INFLUENCE OF FINANCIAL RISK MANAGEMENT ON FINANCIAL PERFOMANCE AMONG SMALL MEDIUM ENTERPRISES IN MAVOKO CONSTITUENCY, MACHAKOS COUNTY

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DECLARATION

This project is my original work and has not been presented for a degree in any other

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LIST OF ABBREVIATIONS

GDP: Gross Domestic Product Kenya Commercial

KCB: Banks SMEs

SME: SMEs

ABSTRACT

The study sought to establish the Influence of financial risk management on financial performance of SMEs in Mavoko Constituency, Machakos County. The study adopted a descriptive design of research and a target population of 34,517 SMEs operating in Mavoko constituency from which a sample of 100 participants using stratified random sampling with the help of Yamane's formulae. Data was collected through primary instruments such as questionnaires and interviews to collect data for analysis. Data collected was analyzed using inferential and descriptive statistics which involved use of frequency tables, percentages and regression analysis. The study established that; liquidity risk management is positively and significantly related to financial perfomance of SMEs in Mavoko constituency, credit risk management is positively and significantly related to financial perfomance of SMEs in Mavoko constituency, foreign exchange risk management was found to be positively and significantly related to financial perfomance of SMEs in Mavoko constituency and lastly, equity risk management was also found to be positively and significantly related to financial perfomance of SMEs in Mavoko constituency. The study made various recommendations such as; business owners to seek more training on credit management from financial and educational institutions, SME owners to consult experts in the business field in order to gain knowledge on how best to make good use of the resources they have and small business owners are advised to scan the environment so as to have a better understanding of their business opportunities and threats.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Risk management is a continuously monitored, included formal method for outlining objectives, figuring out assets of uncertainty, reading uncertainties, and formulating organizational assets to produce a suitable balance among hazard and opportunities (Jorion, 2016). in keeping with Elahi (2013), overall performance incorporates the actual output or effects of an business enterprise as measured against its supposed results (or desires and targets). Dhuci (2011) states that financial risks are related to the financial markets' improvement and using economic contraptions.

According to Fatai (2010), financial overall performance is the capability of the company to be extra efficient in terms of operation, profitability, increase, in addition to survival for a extra extended period. financial threat control has obtained multiplied interest during the last years. It influences small enterprise operations, financial overall performance, and the destiny to a large amplify (Diebold, Doherty & Herning, 2010). due to the crucial role performed via SME in monetary development, there may be a want for a complete evaluation of the economic chance on economic performance.

The study will be based on the theoretical foundation of prospect and modern portfolio theory. Prospect theory follows a pattern of decisions in situations of uncertainty, to foresee and foretell conditions that are out of the ordinary with a possibility of leading into losses (Fairchild, 2012). Modern portfolio theory developed by (Markowitz 1959) is based on the quantifiable relationship existing between risk and return. That is also based on the assumption that the investors must receive compensation for risk assumption.

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Since the establishment of Machakos County in 2013, SMEs in the Mavoko constituency have improved their performance despite the economic challenges facing the county and the country in general. The county government has invested in infrastructure and removed bottlenecks that have hindered many small businesses to prosper over the years. However, many small businesses have not been able to effectively manage financial risks in their businesses, leading to poor economic performance (Ominde, 2010). Financial related uncertainties such as negative monetary policies, inflation, and bad politics have created a poor business environment which only a few small traders in the constituency manage to maneuver (Mwangi,2012).

1.1.1 Risk

Risk is injected into financial activity via numerous outflows of economic assets, which might be accomplished without understanding if it'd follow the high quality coins flows (Baldock, Blundell & Dadd, 2013). in step with Smith, the concept of hazard can be considered as combined with uncertainty, giving the perception that it is the uncertainty that ends in the delivery of dangers. events in which there may be a lack of prediction, despite the fact that the results of those events may be predicted with an objective probability (Baldock, Blundell & Dadd, 2013), consequences stricken by the risk have in itself the opportunity of incidence of multiple values.

1.1.2 Risk Management
Risk management is an ongoing procedure which could help improve operations, gain overall performance objectives, enhance economic balance and in the long run, prevent loss/harm to the entity (Jayathilake, 2012). hazard manipulate is a continuously monitored, integrated formal way for defining objectives, figuring out sources of

uncertainty, reading uncertainties and formulating organizational assets to deliver an appropriate balance amongst hazard and opportunities (Zhangliu, Lan & Kai, 2012).

The risk management way includes four interrelated steps including identification of risk, quantification and assessment of risk, control and manipulate of risks and endured reporting at the improvement of dangers (Rainola & Lorincova, 2015). Holistic danger management is characterised via three principal factors which consist of non-stop monitoring of all property of threat, the mixture of qualitative and quantitative techniques, danger evaluation and tracking, and organizational reading for a first-rate approach to dealing with risk, chance evaluation, chance evaluation, and chance handling.

