive to business risk and competition. They opine that risk management will assist in the development of contingency plan that can help to stop the erosion of organizational income and consequently improve performance. In this regard, MEs thus require accessible and standardized tools to help in identification of risks and match them with appropriate techniques.

Head (2009) defines risk management as the process of planning, organizing, directing and controlling resources to achieve given objectives when good or bad events are possible. Vaughan and Vaughan (2001) on the other hand consider risk management as a scientific approach to dealing with pure risks by anticipating possible accidental losses, designing, and implementing procedures that minimize the occurrence of loss or the financial impact of the losses that do occur. Risk management for a business of any size therefore relates to the systematic assessment and strategic response to threats, which may hinder the attainment of both short term and long-term business objectives.

Risk management is more of a structured approach in managing uncertainties. This approach usually involves assessment of risks, development of strategies and mitigation of the identified risks using available managerial resources. The mitigation strategies employed include but are not limited to transferring to another party, avoiding the risk, reducing the negative effects of the risk, and accepting some or all of the consequences of a particular risk. In MEs, however risk mitigation strategies are primarily limited to risk avoidance actions, and to a lesser extent, risk transfer through insurance activities (Smit & Watkins, 2012).

Nathane (1995) asserts that MEs owners and managers are not versed in the availability and use of risk reduction techniques (that is, elimination, reduction, and transfer or retention) to reduce the adverse effects of risks on the enterprise. Risk retention techniques whereby risks are financed by internal reserves such as current income are little known, and rarely applied in MEs according to Nathane (1995). Every business needs a strong risk management strategy. The adoption of a risk management methodology has several potential benefits. One that can lead firms to decrease the risk of failure

In the course of their operations, enterprises encounter many risks such as political, natural disaster, credit and operation risks. MEs, especially during the start-up and expanding stage consider themselves as a risk. Thus, MEs regularly confront risks offensively to grow, which is in contrast with larger firms that usually take risk defensively in order to ensure operation strength. However, the ability of MEs to withstand risks is lesser compared to that of the larger firms (Virdi, 2005). In addition, being synonymous with limited resources and weak structural features, MEs are more likely to be exposed to the harmful effects of risks compared to larger enterprises (Henschel, 2006; Raghavan, 2005). Therefore, it is necessary for every small business to manage its risks in order to reduce and minimize the loss exposure. Smith and Watkins (2012) argue that risk management should be a major concern for MEs particularly because they are more sensitive to business risk and competition. They opine that risk management will assist in the development of contingency plan that can help to stop the erosion of organizational income and consequently improve performance. In this regard, MEs thus require accessible and standardized tools to help in identification of risks and match them with appropriate techniques.

Risk management also ensures that there is continuity in production and trading, which leads to promotion of the enterprise's external and internal image. Risk management also helps an enterprise in adequately selecting the type and the level of risk that is appropriate for the firm to take to maximize its value. Finally, the ability to anticipate risks and proactive management of those risks by an enterprise is critical in creating and nurturing core business value by maximizing profits and minimizing costs.

The effective management of risk is therefore essential as it enables the business owner to avoid losses, maximize the potential of opportunities, and achieve the desired outcomes. Therefore, the proactive management of an enterprise to anticipate risks is essential to creating and nurturing core business value. Despite the huge potentiality of MEs in the development of Kenyan economy, their real contribution is relatively low. According to Torres (2008) cited in Kagwathi (2014), 58% of MEs started in Kenya hardly grow to become large enterprises; they remain static, while 4% die at an early stage. Though access to credit was identified through a survey as the major course of the trend, establishment of more than 150 credit 8 schemes NBS (2009) in an attempt to reverse the situation failed to reverse the situation as demonstrated by the closure of over 11360 MEs in the same year (2009).

This failure by MEs can be attributed to a combination of risks and uncertainties, and the lack of required skills to handle these risks properly (Watt, 2007). Risk management in most MEs is the prerogative of the owner whose decisions lack the required professional qualities (Dansu,2013) and as a result have a negative impact to the enterprise. Smit and Watkins (2012) agree with Watt (2007) by asserting that failure of SMEs can be attributed to lack of management skills; risk management is one of such skill. In addition, the SMEs sector in Kenya being synonymous with poor funding may find it difficult to invest in a robust risk management program and as a result negatively affect their performance.

All in all a majority of MEs do not have risk management strategies in place. Therefore, in the event that a risk occurs, they stand exposed to losses and at times closure. Therefore, this study will aim to analyze the influence of having risk management strategies in place as opposed to not having any strategies in place on the financial performance of medium scale enterprises.

1.2 Statement of the Problem

Although risk is generally considered the possibility of outcomes deviating from what was expected, primarily firms are concerned with negative outcomes since their negatively affect the business operation and thus require proper management. Despite the necessity for an enterprise risk management program, many SMEs rarely carry out detailed risk assessment and management strategies. The mechanism to prevent the harmful effects of risks is also not systematically developed and performed.The fact that engaging in risk assessment and management also requires a certain budget and human resource also hampers their ability to set up a comprehensive risk management program. This is so as SMEs are characterized with scarcity of resources-both financial and human resources. SMEs therefore have little option left and as a result, they have to absorb most uncertainties and risks confronting them. However, they are unable to absorb most of these uncertainties and risks. This in ability has direct impact on their performance as it weakens their ability to achieve excellent financial performance .As the SME sector in Kenya continues to grow and expand rapidly, creating jobs and enormously contributing to the GDP and attainment of vision 2030. There is need to strengthen their internal capacity to identify and anticipate potential risks to avoid unexpected losses and surprises which may be catastrophic not only to their survival but to the economy in general. Enterprises are therefore required to manage risks and uncertainty, in recognition of the potential benefits that

may accrue because of implementing risk management systems. Risk management should thus be a core business process that should be planned accordingly and on a continuing basis. By incorporating risk management strategies , MEs in Kisumu County are better equipped to exploit their resources profitably. In addition by adopting strong risk management practices the MEs can in effect reduce their exposure to risks, enhance their credibility in the marketplace, and create new opportunities for growth. A lot of research has been done locally on the impact of risk management on financial performance but no study has however been conducted the influence of enterprise risk management strategies on financial performance of medium scale businesses a case of Kisumu County. Thus, there exists a gap necessitating this study.

1.3 General objective of the Study

The general objective of the study is to analyze the influence of enterprise risk management strategies on financial performance of medium scale businesses a case of Kisumu County.

1.4 Specific objectives of the Study

The specific objectives of the study were to:

i. Analyze the influence of risk identification strategy on the financial performance of MEs in Kisumu County.
ii. Analyze the influence of risk assessment strategy on the financial performance of MEs in Kisumu County.
iii. Analyze the influence of risk mitigation strategy on the financial performance of MEs in Kisumu County.
iv. Analyze the influence of risk monitoring strategy on the financial performance of MEs in Kisumu County.

1.5 Research Hypothesis

H_{01}: Risk identification strategy has no statistical significance on financial performance of MEs in Kisumu County.

H_{02}: Risk assessment strategy has no statistical significance on financial performance of MEs Kisumu County.

H_{03}: Risk mitigation strategy has no statistical significance on financial performance of MEs Kisumu County.

H_{04}: Risk monitoring strategy has no statistical significance on financial performance of MEs Kisumu County.

1.6 Scope of the Study

The study analyzed the influence of enterprise risk management strategies on financial performance. The study was limited to the four main objectives of the study namely:analyze the influence of risk identification strategy on the financial performance of MEs, analyze the influence of risk assessment strategy on the financial performance of MEs, analyze the influence of risk mitigation strategy on the financial performance of MEs and to analyze the influence of risk monitoring strategy on the financial performance of MEs in Kisumu County. The study was limited to 720 registered MEs operating in Kisumu County. The study targeted both the owners and the employees working in these MEs. The study was in itself limit to four main enterprise risk management strategies; risk identification, risk assessment, risk mitigation and risk monitoring. The study was limited to a period of four months (July to October 2016).

1.7 Justification of the Study

The study offers valuable contributions from both a theoretical and practical perspective. Theoretically, it contributes to the general understanding of enterprise risk management strategies and their effect on financial performance. Given the recent concern with risk management at a global level, the study was aimed at ensuring that Kenyan SMEs follow international best practice of the sector.

In particular, the study will assist SMEs operating in Kenya to identify the gaps in their risk management practices and thus be able to improve the process of managing risks and subsequently, enhance their financial performance. As a result, the study will benefit the general public to the extent that SMEs will be better placed to manage risk and hence issues of non-payment of claims due to insolvency and fraud will be minimized.

Lastly, the study will add to the existing body of knowledge on risk management to benefit academicians and aid further research on risk management not only in the MEs sector, but also in the larger business sector.

1.8Conceptual Framework

Enterprise Risk Management Strategies

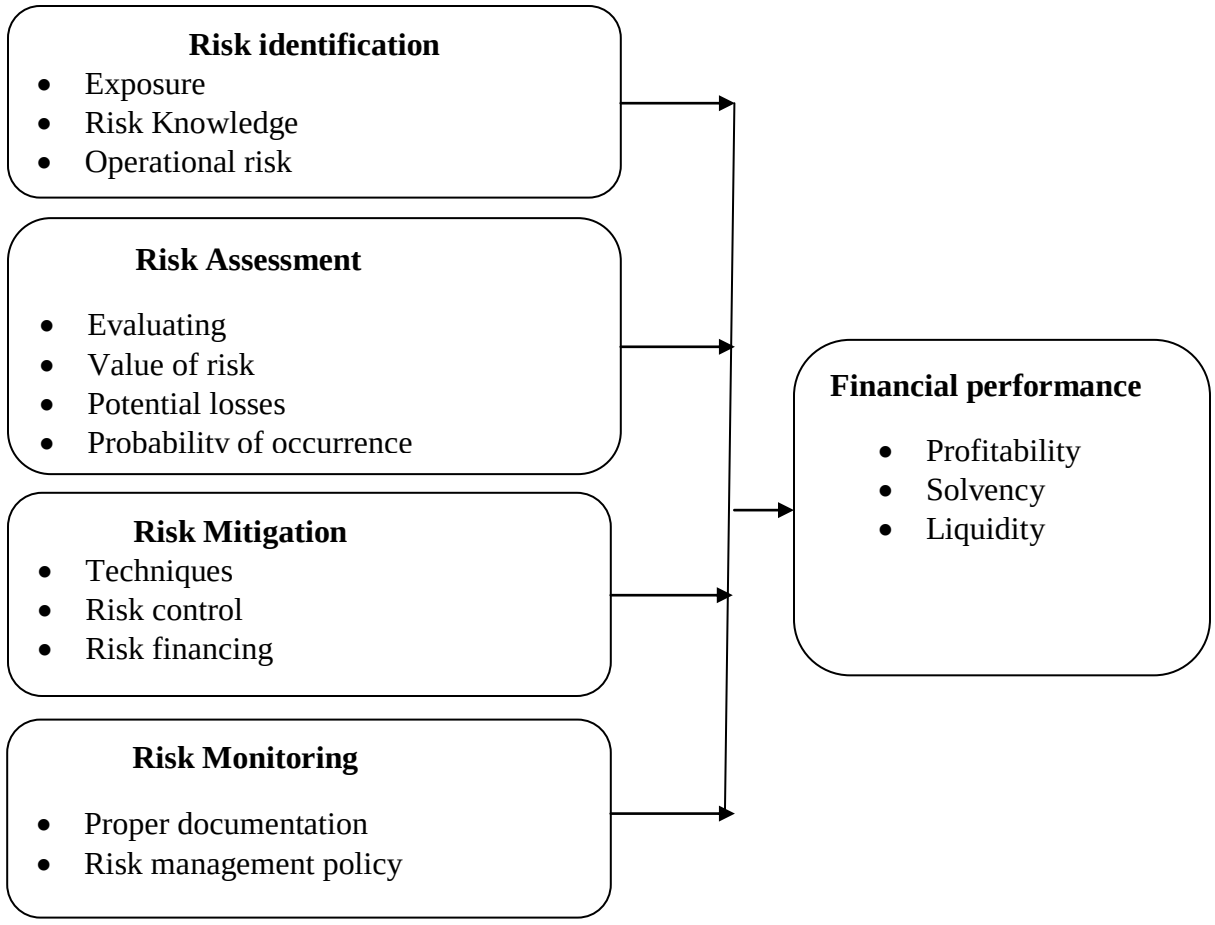


Figure1.1: Enterprise Risk Management Strategies and Financial Performance Relationship