1.1.3 Financial Risk Management

Management of financial risk is the process of managing and evaluating different financial risks that relate to financial products (Kociu, 2015). The perfect examples include financial risks include; credit risk, volatility risk, foreign exchange risk, market risk, etc. Financial risk may originate from the external financial environment in which business operates or from the internal environment where the business itself is a source of risk (Kociu 2015). Financial risk management maximizes the use of systematic as well as a logical approach to uncertainties in reputation, liquidity, operations, credit, portfolio, and market (Weidner, 2010). The financial risk management process that deals with uncertainties emanating from the financial market. The first process involves the identification and prioritization of relevant financial risks facing organizations (Idemobi, 2012). That entails assessing financial risks in organizations as well as develop strategies that are in line with internal priorities and policies with an aim of minimizing the risk

(Rhuch & Rijsdijk, 2013).

1.1.4 Financial Performance

This is the ability of the firm to produce new resources out of its daily production procedures over a certain period (Shuying & Mar 2014). According to Fatai (2010), financial performance is the ability of the firm to be more efficient in terms of operation, profitability, growth as well as survival for a more extended period. All companies strive to maximize the use of their resources to achieve high financial performance. According to Elahi (2013), the term financial performance is used as a fashionable degree of a firm's universal economic health over a given duration. it is able to be used to evaluate comparable companies across the same industry or to compare industries or sectors in aggregation.

there are numerous one in all a type techniques to degree financial average overall performance, but all measures need to be taken in aggregation. economic performance is likewise used as a preferred degree of a company's average economic repute over a given time. it may be used to evaluate firms across the same industry. Its measured the usage of accounting key overall performance signs such as returns on property, profits earlier than interest and tax, income ratios, and go back on investments (Mwangi, 2012).

1.1.5 SMEs in Kenya

A small or medium-sized corporation, or SME, as defined via the eu fee, is a enterprise or enterprise: that has fewer than 250 personnel and has either an annual turnover now not exceeding €50 million or an annual stability-sheet general now not exceeding €43 million (Gao, Sang and Zhang, 2013). In the Kenyan market, the SME sector has great potential of bringing millions of Kenyans out of poverty by giving them jobs. The sector has a

great potential of transforming the small scale economy into the mainstream type of Kenyan economy (Mwangi, 2012). Studies indicate that SMEs in Kenya employs about 60% of the labor force (RoK,2012). In the manufacturing sector, players in the SMEs sector are said to contribute the highest percentage of all manufacturing job opportunities, estimated at 75% of all jobs (RoK, 2012)

In Kenya, the SME survey concluded that 87% of SMEs performed well in their businesses through improvement in the profit margin (KNBS, 2015). This is as a result of embracing proper management and good governance. Inflation and an unstable economy have exposed the inability to deal with macroeconomic risks. Due to inflation, the interest rates in the banking sector were increased hence most SMEs are unable to obtain resources that can service their debts. Consequently, some of them had to close their businesses and those that had proper risks in place were not very effective (Ekwere, 2016).

According to Rotich and Wahome (2018), the year 2017 was not very good to the Kenyan economy which reported a 4.9% growth of GDP; this is the lowest ever reported since 2013. This is according to the information obtained from the Kenya National Bureau of Statistics.

Among other factors, a decision made in September 2016 to cap commercial interest rates at **4%** above the Central Bank of Kenya's benchmark rate was a significant cause (Ekwere, 2016). With the introduction of the interest rate cap, banks felt the need to implement tighter risk-management tools for smaller borrowers.

1.1.6 SMEs in Mavoko Constituency
Mavoko Constituency is an electoral constituency within Machakos County. The

constituency borders Nairobi and is home to 5 cement manufacturing firms namely; National Cement, Bamburi Cement, Savannah Cement, AthiRiver Cement, and East Africa Portland (Trade Department Machakos County, 2018). The town is among the fastest- growing residential area as a result of its proximity to the capital city.

The major urban centers in the constituency comprise of; Athi River North and Athi River Township, Kinanie, Mathatani, Muthwani, Katani, Ngelani, Mlolongo and Syokimau (Trade Department Machakos County, 2018). There are many SMEs in the constituency estimated to be over 30,000. They range from hardware, retail shops, wholesalers, supermarkets, wines and spirits shops, bars and restaurants, boutiques and butcheries. Others include groceries, M-pesa and ban agencies, sand transporters, transport and taxis, rentals and real estates, saloons barbershops, cyber and computer services, hotels etc. (Trade Department Machakos County, 2018).

1.2 Research Problem

Financial risk management is a process concerned with the management of uncertainties emanating from the financial market to minimize the risk of making losses from the unforeseen events (Namatovu, 2010). A have a look at via Sullivan-Taylor and Branicki (2011) suggested that SMEs have confined manipulate and high vulnerability to knock-on outcomes from sure activities. As a end result, that exposes a huge vulnerability in phrases of their survival, high cost of doing enterprise in phrases of better insurance premiums and steeply-priced security operations (Fairchild, 2012). it's miles envisioned that 3 out of 5 groups fail in the first few years of operations within the Mavoko constituency (exchange

branch Machakos County, 2018). although SMEs are making superb contributions to the

boom and improvement of the constituency, the rate of failure is better. several studies had been finished the world over to look at the connection among monetary danger control and monetary perfomance of SMEs (trade department Machakos County, 2018). numerous research were performed about the relationship among financial danger management and monetary overall performance of SMEs. the world over, Van den boom(2019) analyzed economic chance control practices carried out by using Dutch Small and Medium-sized establishments. Descriptive studies layout and a population of ninety seven Dutch SMEs thru questionnaires for the length 2013-2017 have been adopted. The examine revealed that; SMEs recognition on the danger manner instead of setting up an organizational structure to embed the technique.Belas, Kljucnikov, Vojtovic and Sobekova-Majkova, (2015) conducted a survey of entrepreneurs' opinions in 2015 in the Czech Republic. The study adopted a survey method and involved 1000 entrepreneurs in the capital city.

Lastly, Abeyrathna and Kalainathan (2016) sought to identify the relationship of financial risk management towards the performance of SMEs in the Anuradhapura district. The study centered 5,000 from which a pattern of 30 SMEs became decided on via using the purposive sampling approach. The have a look at followed a descriptive studies design and statistics accrued from number one resources. The effects found out a non-considerable courting among financial risk and performance of SMEs. locally, Rotich and Wahome (2018) studied the have an impact on of financial control practices on the economic overall performance of teens companies funded through the government in Kuresoi South, Kenya. The target population turned into ninety six pinnacle officers from 32 authorities funded adolescents businesses. A descriptive have a look at become

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followed inside the form of a survey, while a census survey turned into employed. The findings imply a statistically sizable high quality association among funding, liquidity, monetary control, reporting and monetary performance of government funded teens agencies.Njoki (2014) examined the management of financial risk that influences business resilience in SMEs in Kenya. A sample of 50 SACCOs were selected through systematic sampling. information were analyzed via the usage of spearman's rank correlation coefficient and more than one regression modeling strategies. The findings discovered that; matatu SACCOs most effective adopt automobile legal responsibility coverage as a approach of coping with monetary danger which had a fantastic affect on the resilience in their commercial enterprise. lastly, Ombworo (2014) sought to set up the connection among liquidity and profitability of SMEs in Kenya.

The study used a descriptive research design, the target population of 371 registered small and medium-sized enterprises. The study used secondary data which was obtained from annual reports and financial statements of the sampled SMEs. The study concluded that liquidity has a positive but insignificant effect on profitability. From the studies reviewed, it's evident that; an analysis of the impact of financial risk management should be done to establish its effects on the perfomance of SMEs since few studies have been done in the same context. The study sought to fill this research gap by providing an answer to the following question; what is the influence of financial risk management on financial performance among SMEs in Mavoko Constituency?

1.3 Research Objectives

To establish the Influence of financial risk management on the financial performance of SMEs in Mavoko Constituency, Machakos County

1.4 Significance of the Study

To a great extent, this study provides information to an information gap that exists in the academic field. The undertaking of this research was so prudent and of significance to scholars and students in colleges and universities. The research findings also add to the existing literature on financial risk management strategies. The examine assists other researchers in acquiring knowledge on how economic hazard management affect the small groups' financial performance considering that now not lots research has been performed on this situation in Kenya. The findings of this examine are of strategic importance to the authority's agencies and policymakers as a guiding principle in the development of strategies and regulations that will develop good management practices of risk by SMEs. Furthermore, guides government finance program agencies, commercial banks and other financial institutions establish acceptable financial management practices for SMEs that ultimately improves the overall performance of SMEs. The research was also of great importance to small business owners for it comprehensively explained the approaches they can use to effectively excel in a business environment with financial risk issues and be able to be profitable and grow their businesses. Youth group leaders can also utilize study findings in knowledge the impact of monetary danger on the performance of the respective adolescents organization companies as it sheds light on whether the financial management dangers strategies in place are helpful to their business or not.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section covers the theoretical review, empirical review, conceptual framework, study variables, the research summary, and the research gap.

2.2 Theoretical Framework

This study was based on prospect theory, and Modern Portfolio Theory. The assumptions of the theory are used as a foundation in explaining the understanding of the study.