Source: Author, (2016)

The above conceptual framework shows the relationship between the study variables. The dependent variable is ME financial performance which was measured on the bases of ME

profitability. The dependent variable is influenced by a set of Enterprise Risk Management Strategies. The first variable is risk identification and its measurable parameters include exposure, risk knowledge and operational risk. The second objective is risk assessment and its measurable includes evaluating, value of risk, potential losses and probability of occurrence. The third variable is risk mitigation and is parameters includes techniques, risk control and risk financing. Finally risk monitoring with its parameters being proper documentation and risk management policy

CHAPTER TWO
LITERATURE REVIEW

This chapter contains related literature review as per the objectives of the study :influence of risk identification strategy on the financial performance of MEs, influence of risk assessment strategy on the financial performance of MEs, influence of risk mitigation strategy on the financial performance of MEs and influence of risk monitoring strategy on the financial performance of MEs in Kisumu County. This chapter reviews the past literature on the study of enterprise risk management strategies on financial performance was critically reviewed. It starts with a theoretical framework, empirical review and lastly summary of literature.

2.1 Theoretical Review

A theory refers to a set of accepted facts, assumptions or propositions, that attempts to provide a rational and plausible explanation of cause and effect relationships, among a set of elements of an observed phenomenon. This study was premised on the theory of portfolio theory and capital asset pricing model.

2.1.1 Portfolio Theory

The basis of portfolio theory was first developed in 1959 by Harry Markowitz. The common sense behind the portfolio theory is based on the adage 'do not put all your eggs in one basket'. This explains the risk- reducing effect of spreading investment across a range of assets, that in a portfolio unexpected bad news concerning one company will be compensated for to some extent by an expected good news about another. Markowitz (1959) has given the tools for identifying portfolios which give the highest return for a particular level of risk. The investors can then select the optimum risk-return trade-off for themselves depending on the of personal risk aversion. According to the portfolio theory there is a risk- reducing effect of spreading investment across a range of assets rather than running a single investment.

Companies have successfully applied modern portfolio theory to market risk over the years. The consideration of the company's entire risk portfolio in a holistic process is said to contribute to reduced earnings volatility, stock price volatility and external capital Costs as well as higher

capital efficiency, where the consideration of risk dependencies further allows companies to exploit synergy effects in the risk management process (Liebenberg and Hoyt, 2003). The theory encourages asset diversification to hedge against market risk as well as risk that is unique to a specific organization (Omisore, Munirat & Nwufo, 2012). Therefore, portfolio being a combination of assets, the model becomes a weighted combination of these assets' returns. It is important to note that when different assets are combined and whose returns are not perfectly positively correlated, then portfolio theory leads to reduction of the total variance of such asset combination returns over a given period of investment. This return is computed by getting the change in value of the assets and any distribution received during a given period over which the assets were held, and is then expressed as a fraction of the initial outlay.

2.1.2 Capital Asset Pricing Model and Arbitrage Pricing Theory consider dropping CAPM

Financial theory posits that the only relevant risk of an asset should be its level of systematic risk, as this risk cannot be diversified away. The cost of capital is a linear function of systematic risk (Ross et al 2005). The asset pricing theory uses one systematic risk factor as the market risk, while the capital asset pricing model an asset's exposure to market risk is measured by its beta (Roll 1977). In both theories expected return is a trade off with risk. Different approaches are used to measure risk and they provide a rational framework for decision making provided existing information relevant to an event is fully appraised and deductions are based solely on such information (Fama et al 1992, 1996, 2004).

2.2 Empirical Review

Banks (2004) defines risk as uncertainty associated with a future outcome or event. Applied more specifically to corporate activities, it is the expected variance in profits, losses, or cash flows arising from an uncertain event. Risk management is defined by Rejda (2008), as the process through which an organization identifies loss exposures facing it and selects the most appropriate techniques for treating such exposures. Kiochos (2007) and Stulz (2013), argue that in risk management, a prioritization process must be followed whereby the risk with the greatest loss and greatest probability of occurrence is handled first and risks with lower loss are handled later. In practice, however, the process can be difficult and balancing between risks with a high probability of occurrence but lower loss against those with high loss but lower probability of occurrence can be mishandled.

Banks (2004) asserts that the key focus of risk management is controlling, as opposed to eliminating, risk exposures so that all stakeholders are fully aware of how the firm might be impacted. Kiochos (2007), states that the risk management process involves four steps; that is, identifying potential losses, evaluating potential losses, selecting appropriate risk management techniques for treating loss exposures and implementing and administering the risk management program.

2.2.1 Risk Identification Strategy and Financial Performance of MEs

Risk identification sets out to identify an organization's exposure to uncertainty. This requires an intimate knowledge of the organization, the market in which it operates, the legal, social, political and cultural environment in which it exists, as well as the development of a sound understanding of its strategic and operational objectives, including factors critical to its success and the threats and opportunities related to the achievement of these objectives (Venette, 2013). Risk identification should be approached in a methodical way to ensure that all significant activities within the organization have been identified and all the risks flowing from these activities defined. All associated volatility related to these activities should be identified and categorized. Departments and the employees must be assigned with responsibilities to identify specific risks (Power, 2004).

Yusuwan (2008) focused on identifying the level of awareness of risk management in their study on the risk management practices on construction project companies in Klang Valley, Malaysia. They undertook to examine the policies undertaken when dealing with risks in a construction project and identifying the problems and challenges in risk management. For this study, they employed questionnaire survey and interviews to study 27 public and private companies operating in Klang Valley. The study found out that 44.4%, 29.6%, 14.8% and 11.1% had occasionally heard, heard and attended training, practiced risk management and never heard about risk management respectively. In addition, 51.9% of the respondents believed that risk management was capable of adding value to daily work, 33.4% believed that risk management was useful in times of crisis. Their studies concluded that risk management positively contributes to the productivity and financial performance. These studies only considered the developed

countries and have not addressed risk management in the African context. This study seeks to fill the research gap.

Muli (2013) conducted an investigative study on the management of property risks in Kenya using a case study of the insurance sector. Questionnaires were distributed to a sample of 18 insurance companies out of a total of 36. An interview was conducted with the Commissioner of Insurance and the Honorary Secretary to the Institute of Loss Adjusters and Risk Surveyors. Due to the exploratory nature of the study, a qualitative analysis of the available data was adopted. Data from questionnaires and interviews was coded and frequency tables in simple percentages used to analyze responses to each question. A descriptive approach was then adopted in communicating the results. It was found that although insurers have adequate information for any risk management activity, there lacks an efficient means of storage and retrieval of the same. The study recommended computerization and general improvement of their information systems. This study specialized on the insurance industry and the findings would not be applicable in the SMEs context.

Kithinji (2010) studied credit risk management and profitability of commercial banks in Kenya to assess the degree to which the credit risk management in practice had significantly contribute to high profits in commercial banks of Kenya. Data on the amount of credit, level of non-performing loans and profits were collected for the period 2004 to 2008. The results of the study showed that, there was no relationship between profits, amount of credit and the level of nonperforming loans. A regression model was used to elaborate the results which showed that there was no significance relationship between the banks profit and credit risk management proxied by level of Nonperforming Loans and Loans and Advances/Total assets. This empirical study was only confined to the banking sector which is a very different area as compared to the SMEs which possesses very different risks.

Risk identification strategies could influence financial performance in ways such as loss prevention. It is possible to prevent the occurrence of a risk if the management of the ME is aware of the risks that it is exposed to. However, based on the financial stagnation of most MEs in Kisumu county, it is possible that risk identification strategies are not put in place effectively.

2.2.2 Risk Assessment Strategy and Financial Performance of MEs

Risk assessment aims at evaluating and determining the impact of each risk on the firm's operations. It is the determination of quantitative or qualitative value of risk related to a concrete situation and a recognized threat (also called hazard); and consists of an objective evaluation of risk in which assumptions and uncertainties are clearly considered and presented. Part of the difficulty of risk management is that measurement of both of the quantities in which risk assessment is concerned potential loss and probability of occurrence can be very difficult and the chance of error in the measurement of these two concepts is large. A risk with a large potential loss and a low probability of occurring is often treated differently from one with a low potential loss and a high likelihood of occurring (Power, 2004).

Rejda (2008) suggests that risk measurement involves estimating the frequency and severity of loss for each type of loss exposure. Once loss exposures are analyzed, they can then be ranked in order of their relative importance. He further asserts that loss severity is more important than loss frequency. Anderson (2005) and other critics have expressed concerns that risk assessment tends to be overly quantitative and reductive, arguing that risk assessments ignore qualitative differences among risks. Risk assessment is beneficial to the firm since the results serve as the basis for cost savings through avoidance and the judicious use of available resources for risk mitigation.

Some empirical work understands risk management as an organizational and social practice, and has compiled sufficient evidence to suggest that risk management practices vary considerably across firms, even within an industry (Mikes and Kaplan, 2014). In some firms, risk management takes the form of complex financial transactions (Chacko, 2011); in others, it follows a more holistic assessment of financial and nonfinancial risks (Arena, 2010), bridging functional silos. Risk management in some firms consists only of policing the business for compliance with risk limits and risk policies while, in others, the function helps the organization learn about uncertainties in its strategy and in its external and competitive environment (Power, Ashby and Palermo, 2013).