2.2.1 Prospect Theory

This is based on the belief that individuals are in a dilemma on the approaches they can use when faced with uncertainties (Tversky & Kahneman,2009). The theory and individuals spell out the cause of actions adopted by individuals faced with financial uncertainties can pick what is convenient for their business. To make the best choice among the causes of action available, a person can use the explanations provided by the theory to settle on a decision that will lead to the growth and profitability of their business (Frigo & Anderson, 2011). Based on the theoretical believes, it is deduced that a person's cause of action in times of uncertainty can be classified into two (Rogerson, 2013). The immediate action a person needs to do is to understand the problem at hand to be able to explain the problem, identify potential sources of the problem and solutions that are applicable to solve the problem (Rogerson, 2013). The secondary action that a person must take is considered by determining the significance of the choices decided to solve the problem (Malz, 2011).

2.2.2 Modern Portfolio Theory

This is a theory accredited to Markowitz (1959) which places a value on financial risk and gains from investment by an organization. Using a statistical approach, an individual is expected to evaluate the margins that an investment will bring into the organization when resources are committed where risk is low or high. Investors are of two types those who are risk-takers and can invest in conditions of uncertainty and risk verse, which are always careful about where to invest their money in portfolios where they are sure they will get a good return (Panigrahi, 2012). Through the assumptions of this theory, it's advisable to invest in more than one portfolio to spread the chances of avoiding risk in the market (Tarantino, 2010). It's expected that not all sectors of the economy can make losses at the same prevailing situations. As one sector suffers, the business might be booming in another sector for their environment is different, hence a chance of making an income in one or more avenues (Omisore, Munirat & Nwufo, 2012). The theory works well for the risk- takers who can invest in more than one portfolio even at a time when the economy is not doing very well with the hope of maximizing profits as the economy becomes stable.

2.3 Determinants of Financial Risk Management

2.3.1 Factors affecting financial risk

Growth brings frequent exchange to the inner structures and outside surroundings of a micro-company (Ekwere, 2016). it's far regularly hard to ensure that monetary manage structures keep tempo with the converting occasions specially borrowers. in line with Mwangi (2014), debtors can harm micro-corporation in two extensive methods. First, they take in coins and successfully increase the investment requirement. second, the longer a debt is unpaid, the extra the hazard of lousy debt. This influences on the

employer and may be disastrous, even causing the failure of the organization.

consistent with Terungwa (2012), financial danger arises via limitless transactions of a economic nature, along with income and purchases, investments and loans, and diverse other enterprise sports. it could occur as a result of legal transactions, new initiatives, debt financing and so forth. Horscher identifies three foremost assets of monetary risks (Terungwa (2012). the primary one is the risk springing up from an corporation's exposure to changes in market prices; the second risks bobbing up from the action of, and transactions with, other corporations such as vendors and customers. In each enterprise, financial information are essential equipment that facilitate boom. financial control for the proprietor-manager and, indeed, for the maximum modest of small companies, starts with the control of coins go with the flow (Tarantino, 2010). coins flow is essential to survival, representing the livelihood that permits all the activities of a firm to be undertaken. It is straightforward for the sensitive cash sources of small corporations to turn out to be locked up in unproductive regions, which includes debtors, paintings in progress and completed shares (Frigo & Anderson, 2011).

2.3.3 Methods of dealing with financial risk
To effectively monitor the financial risks affecting the business, small business owners are required to put in place plans that will shield them from the adverse effect of the business environment uncertainties (Rejda, 2013). Failure to plan proactively and underestimation of the negative consequences such a risk may have on the business may be deadly. At whatever cost, owners of small businesses need to put there loss making at a minimal score and maximize profits (Mwangi,2014). Fatai(2010) stated that to better

control risk a business owner can cover the business with an insurance plan, put in place safety measures against fire and personal accidents that can be costly to the business and also invest in more than one venture to spread the risk and avoid liquidity, cash flow and bad debts problems. Investing in more than one venture is a sure way of earning an extra income and a better way to understand the most profitable sectors of the economy especially for beginners in business, (Rejda, 2012).

Every day of doing business, there will be an element of risk that faces the organization be it a small or big business (Terungwa, 2012). With a better monitoring system adopted by the management of the business, it is possible to identify the type of risk and come up with measures that can be used to control the risk. There is no one sure way of managing risk; however, using the right approach can go a long way in protecting a business from the adverse effect of financial risk. And such an approach as may be seen fit in relation to the problem identified, should be able to minimize the harmful impact (Elahi, 2013).

2.3.4 Types of financial risk

Liquidity risk is the possibility that over a specific time period, an-organization turns into not able to settle obligations with immediacy (Diebold et al., 2010). it is a threat springing up from the lack of ability to meet its duties when they arrive due with out incurring unacceptable losses. This hazard can adversely affect both organisation profits and the capital and therefore, it will become the pinnacle precedence of a financial institution's control to make certain the availability of enough budget to fulfill destiny demands of providers and debtors at reasonable expenses (Jorion, 2016). credit hazard control paperwork a key part of the employer's general chance control method. weak credit score threat management is a primary reason of many business screw ups. When

an agency offers credit to its customers it incurs the hazard of non-payment, (Gao et al, 2013).

foreign exchange danger is the exposure of an group to the capacity effect of moves in foreign exchange rates. consistent with Mbogo (2015), the management of organizations therefore have to include a much broader array of the hedging tools available and ought to no longer most effective depend upon forward and see contracts but inspect different problematic strategies like swaps and alternatives and this must assist solve towards the negative consequences in foreign money movements. equity markets like another monetary markets constantly undergo an essential threat in terms of market correction, (Malz, 2011). notably publicized because of financial impact, the numerous equity crashes (have had vital macroeconomic consequences, widespread recessions and growing unemployment. For equity derivatives buyers, market correction can lead to big losses due to un-hedge capable skew and correlation positions in addition to critical barrier risks, precipitated by using the marketplace exchange.

2.3.5 Financial performance and measures of financial performance
Shuying and Mar (2014) define performance as doing today what is going to reason measured value effects day after today. The overall performance of a company as regarded from numerous exceptional views and different factors can together be taken into consideration in defining a company normal performance. monetary average overall performance is one of the maximum typically used symptoms of a enterprise's financial fitness over a given period. it may be defined and measured in diverse one in every of a type processes; every of these one of a kind measures taking pictures a barely specific aspect of financial standard overall performance (Rauch, et al(2013). economic

performance is one of the most vital goals of economic control due to the truth one intention of monetary management is to maximise the owner's wealth (Mwangi, 2014). for that reason, economic performance could be very vital in determining the success or failure of a enterprise. on the status quo stage, a commercial enterprise might not be profitable because of funding and costs for organising the commercial enterprise. whilst the enterprise turns into mature, profits must be produced, (Edmister, 2007).

a few measures including profitability (return on investment, return on belongings) gauge go back (Malz, 2011). Other factors such as market growth affect the growth of a corporation typically over a given length.

2.4   Empirical review

Van den growth (2019) analyzed monetary hazard control practices applied by Dutch Small and Medium-sized businesses. specifically, the examine targeted on the techniques utilized by SMEs to control credit risks, change fee dangers, liquidity risks, and hobby price dangers. The look at adopted a descriptive research design and statistics had been collected from a population of ninety seven Dutch SMEs via questionnaires for the duration 2013-2017. Findings show that; SMEs attention on the hazard manner rather than setting up an organizational structure to embed the procedure. Belas, Kljucnikov, Vojtovic and Sobekova-Majkova, (2015) performed a survey of marketers' critiques in 2015 within the Czech Republic. The observe adopted a survey method and involved 1000 entrepreneurs in the capital town. statistics had been accrued through the usage of questionnaires and interviews for evaluation. The have a look at found that; three-quarters of marketers inside the segment foes within the Czech Republic understand the extreme motion of financial risk, but on the same time their potential to properly manage

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economic dangers in the segment of SMEs isn't at the right degree.

Abeyrathna and Kalainathan (2016) sought to become aware of the impact of financial hazard and excellent of economic hazard control on the overall performance of SMEs in the Anuradhapura district. The observe focused 5000 registered SMEs which were registered below the divisional secretariat office and chamber of trade department. data was gathered from monetary statements, the outcomes revealed that there's no significant relationship among monetary risk and overall performance of SMEs and there may be a strong high-quality dating among the excellent of monetary risk and performance of the SMEs. Angote, Malenya and Musiega (2015) analyzed the impact of monetary hazard control on the profitability of commercial banks in Kenya inside the western area. Stratified random sampling turned into used to reap a pattern of 244 personnel derived from 30 KCB branches positioned throughout the location of observe. each number one and secondary records series strategies had been employed and the Pearson correlation and regression analysis become used to evaluate the information. The studies found out a sizable high-quality dating between effective monetary danger management and performance in KCB, Westernregion.

Rotich and Wahome (2018) tested the influence of monetary control practices at the monetary performance of adolescents group funded by the authorities in Kuresoi south, Kenya. The target population became ninety six pinnacle officials from 32 authorities funded teens organizations working in Kuresoi. Descriptive examine become adopted inform of a survey even as a census survey become hired. records changed into amassed the usage of questionnaires and analyzed the use of descriptive data. The findings suggest a statistically widespread superb association between liquidity and economic overall

performance of presidency funded children agencies.

Njoki(2014) made an exam at the management of economic danger and its have an impact on on business resilience in SMEs in Kenya, with a focus on matatu SACCOs in Nairobi County. The research used a descriptive studies design and a populace of500 registered matatu SACCOs operating in Nairobi. statistics became analyzed by way of use of spearman's rank correlation co-green and more than one regression modeling techniques. The findings revealed that; matatu SACCOs most effective undertake automobile liability coverage as a approach of handling commercial enterprise which had a tremendous impact at the resilience of their enterprise.