Kinyua (2010) conducted a study on the assessment of risks as a component of corporate strategy in selected life insurance firms in Kenya. The research employed a descriptive survey design. The population of the study consisted of only 23 insurance firms involved in life insurance. The findings of the study indicated that the top three risks faced by insurance firms were competitor risk, regulation and de-regulation risk and industry economics risk respectively. Competitor risk was characterized by companies competing for the restricted market which was not made any better by the worsening economic situation. Given the reality of risks to company strategy, this study recommended that insurance firms further enhance the deployment of strategic planning tools that give the firms an outside-in perspective of the strategic planning process. This study also restricted itself to the insurance industry.

Once a risk has been identified, it is important that one makes an assessment on the likelihood of the occurrence of the risk and how much damage it could cause to the business. This study will query the risk assessment tools put in place by MEs in Kisumu.

2.2.3 Risk Mitigation Strategy and Financial Performance of MEs

Risk is inherent in all businesses and can never be completely eliminated. As such, Rejda (2008), notes that risk can only be managed through careful selection of one or a combination of the various techniques available for mitigating loss exposures and suggests two main techniques for managing risk, that is, risk control and risk financing.

Rejda (2008) stated that risk control refers to techniques that reduce the frequency and severity of losses. Vaughan and Vaughan (2008), describe risk control as the process of minimizing the loss to which the firm is exposed, using the least possible cost and suggest two methods of risk control; (i) Risk avoidance: this occurs when a decision is made to refuse to accept a risk because the claims resulting from potential loss would not be worth the potential gain. Avoidance is best used when the exposure has catastrophic potential and the risk cannot be reduced or transferred. (ii) Risk reduction: this refers to measures that minimize the likelihood of a loss or the potential severity of those losses that do occur.

Rejda (2008) describes risk financing as the techniques that provide for the financing of losses. Vaughan and Vaughan (2008), assert that risk financing involves arranging the availability of funds to meet losses arising from the risks that remain after the application of risk control

techniques and suggest two methods of risk financing; (i) Risk transfer: this involves measures such as re-insurance and hedging through instruments such as Futures and Forward contracts; (ii) Risk retention: this involves retaining the losses that can't be avoided or transferred. It could also be unintentional, that is, when the risk is not recognized, and is therefore retained by the firm. Banks (2004) revealed that there are times when it might actually make sense for a firm to intentionally retain, and even increase, its loss exposure as this helps to increase the value of the firm for the shareholders. Rejda (2008) stated that retention calls for adequate technical provisions in the firm's balance sheet to pay for claims in the event of a loss occurring.

Pagach and Warr (2010) studied the effect of adoption of ERM principles on firms' long-term performance by examining how financial, asset and market characteristics change around the time of ERM adoption. Using a sample of 106 firms that announced the hiring of a CRO, they found that firms adopting ERM experience a reduction in stock price volatility. Similarly, firms hiring CROs when compared to similar, non-CRO appointing firms in their industry group, exhibit increased asset opacity, a decreased market-to-book ratio and decreased earnings volatility. In addition, these researchers found a negative relationship between the change in firms' market-to-book ratio and earnings volatility. However, Pagach and Warr (2010) overall results fail to find support for the proposition that ERM is value creating.

In the study by Kithinji (2010) on credit risk management and profitability of commercial banks in Kenya using the non-performing loan portfolio as an indicator of the effectiveness of credit management practices. The intervening variable was the amount of credit as indicated by loans and advances normalized by the total assets. The dependent variable was the profitability measured by the return on total assets. The author concluded that there was no significant relationship between credit risk management (non-performing loan portfolio), amount of credit and profitability. The study by Kithinji (2010) differs from this study in several respects;-the author used secondary data only while this study will use both primary data from questionnaires and secondary data from the target Insurance companies. In addition, the study concentrated on commercial banks while this study is on insurance firms. The study also concentrated on credit risk only and failed to recognize the role of other financial risk such as market risk and liquidity risk.

It is important for MEs to have measures to curb risks once they occur without closing shop. However, in a business environment whereby one cannot identify potential risks and assess the damage they can cause to his/her business, then it is highly unlikely that they would have any mitigation strategy in place. Therefore, it will be very important for us to find out if such strategies are in place and how they influence financial performance.

2.2.4 Risk Monitoring Strategy on the Financial Performance of MEs

Implementation of a risk monitoring program begins with proper documentation in the form of a risk management policy statement that; (i) Outlines the firm's risk management objectives; (ii) Outlines the firm's policy on loss control; (iii) Educates top managers in regard to the firm's risk management process; (iv) Gives the risk manager greater authority and (v) Provides standards for judging the risk manager's performance (Rejda, 2008). As part of implementation, employees should also be trained on risk management policies of the firm and on their roles and responsibilities in the risk management efforts of the firm. The policies should also be communicated to all stakeholders to ensure maximum cooperation. After implementation, Rejda (2008) suggests that the risk management program should be periodically reviewed and evaluated to determine whether intended objectives are being attained.

There is evidence of varying risk management processes. Some firms concentrate only on a narrow set of financial, insurable, or measurable events that threaten strategic objectives (Mikes, 2009). Others address threats that encompass nonfinancial and qualitative issues (Mikes, 2009). The various risk management programs require participation of employees and management. Some firms are driven by a quantification-oriented calculative culture with a managerial predilection towards measurement and management by numbers (Mikes, 2009), while others, more skeptical about the relevance and value of risk measures, emphasize the learning benefits from questioning and learning from the numbers (Mikes, 2011). The kinds of risks facing organizations enable some organizations to emphasize on risk management than others.

Kinyua (2010) conducted a study on the assessment of risks as a component of corporate strategy in selected life insurance firms in Kenya. The research employed a descriptive survey design. The population of the study consisted of only 23 insurance firms involved in life insurance. The

findings of the study indicated that the top three risks faced by insurance firms were competitor risk, regulation and de-regulation risk and industry economics risk respectively. Competitor risk was characterized by companies competing for the restricted market which was not made any better by the worsening economic situation. Given the reality of risks to company strategy, this study recommended that insurance firms further enhance the deployment of strategic planning tools that give the firms an outside-in perspective of the strategic planning process. However, this study dwelled on listed financial firms and the risks that they face and how they manage them and attain better financial performance.

It is important for a business to keep records of occurred risks and counter measures taken. Constant monitoring provides a predictive base for risk occurrence. An enterprise without a monitoring strategy is likely to be caught unawares in the event that a risk occurs. In this study we will analyze the influence of risk monitoring strategies on financial performance of MEs both where they are in place and where they are not.

2.3 Summary of Literature Review

Although financial performance is influenced by a combination of factors facing the firm, a review of the literature provides evidence as to why firms should concern themselves with risk management. Vaughan and Vaughan (2008), provide a compelling reason for risk management by firms. They assert that the primary goal of risk management by firms is for survival. Risk management guarantees the continuity of the firm as an operating entity, hence ensuring that the firm is not prevented from attaining all its other goals through losses that might arise from pure risks.

It is evident that the decisions made by managers affect the risks and financial performance of an SME. This then emphasizes the need for a proper risk management strategy to direct the goals and interests of management to the interests of the organization. A firm's stakeholders also require an assurance that their interests are safeguarded by firm's management and strategies. From the literature, it is discovered that the desire to improve financial performance should be balanced with the risks associated with the operations of an ME. This then leads to the development of a risk management program to meet the strategies of an organization.

CHAPTER THREE

RESEARCH METHODOLOGY

This chapter discusses the research design and methodology of the study; it highlights a full description of the research design, the research variables and provides a broad view of the description and selection of the population. The research instruments, data collection techniques and data analysis procedure have also been presented.

3.1 Research Design

The research design as cited by Mugenda and Mugenda (2003) provides answers for questions such as; what techniques will be used to gather data, what kind of sampling strategies and tools that will be used and how time and cost constraints will be dealt with. In other words, it is an arrangement of conditions for collection and analysis of data in a way that combines their relationship with the purpose of the research. It is a means to achieve the research objectives through empirical evidence that is required economically.

Descriptive studies portray the variables by answering who, what, and how questions. Mugenda and Mugenda (2003) stated that descriptive design is a process of collecting data in order to test hypothesis or to answer the questions of the current status of the subject under study. For the purpose of this study descriptive and inferential research design was used. This design enabled the researcher to establish the effects of enterprise risk management strategies on financial performance of medium scale businesses in Kisumu County.

3.2 Study Area

The study focused on MEs owners and supervisors operating in Kisumu County. They are the individual who are suitable in offering relevant information on enterprise risk management. The Latitude and Longitude of Kisumu county Kenya is.1089474 and 34.7537276 respectively

3.3 Target Population.

Target population was that population to which a researcher wants to generalize the results of a study (Mugenda and Mugenda, 2003). The target population in a research study comprises all those potential participants that could make up a study.

Table 3.1 Target Population

ME List	Target	Percentage
Storage , Transport, Communications	152	46
Agriculture, Forestry, Natural Extracts	34	10
Accommodation &Catering	26	8
Professional &Technical	29	9
Private Education, Health, Entertainment	39	12
Plants, Factories, Workshops, Contractors	51	15
Total	**331**	**100**

Source Author :(Kisumu County Council, 2015)

The study population was on registered SME located within Kisumu County. The said target population was critical to this study because it gave first-hand information to the researcher.

3.4 Sample Design

The sampling plan describes the sampling unit, sampling frame, sampling procedures and the sample size for the study. The sampling frame describes the list of all population units from which the sample was selected (Cooper and Schindler, 2003). Stratified random sampling technique was used when population of interest was not homogeneous and could be subdivided into groups or strata to obtain a representative sample. A sample of respondents was drawn from all the SMEs operating in within Kisumu County.

Table 3.2: Sampling Frame

SMEs in Kisumu CBD	Target	Sample (%)	Sample(count)
Storage , Transport, Communications	152	10	15
Agriculture, Forestry, Natural Extracts	34	10	3
Accommodation &Catering	26	10	3
Professional &Technical	29	10	3
Private Education, Health, Entertainment	39	10	4
Plants, Factories, Workshops, Contractors	51	10	5
Total	**331**	**10**	**33**

For the purposes of the research stratified random sampling was used to select the target group. Stratified random sampling was employed in selecting respondents. The population was

segregated into several mutually exclusive sub-populations or strata herein referred to as business categories as shown in Table 3.2.

The research applied 10% sampling across the strata. Mugenda and Mugenda (2003) states that a good sample should be the one of 10% to 30% of the entire population. The actual business sampled was arrived at by using simple random procedures to draw the sample from each stratum. A total of 33 questionnaires were given to business managers and owners which represent 10% of the population planned. In order to achieve the intended 33 questionnaires, 40 contacts were made. In the end 33 respondents was achieved as planned.

3.5 Pilot Test

The research carried out a pilot study to pre-test and validates the questionnaire. Cooper and Schindler (2003), states that the pilot group can range from 25 to 100 subjects depending on the method to be tested but it does not need to be statistically selected. This pilot study involved 10 respondents working in MEs within Kisumu County. This pilot was conducted on four MEs along Oginga Oginga Avenue. The respondents were conveniently selected since statistical conditions were not necessary in the pilot study (Cooper and Schindler, 2003).