Ombworo (2014), sought to establish the relationship among liquidity and profitability of SMEs in Kenya. The look at used a descriptive studies design, the goal populace of forty one, 371 SME registered and operating in Kenya. The study used secondary statistics which was obtained from annual reports and financial statements of the sampled. The examine used sorts of information evaluation strategies, i.e descriptive and quantitative. The examine findings conclude that liquidity has a high quality but insignificant effect on profitability.

2.5 Conceptual Framework

The above diagram illustrates the association existing between the independent variables i.e strategic risk, political risk appraisal, economic risk, and regulatory risk to the dependent variable of the study i.e. financial performance of SMEs.
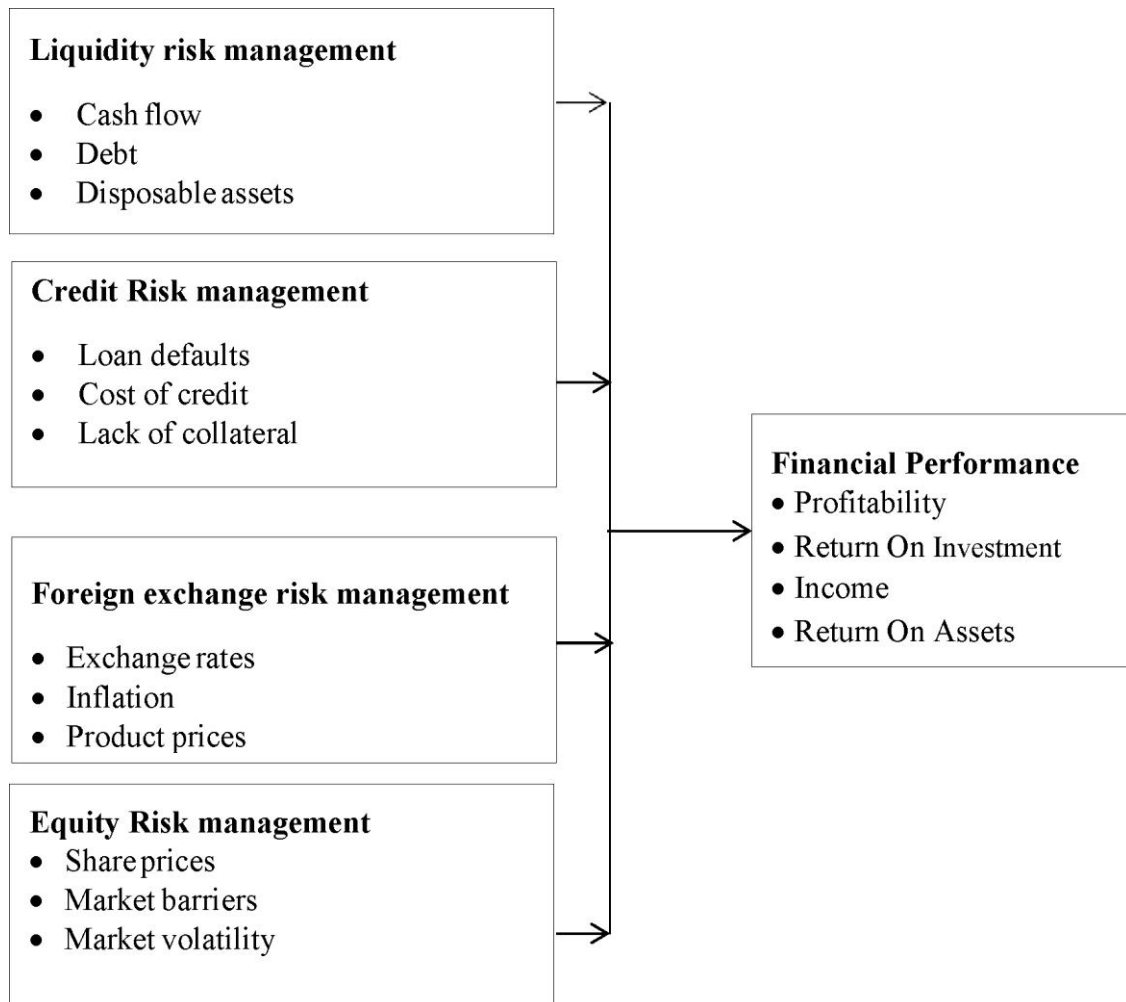
Figure 1:Conceptual framework Author (2018).

2.6 Summary of literature

It's evident from the reviewed studies that the topic of financial risk management in SMEs has gained a lot of interest from local and international scholars. Ombworo (2014), sought to set up the relationship among liquidity and profitability of SMEs in Kenya and hooked up that liquidity has a fine however insignificant effect on profitability. another look at by way of Van den boom (2019) analyzed monetary hazard management practices carried out by way of Dutch Small and Medium-sized enterprises and mounted that, SMEs awareness on danger manner in preference to putting in an organizational structure to embed the method

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

Descriptive research is the examination whereby the quantitative data is well collected and analysis done in order to make a clear description of specific phenomenon in its current developments and linkages between the cutting-edge instances (Saunders, 2011). The descriptive design of research was used to enable the researcher generalize the results to the entire population (Cooper & Schindler,2008).