The purpose was to refine the questionnaire so that respondents in the major study would have no problem in answering the questions. Expert opinion was also requested to comment on the representativeness and suitability of questions and give suggestions of corrections to be made to the structure of the questionnaire. This was to help improve the content validity and reliability of the data that was collected.

3.5.1 Validity

Validity is the degree by which the sample of test items represents the content the test is designed to measure. Content validity which was employed by this study was a measure of the degree to which data collected using a particular instrument represented a specific domain or content of a particular concept. Mugenda and Mugenda (1999) contend that the usual procedure in assessing the content validity of a measure was to use a professional or expert in a particular field.

3.5.2 Reliability

Reliability refers to the consistency of measurement and is frequently assessed using the test–retest reliability method. Reliability was increased by including many similar items on a measure, by testing a diverse sample of individuals and by using uniform testing procedures. The researcher was also computed, a Cronchbach alpha score of the instrument used to obtain the primary data. Cronchbach alpha ranges between 0-1.Scores between 0-0.6 indicate that the instrument has a low reliability while scores of 0.7 and above indicate that the instrument has a high level of internal consistency and reliability.

3.6 Data Collection

3.6.1 Research Instrument

With respect to risk management, this study utilized a questionnaire to collect primary data as used in various previous research projects (Lumpkin and Dess, 2001). The questionnaire designed in this study comprised of two sections. The first part included the demographic and operational characteristics designed to determine fundamental issues including the demographic characteristics of the respondent. The second part was devoted to the identification of the risk management strategies where the four variables of the study were put into focus.

The questionnaire was designed to include both structured and unstructured questions. The structured questions were used in an effort to conserve time and money as well as to facilitate an easier analysis as they were to be in immediate usable form; while the unstructured questions was used so as to encourage the respondent to give an in-depth and felt response without feeling held back in revealing of any information.

3.6.2 Data Collection Method

This study collected quantitative data using a self-administered questionnaire. Nevertheless, where it proved difficult for the respondents to complete the questionnaires immediately, the questionnaire was left with the respondents and picked later. The questionnaires were hand delivered and administered at the respondents' place of business to ensure objective response and reduce non-response rate. The results of the pilot study were not included in the actual study.

A cover letter from Maseno University was taken along to enable the administering of the questionnaire. The respondents were assured of confidentiality of their names and responses and that the responses were not to be handled by any other person but rather to be used purely for academic purposes. Each questionnaire was coded and only the researcher had the knowledge on which person responded.

3.7 Data Analysis and Presentation

The descriptive statistical tools was to help the researcher to describe the data and determine the extent used. Analysis was done quantitatively and qualitatively by use of descriptive statistics. This included frequency distribution, tables, percentages, mean standard deviations, pie charts and bar graphs.

CHAPTER FOUR
RESULTS AND DISCUSSION

This chapter covers data analysis and interpretation of the findings as per the general and the specific objectives of the study. The study analyzed the influence of enterprise risk management strategies on financial performance. The study also sought to determine; the influence of risk identification strategy on the financial performance of MEs, influence of risk assessment strategy on the financial performance of MEs, influence of risk mitigation strategy on the financial performance of MEs and to analyze the influence of risk monitoring strategy on the financial performance of MEs in Kisumu County. The researcher made use of frequency tables and percentages to present data.

4.1 Response Rate

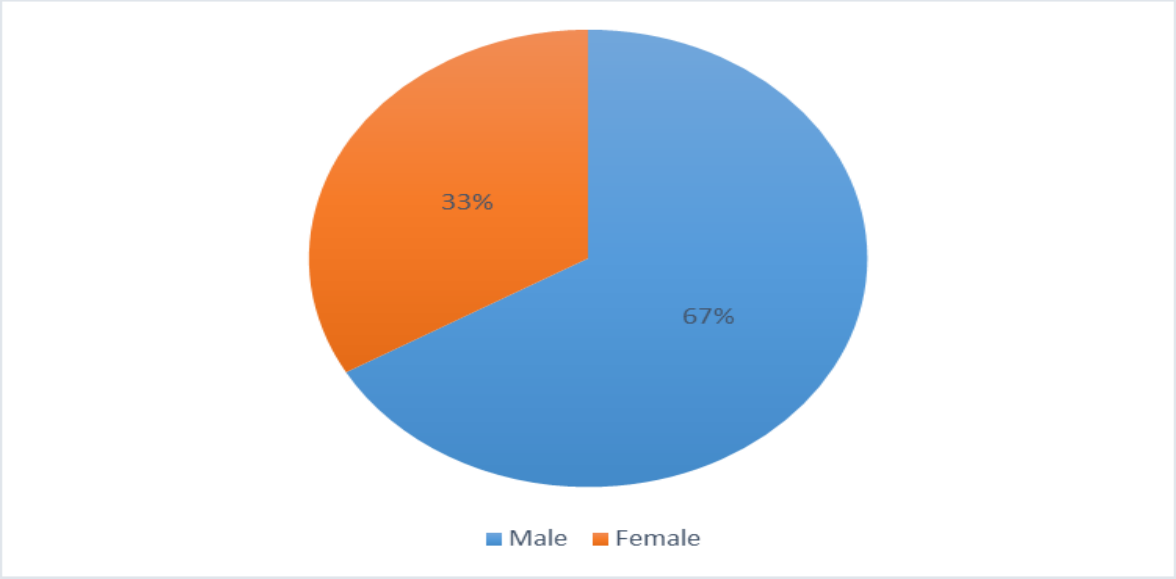
Questionnaire return is the proportion of the questionnaires returned after they have been issued to the respondents. Out of 33 questionnaires issued, 30 questionnaires were filled and returned, accounting for 90.91% return rate which was deemed adequate for the analysis. A 100% response rate was not achieved as some of the questionnaires had some inconsistent information and some were half way filled and thus could not be used in the study. According to Kothari (2004) a response rate of 50% or more is adequate for analysis, which shows that 90.93% was an acceptable basis for drawing conclusions.

4.2 General Information

The general information of the respondents comprises of their gender, age bracket, highest level of education, period their firms had been operational and duration worked in the organization.

4.2.1 Gender of the respondents

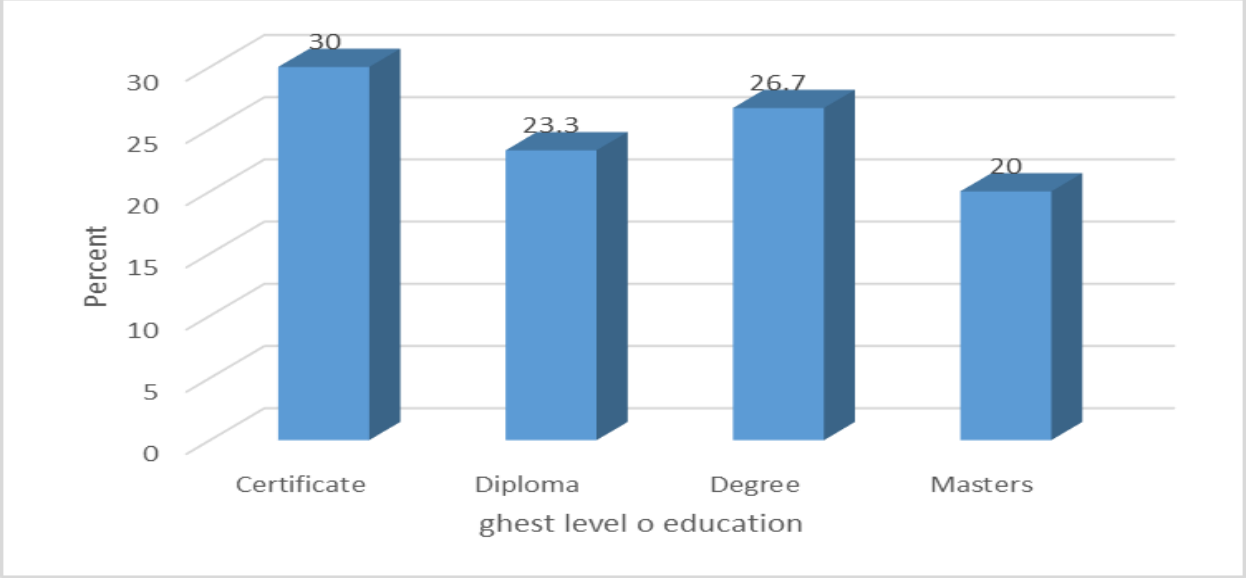
The respondents were requested to indicate their gender in the questionnaires that were issued to them. The results were as shown in the figure below.



According to the findings, 67% of the respondents indicated that they were male while 33 % indicated that they were female. This shows that most of the managers and employees working MEs in Kisumu County are male.

4.2.2 Education Level of the Respondents

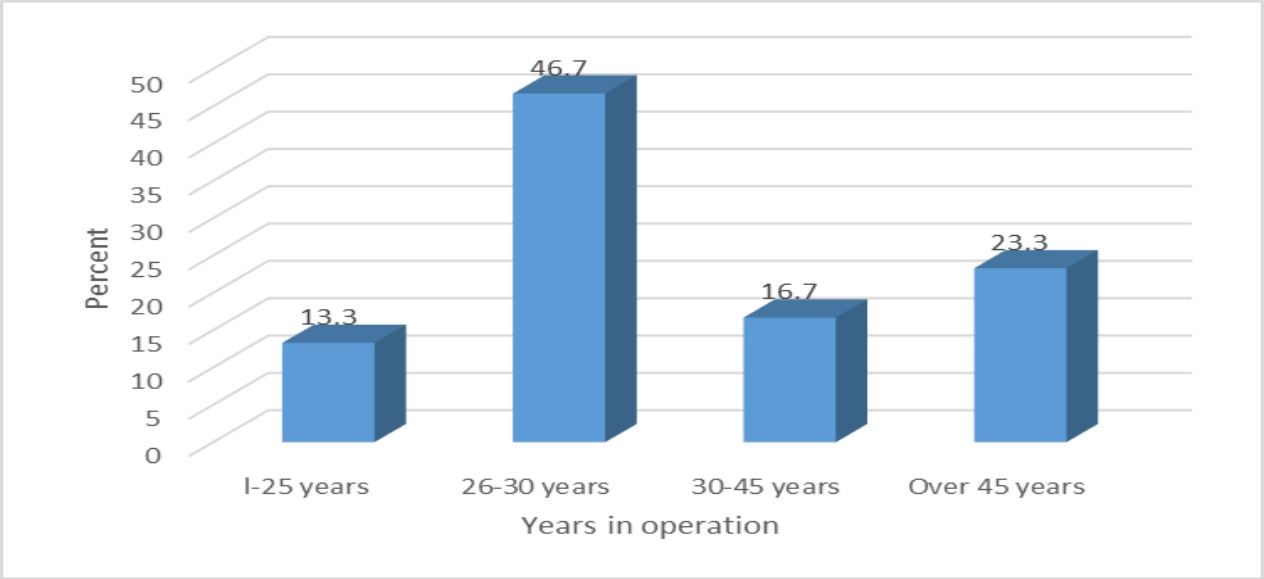
The respondents selected for the study had various levels of qualification in terms of education. Some had certificate as their highest level, some had diplomas, undergraduates while others were post graduates. The respondents were asked to indicate their highest level of education. The results of the findings were as shown in figure 4.2.



From the above figure, we find out that 30% of the respondents indicated that they had certificate as their highest level of education, 26.3% indicated they were undergraduates, 23.3% indicated they had diplomas and 20% indicated that they had masters as their highest level of education. This shows that most managers and employees working in the MEs in Kisumu County have certificate as their highest level of education.

4.2.3 Operation of the MEs

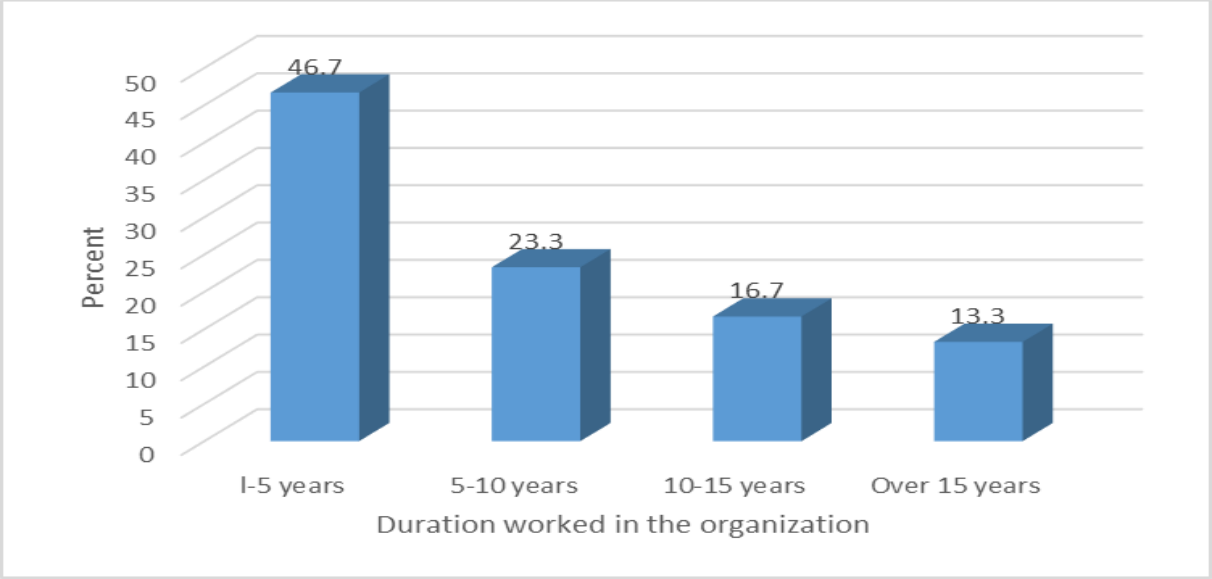
The respondents were requested to indicate the number of years that their firms had been operational. The results were as shown in figure 4.3.



From the findings, 46.7% of the respondents indicated that their firms had been operational for between 26 and 30 years, 23.3% indicated for over than 45 years, 16.7% indicated between 30 to 45 years and the remaining percent indicated below 25 years. This is an implication that most MEs in Kisumu County had been operational for more than 45 years.

4.2.4 Duration in the organization

The respondents were requested to indicate the number of years that they had been working in their respective organizations. The findings were as shown in the figure below.



From figure 4.4, we establish that 40.7% of the respondents indicated that they had been working in their organizations for less than 5 years, 23.3% indicated for between 5 to 10 years, 16.7% indicated for between 5 to 10 years, 16.75 indicated for between 10 to 15 years and 13.3% indicated for over than 15 years. These results indicate that most of the employees and the managers under study had been working in their organizations for less than 5 years.

4.3 Influence of Risk Identification Strategy on Financial Performance

The first objective of this study was tothe influence of risk identification strategy on the financial performance of MEs in Kisumu County.

4.3.1Risks Influencing Financial Performance

The respondents were asked to indicate on the risks that face their firms. The results were as shown in table 4.1.

	Mean	Std. Deviation
Breakdown of machinery and equipment	2.0667	1.14269
High staff turnover or loss of a key staff member	2.4333	1.10433
Theft	2.5667	1.25075
Increased competition	3.5333	1.54771

Failure to comply with legislation, regulation and/or standards	2.9667	1.47352
Bad debts created customers	3.4333	1.56873
Negative cash flow	3.9333	.98027
Natural disasters such as fires and storms	3.6667	1.39786
Issues relating to internet connectivity	3.2667	1.43679
Insurance coverage	2.7333	1.25762
Consequences arising from lack of innovation	3.6333	1.40156

Source: *Survey data 2017*

From the table above, the respondents agreed with a mean of 3.9333and standard deviation of 0.980 that negative cash flow was one of the risks that their firms was facing, they agreed with a mean of 3.6667 and standard deviation of 1.397 that natural disasters such as fires and storms was a risk. In addition, they agreed that consequences arising from lack of innovation and increased competition were the risks facing their firms as shown by means of 3.6333 and 3.5333 respectively. In relation to the bad debts created customers and issues relating to internet connectivity, the respondents indicated that they were neutral on whether such risks faced their firms with means of 3.4333 and 3.2667 respectively. Furthermore, they indicated they were neutral on the statements that issues relating to internet connectivity (2.9667), insurance coverage (2.7333) and theft (2.5667). However, the respondents disagreed that there companies were not faced by risks of high staff turnover and breakdown of machinery and equipment as shown in the tables above with means of 2.4333 and 2.0667 respectively.

4.3.2 Ways of identifying risks

The respondents were requested to identify the various ways that they used in the process of identification risks in their companies. The respondents reported that the company ensures that

the full team takes part in the process of risk identification. In addition, they indicated that the potential risks are identified by all members in the company. Moreover, the respondents reported that there is no discrimination of the members that take part in the process of risk identification. They also indicated that the risks that are identified are later on recorded and documented. Lastly, the respondents indicated that they used risk reporting, risk registration, risk allocation and risk control in the process of identification of the risks in their enterprises.

4.3.3 Aspects of Risk Identification Strategy and Financial Performance

The respondents were asked to indicate the extent that they agreed with the various statements regarding risk identification. The results were as shown in table 4.2.

Statement	Mean	Std. Deviation
Risk inspection is done regularly	3.6667	1.26854
Roles and responsibilities for risk identification are clearly defined	3.6000	1.27577
Financial statement analysis enhances risk identification	3.9000	1.09387
Establishing standards enhances risk identification	3.9667	1.18855

Source: *Survey data 2017*

From the findings, the respondents agreed that establishing standards enhances risk identification and financial statement analysis enhances risk identification as shown in the table by means of 3.9667 and 3.9000 respectively. In respect to the statement on whether risk inspection was done regularly in their enterprises, the respondents agreed with a mean of 3.6667. Finally, the respondents indicated that they agreed that roles and responsibilities for risk identification were clearly defined in their companies as indicated in the table by a mean of 3.6000.

Other effects of Risk identification on financial performance

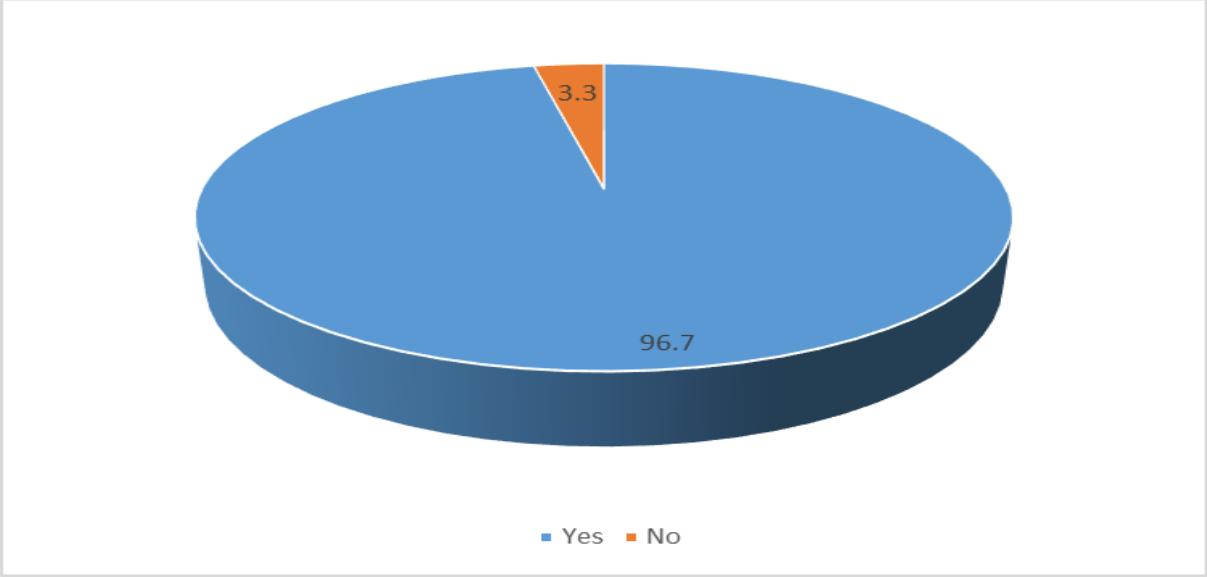
The respondents were requested to indicate on other ways that risk identification affected the financial performance of their firms. The respondents reported that identification of risks in the company's results to an increase in the profits of the firms.

4.4 Risk Assessment.

The second objective of the research study was to analyze the influence of risk assessment strategy on the financial performance of MEs in Kisumu County.

4.4.1 Frequency of Risk Assessment

The respondents were asked to indicate whether their companies took part in the process of risk assessment. The results were as shown in the figure below.



Source: *Survey data 2017*

From the findings, 96.7% of the employees and the business owners indicated that they did risk assessment in their companies while 3.3% disagreed that their companies did not do risk assessment. This implies that most MEs in Kisumu County take part in the process of risk assessment.

4.4.2 Risk Assessment Criteria.

The respondents were asked to show the risk assessment criteria that their firms used in the process of assessment risks. From the results obtained, the respondents indicated that risks assessment criteria that were used by their firms included; deciding the type of risk, evaluation, identification, recording and the reviewing of the various risks.

4.4.3 Aspects of Risk Assessment and Financial Performance

The respondents were requested to indicate the extent to which they agreed with some statements on risk assessment in their enterprises. The results were as indicated in the table that follows.