3.2 Target Population

Target population is the population where the researcher wants to make general outcomes of the research, (Mugenda, 2003). Ngechu (2004) states that population is highly defined or well set by people, elements, events, services and groups of things or households under investigation. The population comprised of 34,517 (Trade department Machakos county, 2018), SMEs operating in Mavoko constituency.

3.3 Sample Design

According to Mugenda and Mugenda (2003), a sample is a small group chosen from highly accessible population. Sampling is the process selecting a specific number of individuals under research where the persons selected becomes a representative of larger group that were selected. The stratified random sampling was used to accomplish the desired representation from diverse subgroups in the population. The study engaged 100 participants calculated using the formula below.

$$n = \frac{N}{1+Ne^2}$$

n = sample size
N = Target population
 e = margin error of 10%

$$n = \frac{34{,}517}{1 + 34517(0.1)^2}$$

n = 100

$$\frac{\mathbf{34517}}{346.17} = 99.7$$

3.4 Data Collection

The research data was amassed through primary units inclusive of questionnaires and interviews to accumulate statistics from SME owners for analysis. number one records turned into accumulated through the use of both dependent and unstructured questionnaires to provide a much broader variety of information. specific phenomenon in its current developments and linkages between the cutting-edge instances (Saunders, 2011).Questionnaires hand added to respondents and turned into being carried out to permit an evidence of tough to apprehend questions. Secondary information become received from annual reviews and economic statements of the sampled corporations determined at their registered places of enterprise and/or with their auditors. A information collection form become designed to report details of money spent, acquired and profit generated.

3.6 Data Analysis

Descriptive and inferential statistics were utilized to analyze the data collected. The linear regression model that was used is as follows:

$Y = P_0 + P_t x_1 + P_2 x_2 + P_3 x_3 + P_4 x_4 + s$ Where,

Y = Financial performance X_1 = Liquidity Risk

X_2 = Credit Risk

X_3 = Foreign ExchangeRisk X_4 = Equity Risk s = Error term and

P_0, P_1, P_2 and P_3 and P_4 are regression coefficients

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

Chapter four covers data analyzed and presents data in descriptive statistics and inferential statistics that encompasses regression and correlation was done to establish the variables relationship. Findings are presented in tables, summary and charts to give clear illustration of the relationships established.

4.2 Response Rate

The study was done on 81 respondents out of the 100 respondents that were given questionnaires. The table below provides the frequencies and percentages of the study respondents.

Table 4.1: Response Rate

Response	Frequency	Percentage
Responses	81	81%
Non-responses	19	19%
Total	**100**	**100%**

The Response rate represent was at 8% for those who filled and returned questionnaires while 19% did not provide data for analysis. According to Mugenda and Mugenda (2012) a response rate above 70% is good. The issuance of questionnaires directly by the researcher resulted into the high response rat.

4.3 Reliability of the variables

Reliability of the study variables was tested by use of Cronbach alpha method. The analysis gave an overall alpha of 0.784 which is above the average 0.7 alpha hence the

data obtained is reliable in generalizing the study findings. The study conducted a reliability test for each of the study variables was tested by use of Cronbach alpha method. From the findings as illustrated in table 4.2 below; all variables had an alpha of more than 0.7, it's concluded that the study data is reliable and has a high degree of consistency.

The table below provides the reliability results for the study variables tested by the use of Cronbach alpha.

Table 4.2: Reliability test for each variable

Variable	Cronbach alpha	Item
Liquidity.Risk	0.803	5
Credit Risk	0.711	5
Foreign Exchange Risk	0.805	5
Equity Risk	0.791	5
Financial performance	0.810	4
Total	**0.784**	**24**

4.4 General information

The study sought to establish the general information of the study participants of particular interest was the respondents; gender, age and level of education.

Table 4.3: Age of respondents

Age	Frequency	Percent
25-30 years	15	18.5
30-35 years	13	16
35-40 years	45	55.5
40-45 years	5	6
Above 50 years	3	4
Total	**81**	**100**

4.4.1 Age of respondents

Table 4.3 above shows the results for study participant's genders; majority of the respondents at 55.5% are aged 35-40 years, followed by 18.5% aged 25-30 years; 16% aged, 6% aged 40-45 years and 4% aged above 50 years. The findings reveal that; participants involved in the small and micro-enterprise are more mature and prefer self-employment to create a fortune and a foundation for their families.