Statement	Mean	Std. Deviation
Risks are evaluated with assumptions and uncertainties being clearly considered and presented.	4.0000	1.08278
Risk is evaluated in terms of both quantitative and qualitative value.	4.1333	.97320
Measurement of both of the quantities in which risk assessment is concerned - potential loss and probability of occurrence – is carried out by the company	4.1000	1.15520
A risk with a large potential loss and a low probability of occurring is often treated differently from one with a low potential loss and a high likelihood of occurring	4.2667	.69149
Risks are subdivided into individual levels for further analysis	4.6333	.49013

Source: *Survey data 2017*

According to the findings, the respondents indicated that they strongly agreed that risks are subdivided into individual levels for further analysis as shown by a mean of 4.633. They indicated that they agreed that a risk with a large potential loss and a low probability of occurring is often treated differently from one with a low potential loss and a high likelihood of occurring (4.2667). In relation to whether risk is evaluated in terms of both quantitative and qualitative value, they indicated they agreed as shown by a mean of mean of 4.1333. In addition the respondents showed that they agreed that measurement of both of the quantities in which risk assessment is concerned - potential loss and probability of occurrence – is carried out by the

company (4.1333) and risks are evaluated with assumptions and uncertainties being clearly considered and presented (4.0000).

4.4.4 Effect of Risk Assessment on the Financial Performance

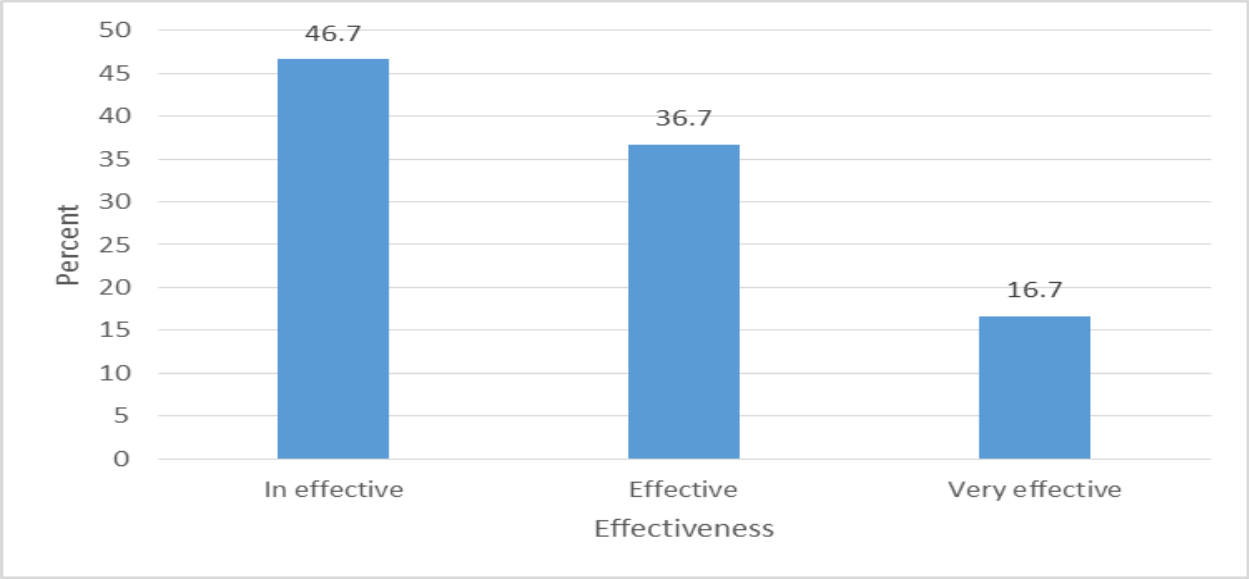
The respondents were requested to indicate on other ways that risk assessment affected the financial performance of their enterprises. The respondents reported that risk assessment in the company results to improvement the liquidity level of the company and also reduces the chances of the company being dissolved.

4.5 Risk Mitigation strategies and Financial Performance

The third objective of the study was to analyze the influence of risk mitigation strategy on the financial performance of MEs in Kisumu County.

4.5.1 Effectiveness of the risk mitigation strategies

The respondents were asked to show the effectiveness of the risk mitigation strategies in their enterprises. The results were as shown in the figure below.



Source: *Survey data 2017*

From the results, 46.7% of the respondents indicated that their risk mitigation strategies were ineffective, 36.7% indicated that they were effective and the remaining percentage indicated that their risk mitigation strategies were very effective. This implies that most of the risk mitigation strategies that have been adopted by MEs in Kisumu County are ineffective.

4.5.2 Risk Mitigation Strategies

The respondents were requested to indicate some of the risk mitigation strategies that were used by their firms in the process of reducing the level of risks faced by the firm. The employees and business mangers reported that they used risk transfer and risk acceptance as strategies for risk mitigation.

4.5.3 Influence of Risk Mitigation strategies on Financial Performance

The respondents were asked to indicate the extent that they agreed on some statements concerning the influence of risk mitigation strategies on the financial performance of MEs in Kisumu County. The results were as indicated in the table below.

Statement	Mean	Std. Deviation
The SME insures different types of risks but not all risks	3.5333	1.25212
The SME does not insure catastrophic risks	3.6333	1.09807
The organization has a mechanism for estimating potential losses at the time of entering into insurance contracts	3.5333	1.33218
Our organization has a mechanism for transferring certain risks to third parties e.g. through insurance/hedging	3.3000	1.17884
Our organization sets aside sufficient technical reserves for uncertainties	2.2000	1.09545

Source: *Survey data 2017*

The respondents indicated that SMEs do not insure catastrophic risks as shown by a mean of 3.6333. In addition, they agreed with a similar mean of 3.5333 that the organization has a mechanism for estimating potential losses at the time of entering into insurance contracts and that SMEs insures different types of risks but not all risks. Furthermore, the respondents were neutral on the statements that their organization has a mechanism for transferring certain risks to third parties e.g. through insurance/hedging (3.3000). Finally, the respondents indicated that they disagreed that their organizations sets aside sufficient technical reserves for uncertainties as shown by a mean of 2.2000.

4.5.4 Effect of Risk mitigation strategies on the financial performance

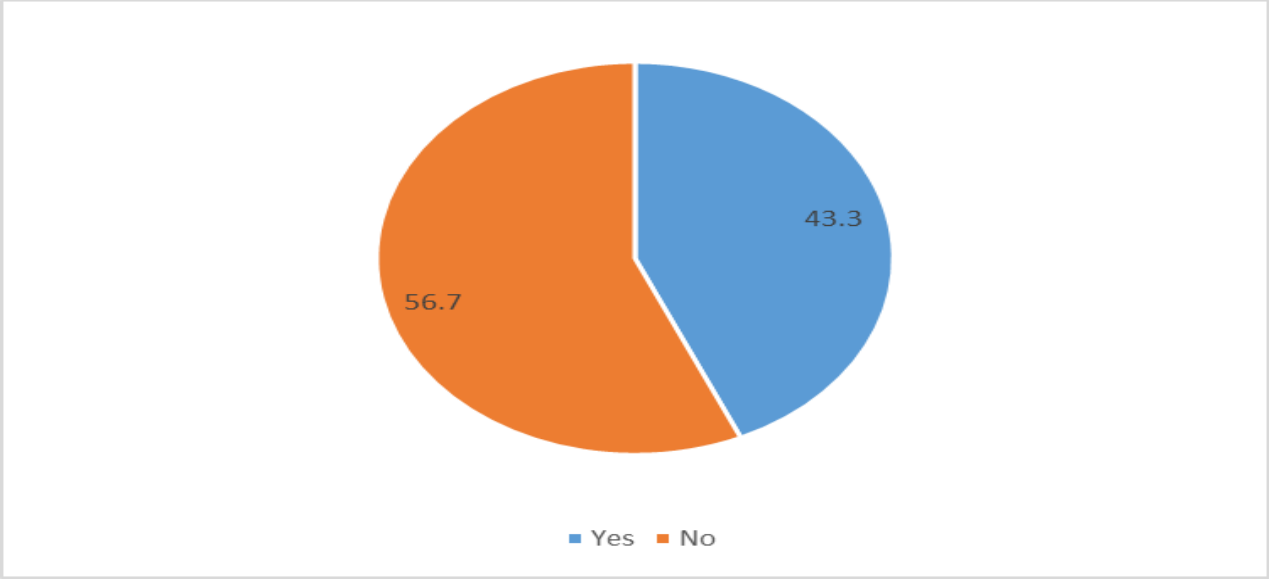
The respondents were further on requested to indicate on other ways that the risk mitigation strategies influenced the financial performance of the firm. The respondents indicated that the risk mitigation strategies influenced the profits of them as it increases the profits that are made by the firm.

4.6 Risk monitoring strategy and financial performance of MEs

The fourth objective of the study aimed at analyzing the influence of risk monitoring strategy on the financial performance of MEs in Kisumu County.

4.6.1 Frequency of Risk Monitoring

The respondents were requested to indicate whether their enterprises involved in a frequent risk monitoring process. The results were as indicated in the figure shown below.

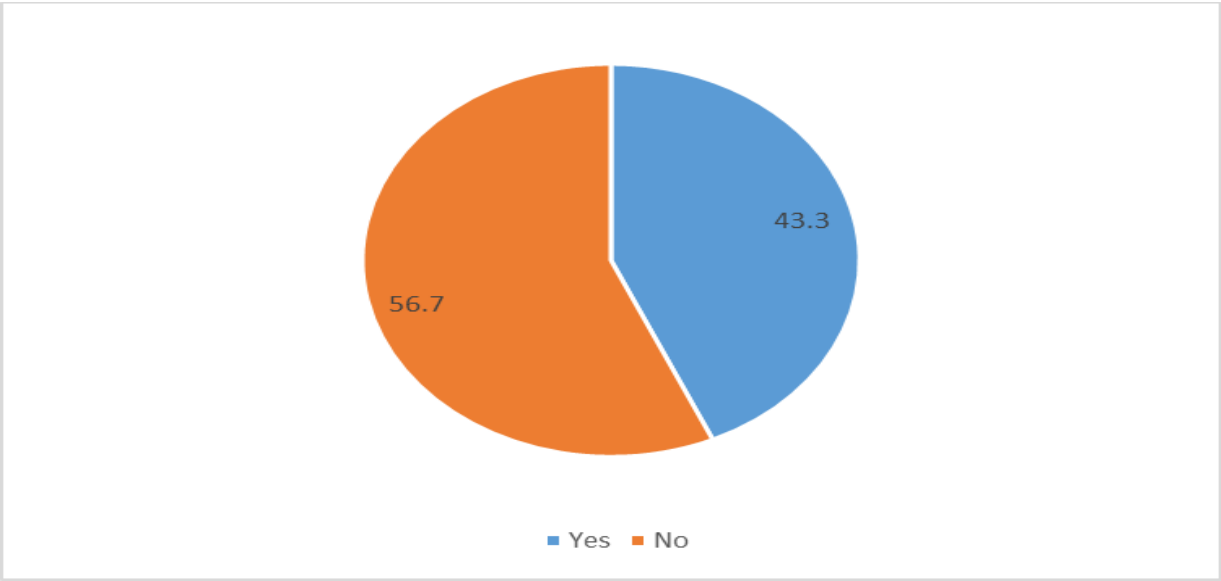


Source: *Survey data 2017*

According to the findings, 56.7% of the employees and business owners indicated that their firms did not take part in frequent risk monitoring process while 43.3 % showed that their firms took part in the frequent risk monitoring process. This implies that most MEs in Kisumu County do not take part in part in the frequent risk monitoring process.

4.6.2 Importance of risk monitoring.

The respondents were asked to indicate whether the process of risk monitoring has helped their enterprises. The results were as shown in the figure below.



From the findings, 56.7% indicated that risk monitoring had not assisted them while 43.3% agreed. This shows that risk monitoring has not assisted most MEs in Kisumu County.

4.6.3 Reasons for the importance.

The respondents were asked to indicate how risk monitoring had helped their companies. The respondents indicated that risk monitoring had enabled to identify risks at their earlier stages and thus improving on the overall performance of the company.

4.6.4 Influence of risk monitoring on financial performance of the firm

The respondents were requested to indicate their level of agreement with some aspects of risk monitoring and its influence on the financial performance of their companies. The results were as shown in the table.

Statement	Mean	Std. Deviation
Risk management program is well documented.	4.0333	1.35146
Risk management efforts are supported by senior management	3.7333	1.38796
Employees are properly trained on risk management policies of the firm	4.0667	1.22990
The roles and responsibilities of each employee in the risk management efforts of the firm are well communicated to them	4.4000	.81368
Controls are in place to evaluate the efficiency of the risk management program	3.3000	1.44198
Regular reviews of risk management efforts and reporting to senior management	3.8667	1.04166

Source: *Survey data 2017*

According to the findings, the respondents agreed that the roles and responsibilities of each employee in the risk management efforts of the firm are well communicated to them (4.4000) and employees are properly trained on risk management policies of the firm (4.0667). Furthermore, they agreed that risk management program is well documented (4.0333),regular reviews of risk management efforts and reporting to senior management (3.8667) and risk management efforts are supported by senior management (3.7333). Finally, the respondents

indicated that they were neutral on the statement that controls are in place to evaluate the efficiency of the risk management program as shown by a mean of 3.3000.

4.6.4 Effect of risk monitoring on financial performance.

The respondents were requested to indicate on other ways that risk monitoring affected the financial performance of the MEs in Kisumu County. They reported that risk monitoring assisted the firm to be keen on the type of investments that they undertake and also to monitor the risks.

4.7 Financial Performance.

The respondents were requested to rate the various measures of financial performance in their MEs. According to the findings, profitability was rated as being good as shown by a mean of 2.8667, liquidity was rated as poor as indicated by a mean of 2.0000 and solvency was rated as moderate as indicated by a mean of 3.2333.

	Mean	**Std. Deviation**
Profitability	2.8667	1.04166
Liquidity	3.0000	1.08278
Solvency	3.2333	1.04000

4.4 Inferential Statistics

The study used correlation analysis and regression analysis to detrmione the influence of the indipendent variables (risk identification, risk assessment, risk mitigation strategies and risk monitoring) on the dependent variabe (financial performance of MEs in Kisumu County).

4.4.1 Correlation Analysis

This study made use of Pearson product-moment correlation analysis to determine whether there is a relationship between the independent variables and the dependent variable.A correlation is defined as a number between -1 and +1 that measures the degree of association between two variables. A positive value for the correlation implies a positive association. A negative value for the correlation implies a negative or inverse association. A coefficient of zero means there is no

relationship between the two items and that a change in the independent item will have no effect in the dependent item.

		Financial Performance	Risk Identification	Risk Assessment	Risk Mitigation Strategies	Risk Monitoring
Financial Performance	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	30				
Risk Identification	Pearson Correlation	.952**	1			
	Sig. (2-tailed)	.000				
	N	30	30	30		
Risk Assessment	Pearson Correlation	.966	.960**	1		
	Sig. (2-tailed)	.000	.000			
	N	30	30	30		
Risk Mitigation Strategies	Pearson Correlation	.965**	.941*	.968	1	
	Sig. (2-tailed)	.001	.022	.398		
	N	30	30	30	30	
Risk Monitoring	Pearson Correlation	.982**	.952	.967	.0976	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	30	30	30	30	30

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

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

Source: *Survey data 2017*

From the findings, there is a positive association between risk identification and financial performance of MEs in Kisumu County as shown by a correlation coefficient of 0.952. The association was significant because the p-value (0.000) was less than the significance level (0.05). The results also show that there was a positive association between risk assessment and financial performance of MEs in Kisumu County as shown by a correlation coefficient of .966. The association was significant because the p-value (0.000) was more than the significance level (0.05).

The results further show that there was a positive association betweenrisk mitigation strategies and financial performance of MEs in Kisumu County as shown by a correlation coefficient of 0 .965. Since the p-value (0.000) was less than the significance level, the association was significant. In addition, the results show that there is a positive association between risk monitoring and financial performance of MEs in Kisumu Countyas shown by a correlation coefficient of 0.982. The association was significant as the p-value (0.000) was less than the significance level (0.05).

From these findings we can infer that risk monitoring was the most significant factor influencingfinancial performance of MEs in Kisumu County, followed by risk assessment, risk mitigation strategies and risk identification respectively.

4.4.2 Regression Analysis

A multivariate regression analysis was also carried out to determine the relationship between dependent variable and the four independent variables. The regression equation was;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Whereby; Y = Financial Performance; X_1 = Risk identification, X_2 = Risk Assessment, X_3 = Risk mitigation strategies, X_4 = Risk Monitoring, ε = Error Term, β_0 = Constant Term and β_1, β_2, β_3, $\beta_{4=}$ Beta Co-efficient.

Table 4. 1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.985	0.969	0.965	0.192

The R-Squared is the proportion of variance in the dependent variable which can be explained by the independent variables. From the findings, the R-squared in this study was 0.985, which shows that the four independent variables (risk identification, risk assessment, risk mitigation strategies and risk monitoring) can explain 98.5% of the variation in the dependent variable. This clearly shows that other factors not considered in this study explain 1.5% of the variation in the dependent variable, financial performance of MEs in Kisumu County.

Table4. 4: Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	29.374	4	7.344	198.303	.000[b]
	Residual	.926	26	.037		
	Total	30.300	30			

Source: *Survey data 2017*

From the findings, the analysis of variance in this study was used to determine whether the model is a good fit for the data. The results indicate that the model was significant since the p-value (0.000) was less than 0.05 thus the model is statistically significant in establishing the

influence of risk identification, risk assessment, risk mitigation strategies and risk monitoring on financial performance of the MEs in Kisumu County.Further, the F-calculated (198.303) was found to be more than the F-critical (2.48) which shows that the models was fit in establishing the influence of the four independent variables on the dependent variable.

Table 4. 2: Regression Coefficients

	Unstandardized Coefficients		**Standardized Coefficients**	**t**	**Sig.**
	B	**Std. Error**	**Beta**		
(Constant)	3.838	1.018		3.770	0.347
Risk Identification	.088	.114	.102	.773	0.007
Risk Assessment	.150	.152	.173	.987	0.003
Risk Mitigation	.027	.223	.021	.119	0.006
Risk Monitoring	.623	.165	.697	3.785	0.001
R^2	0.3812				

Dependent variable: Financial performance

Source: *Survey data 2017*

The regression model was;

$Y = 3.838 + 0.88X_1 + 0.150X_2 + 0.027X_3 + 0.623X_4 + \varepsilon$

From the table above, the findings show that there is a positive significant relationship between risk identification and financial performance of MEs in Kisumu County with a regression coefficient of 0.088. This shows that a unit increase in risk identification would lead to a 0.08 improvement in the financial performance of MEs in Kisumu County. The p-value (0.007) was less than the significance level (0.05), hence the relationship was significant. Thus, this indicates

that the hypothesis that risk identification strategy has no statistical significance on financial performance of MEs in Kisumu County is null.

The results also show that there is a positive significant relationship between risk assessment and financial performance of MEs in Kisumu County with a regression coefficient of 0.150. This shows that a unit increase in risk assessment would lead to a 0.150improvement in as the p-value (0.03) was more than the significance level (0.05). Hence the hypothesis the financial performance of MEs in Kisumu County. The relationship was insignificant that risk assessment strategy has no statistical significance on financial performance of MEs Kisumu County is null.

From the findings, the study found that there is a positive relationship between risk mitigation strategies and the financial performance of MEs in Kisumu Countywith a regression coefficient of 0.027. This indicates that a unit increase in risk mitigation strategieswould lead to a 0.027 improvement in the financial performance of MEs in Kisumu County. The relationship was found to be significant as the p-value (0.000) was less than the significance level (0.05). Thus, the hypothesis that risk mitigation strategy has no statistical significance on financial performance of MEs Kisumu County is found to be null.

Lastly, the study results show that there is a positive significant relationship between risk monitoring and the financial performance of MEs in Kisumu County as shown by a regression coefficient of 0.623. This indicates that a unit improvement of risk monitoring would lead to a 0.623improvement in the financial performance of MEs in Kisumu County.. This relationship was significant as the p-value (0.001) was less that of the significance level (0.05).

4.5 Discussion of the Findings

The findings of the study were discussed according to each objectives.

Influence of Risk Identification Strategy on Financial Performance

The study found out that Risk Identification Strategy has an influence on the Financial Performance of MEs in Kisumu County.The study found out that companies use risk reporting, risk registration, risk allocation and risk control in the process of identification of the risks in their enterprises.The study revealed that establishing standards enhances risk identification and

financial statement analysis enhances risk identification. The study established that identification of risks in the company's results to an increase in the profits of the firms. These findings concur with Kithinji (2010) argument that credit risk management in practice had significantly contribute to high profits in commercial banks of Kenya.

Influence of Risk assessment Strategy on Financial Performance

The study found out that risk assessment strategy has an influence on the financial performance of MEs in Kisumu County. The study found out that most MEs in Kisumu County take part in the process of risk assessment. The study established that risks assessment criteria that were used by their firms included; deciding the type of risk, evaluation, identification, recording and the reviewing of the various risks. The study found out that risks are subdivided into individual levels. These findings are similar to Power, (2004) argument that associated volatility related to these risk management should be identified and categorized. Departments and the employees must be assigned with responsibilities to identify specific risks.

Influence of Risk Mitigation strategies on Financial Performance

The study found out that risk mitigation strategy has an influence on the financial performance of MEs in Kisumu County. The study found out that the risk transfer and risk acceptance are used as strategies for risk mitigation. These findings are in concurrence with Banks (2004) argument that there are times when it might actually make sense for a firm to intentionally retain, and even increase, its loss exposure as this helps to increase the value of the firm for the shareholders. Furthermore, the findings agree with Rejda (2008) argument that retention calls for adequate technical provisions in the firm's balance sheet to pay for claims in the event of a loss occurring.

Influence of Risk monitoring strategy on financial performance of MEs

The study found out that risk monitoring strategy has a significant influence on the financial performance of MEs in Kisumu County.The study establishedthat most MEs in Kisumu County do not take part in part in the frequent risk monitoring process. These findings are contrary to Rejda (2008) argument that the risk management program should be periodically reviewed and evaluated to determine whether intended objectives are being attained. The study revealed that

risk monitoring has not assisted most MEs in Kisumu County.The study established that the roles and responsibilities of each employee in the risk management efforts of the firm are well.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter presents the summary of the research findings; it indicates the conclusions drawn from these findings, offers recommendations, and suggestions for further studies.

5.1 Summary of the Findings

5.1.1 Influence of Risk Identification Strategy on Financial Performance

The study found out that Risk Identification Strategy has a significant influence on the financial performance of MEs in Kisumu County. The study revealed that companies use risk reporting, risk registration, risk allocation and risk control in the process of identification of the risks in their enterprises. Furthermore, the study revealed that establishing standards enhances risk identification and financial statement analysis enhances risk identification.

5.1.2 Influence of Risk assessment Strategy on Financial Performance

The study found out that risk assessment strategy has a statistically significant influence on the financial performance of MEs in Kisumu County. The study found out that most MEs in Kisumu County take part in the process of risk assessment. Also, the study established that risks assessment criteria that were used by their firms included; deciding the type of risk, evaluation, identification, recording and the reviewing of the various risks.

5.1.3 Influence of Risk Mitigation strategies on Financial Performance

The study found out that risk mitigation strategy has a statistically significant influence on the financial performance of MEs in Kisumu County. The study revealed that that most of the risk mitigation strategies that have been adopted by MEs in Kisumu County are ineffective. In addition, the study found out that the risk transfer and risk acceptance are used as strategies for risk mitigation.

5.1.4 Influence of Risk monitoring strategy on financial performance of MEs

The study found out that risk monitoring strategy has a significant influence on the financial performance of MEs in Kisumu County. The study established that most MEs in Kisumu County

do not take part in the frequent risk monitoring process. Moreover, the study revealed that risk monitoring has not assisted most MEs in Kisumu County.

The study established that the roles and responsibilities of each employee in the risk management efforts of the firm are well.

5.2 Conclusions of the Study

The study concludes that risk identification strategy has statistical significance on financial performance of MEs in Kisumu County. The study revealed that companies use risk reporting, risk registration, risk allocation and risk control in the process of identification of the risks in their enterprises. The study also concludes that risk assessment strategy has statistical significance on financial performance of MEs Kisumu County. The study found out that most MEs in Kisumu County take part in the process of risk assessment.

The study further concludes that risk mitigation strategy has statistical significance on financial performance of MEs Kisumu County. The study found out that the risk transfer and risk acceptance are used as strategies for risk mitigation. In addition, the study concludes that Risk monitoring strategy has no statistical significance on financial performance of MEs Kisumu County.The study established that the roles and responsibilities of each employee in the risk management efforts of the firm are well.

5.3 Recommendations

Based on the findings of the study and the conclusion made, the study offers the following recommendations:

1. The study established that identification of risks in the company's results to an increase in the profits of the firms. Therefore this study recommends that MEs in Kisumu County should develop strategies to improve on risk identification process.

2. The study found out that mostMEs in Kisumu County do not insure catastrophic risks. Therefore, this study recommends that MEs should improve on insurance of catastrophic risks so as to increase on their profits.

5.4 Suggestions for Further Research

1. This research only focused on MEs in Kisumu County. Therefore, further studies

should be conducted on the influence of influence of enterprise risk management in other parts of Kenya.

2. A comparative study of the challengesinfluencing enterprise risk management strategies on financial performance of medium scale businesses a case of Kisumu Countyshould be conducted. \
3. A research should be carried out to establish the influence onenterprise risk management strategiesapplication in the Kenyan economy.

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APPENDICES

Appendix I: Introduction letter

From: Juvenile Mabele Nyongesa

To: Respondent

Dear, Respondent

RE: QUESTIONNAIRE

I am a student at Maseno University pursuing Masters of Business Administration. I am carrying out a study on **effects of enterprise risk management strategies on financial performance of small and medium scale businesses a case of Kisumu County.** You are kindly requested you to complete the attached questionnaire so as to enable me accomplish the study. Please, note that all the information given shall be treated purely and used for academic purposes and shall be treated as confidential. Thank you for taking your time to complete the questionnaire and for your time and cooperation.

Yours sincerely

Juvenile Mabele Nyongesa

Appendix II: Questionnaire

Dear Respondent

This questionnaire is aimed at providing information on the **influence of enterprise risk management strategies on financial performance of small and medium scale businesses**. The information you give will only be used to accomplish an academic goal. You are kindly requested to fill in the questions depending on the instructions given. The information you provide will be treated with utmost confidentiality. Do not include your name anywhere on the questionnaire.

Part A: Background Information

Please answer the following items. Tick in the appropriate space.

1. Please indicate your gender
   - Male □
   - Female □
2. What is your level of education qualification?
   - Certificate □
   - Diploma □
   - Degree □
   - Masters □
3. How long has your firm been operational?
   - l- 25 years □
   - 26-30 years □
   - 30-45 years □
   - Over 45 years □
4. For how long have you been in this firm?
   - 1-5 years □
   - 5-10 years □
   - 10-15 years □
   - Over 15 year □

PART B: RISK IDENTIFICATION

5. Which are the major risks for your business? Use a Likert scale 1- strongly disagrees, 2- disagree, 3- Neutral 4-agrees, 5 – strongly agree. Tick in the appropriate column.

Risks	**1**	**2**	**3**	**4**	**5**
Breakdown of machinery and equipment					
High staff turnover or loss of a key staff member					
Theft					
Increased competition					
Failure to comply with legislation, regulation and/or standards					
Bad debts created customers					
Negative cash flow					
Natural disasters such as fires and storms					
Issues relating to internet connectivity					
Internet fraud and scams					
Insurance coverage					
Consequences arising from lack of innovation					

6. How do you identify your potential risks in the business?

……
……
…….

7. To what extent do you agree with the following statement relating to risk identification? Use scale 5- strongly agrees, 4- agree, 3- Neutral 2- Disagree, 1 – strongly disagree. Tick in the appropriate column.

Statement	**1**	**2**	**3**	**4**	**5**
Risk inspection is done regularly					
Roles and responsibilities for risk identification are clearly defined					
Financial statement analysis enhances risk identification					
Establishing standards enhances risk identification					

8. How else does risk identification affect the financial performance of small and medium scale businesses?

……
……
……

PART C: RISK ASSESSMENT

9. Do you do risk assessment in your organization?

Yes [ ]

No [ ]

10. Which assessment criteria do you use for assessment?

……
……
……..

11. How accurate is your assessment as witnessed in previous assessment?

Very accurate [ ]

Accurate [ ]

In accurate [ ]

12. To what extent do you agree with the following statement relating risk assessment? Use scale 5- strongly agrees, 4- agree, 3- Neutral 2- Disagree, 1 – strongly disagree.

Statement	**1**	**2**	**3**	**4**	**5**
Risks are evaluated with assumptions and uncertainties being clearly considered and presented.					
Risk is evaluated in terms of both quantitative and qualitative value.					
Measurement of both of the quantities in which risk assessment is concerned - potential loss and probability of occurrence – is carried out by the company					
A risk with a large potential loss and a low probability of occurring is often treated differently from one with a low potential loss and a high likelihood of occurring					
Risks are subdivided into individual levels for further analysis					

13. How else does risk assessment affect the financial performance of small and medium scale businesses?

……
……
……

PART D: RISK MITIGATION

14. How effective are your risk mitigation strategies

Very effective [ ]

Effective [ ]

In effective [ ]

15. Kindly indicate the mitigation strategies used by your organization?

……
……
……..

16. To what extent do you agree with the following statement relating to the effect of risk mitigation? Use scale 5- strongly agrees, 4- agree, 3- Neutral 2- Disagree, 5 – strongly disagree.

Statement	**1**	**2**	**3**	**4**	**5**
The SME insures different types of risks but not all risks					
The SME does not insure catastrophic risks					
The organization has a mechanism for estimating potential losses at the time of entering into insurance contracts					
Our organisation has a mechanism for transferring certain risks to third parties e.g. through insurance/hedging					
Our organisation sets aside sufficient technical reserves for uncertainties					

17. How else does risk mitigation affect the financial performance of small and medium scale businesses?

……
……
……

PART E: RISK MONITORING

18. Do you do frequent monitoring on the most possible risks in your organisation?

……
……..

19. Has the monitoring helped in mitigating the risks?

……
……

20. Incase yes kindly explain?

……
……
……..

21. To what extent do you agree with the following statement relating to the effect of risk monitoring? Use scale 5- strongly agrees, 4- agree, 3- Neutral 2- Disagree, 1 – strongly disagree. Tick in the appropriate column.

Statement	**1**	**2**	**3**	**4**	**5**
Risk management program is well documented.					
Risk management efforts are supported by senior management					
Employees are properly trained on risk management policies of the firm					
The roles and responsibilities of each employee in the risk management efforts of the firm are well communicated to them					
Controls are in place to evaluate the efficiency of the risk management program					
Regular reviews of risk management efforts and reporting to senior management					

22. How else does risk monitoring affect the financial performance of small and medium scale businesses?

……
……
……

PART F: FINANCIAL PERFORMANCE

23. Using a Likert scale of 1-5, where 1 indicates poor, 2 indicates bad, 3 indicates moderate, 4 refers to good and 5 is excellent, kindly, indicate how you will rate the following measures of financial performance in your companies?

Statement	**1**	**2**	**3**	**4**	**5**
Profitability					

Liquidity					
Solvency					

Thank you for your Cooperation

Appendix III: The Budget Schedule

ITEM	COST (kshs)
1 Proposal Development	
a) Printing of 38 pages @ Kshs. 30	1140.00/-
b) Reproduction 6 copies @ Kshs. 80	4,800.00/-
c) Binding 6 copies @ Kshs. 50	300.00/-
d) Traveling Expenses	4,000.00/-
e) Subsistence	4,000.00/-
f) Miscellaneous expenses	3,000.00/-
2 Data collection	
a. Data collection	3,000.00/-
b. Books and reading material	5,000.00/-
c. Data analysis and computer runtime	5,000.00/-
d. Printing 70 pages @ Kshs. 30	2,100.00/-
e. Reproduction 6 copies @ Kshs. 40	8,400.00/-
f. Binding 5 copies @ Kshs. 1,000/-	5,000.00/-
3 Others	
a. Miscellaneous expenses	4,200.00/-
GRAND TOTAL	**50,000.00/-**

Appendix IV: Work Plan

	Week 1	**Week 2**	**Week 3**	**Week 4**	**Week 5**
Problem formulation					
Writing the proposal					
Literature Review					
Data collection					
Data Analysis					
Final Project submission					