4.4.2 Business ownership

Figure 4.1: Business Ownership
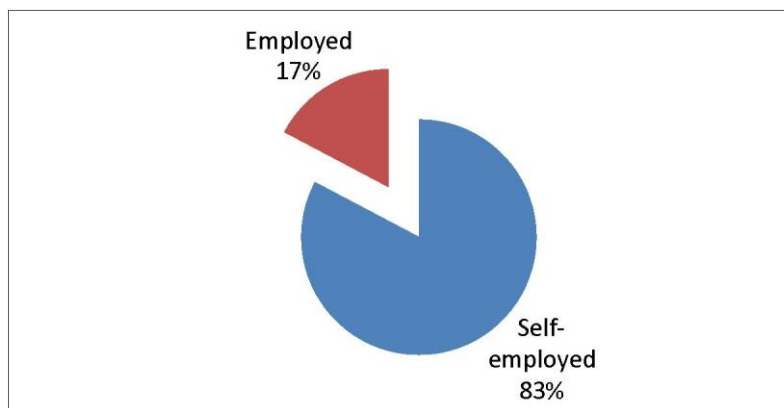
Figure 4.1 above show the results of business ownership by the study participants in Mavoko constituency. As shown in the figure above; majority of the respondents at 83% are self-employed while 17% are employed to run the businesses of others. These findings are important

for the study, as participants were able to give their personal opinions based experiences of business operations.

4.4.3 Length of business operation
Table 4.4: Length of business operation

Length of business operation	Frequency	Percent
0-5 years	45	55.5
5-10 years	20	24.7
10-15 years	5	6.2
15-20 years	3	3.7
20-25 years	5	6.2
Over 25 years	3	3.7
Total	**81**	**100**

Table 4.4 above show the results of Length of business operation for study participants in Mavoko constituency. As shown in the figure above; majority of the respondents at 55.5% have operated their businesses for 0-5 years, 24.7% have operated their businesses for 5-10 years, 6.2% have operated their business for 10-15 years and 20-25 years while 3.7% have operated businesses for 15-20 years and over 25 years. The results reveal that, many businesses are new which is as a result of old business collapsing and starting over again.

4.4.4 Level of education

Table 4.5: Level of education

| Highest level of education	Frequency	Percent
Primary	23	28.3
Secondary	44	54.3
Tertiary	12	14.8
University	2	2.6
Total	**81**	**100**

Table 4.5 above show the results of Level of education for study participants in Mavoko constituency. As shown in the figure above; majority of the respondents at 54.3% had a secondary level of education, 28.3% had a primary level, 14.8% at tertiary level of education while 2.6% had a university level of education. The results revealed that, higher education is not a maj or factor in the ability to run a small business.

4.4.5 Source of starting capital

Table 4.6: Source of starting capital

Source of starting capital	Frequency	Percent
Savings	29	35.8
Loan	31	38.3
Friends / Family contributions	12	14.8
Lease of property	9	11.1
Total	**81**	**100**

Table 4.6 above show the results of source of starting capital for study participants in Mavoko constituency. As shown in the figure above; majority of the respondents at 38.3% sourced their starting capital from loans, 35.8% savings, 14.8% Friends / Family contributions while 11.1% sourced their starting capital from lease of property. The findings reveal a higher preference of credit as compared to other means of business financing.

3.5 Descriptive Statistics

This section discusses the study variables analysed mean, standard deviation, minimum and maximum values and frequency distribution for all the responses that were recorded by respondents. The analysis further shows the rating scale of the response based on a Likert scale of 1-5 for each question that was asked.

3.5.1 Liquidity Risk Management

The study sought to establish the influence Liquidity Risk Management has on financial perfomance of SMEs in Mavoko constituency. As shown in table 4.5; the descriptive measures on liquidity risk management and its relationship to financial perfomance are as follows. The table below presents the descriptive statistics of the influence of project funding on project implementation.

Table 4.5: Liquidity Risk Management

Statement	Mean	Std.dev
Insufficient cash affects the financial-perfomance of our business	3.9000	1.1400
We have a challenge in proper usage of-resources meant for business	4.3200	.91115
Failure to acquire basic resources for our-business hampers our growth	3.1100	.71205
Due to continued cash shortages- we borrow to sustain our businesses	4.4201	.85322
Lack of collaterals have limited our capital acquisition efforts	3.5550	1.3245

As presented above, the findings show that on average mean of 3.1100 and 4.4201 respondents agreed that Liquidity Risk Management influences financial perfomance of SMEs in Mavoko constituency. These findings prove the importance of Liquidity Risk Management which influences financial perfomance of SMEs in Mavoko constituency.

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As shown in the table above; the statement on: Due to continued cash shortages we borrow to sustain our businesses had the highest mean of 4.4201 and std.dev of 0.85322; we have a challenge in proper usage of resources meant for business had a mean of 4.3200 and std.dev of 0.91115; Insufficient cash affects the financial perfomance of our business had a mean of3.9000 and std.dev of 1.1400; Lack of collaterals have limited our capital acquisition efforts had a mean of 3.5550 and std.dev of 1.3245 while failure to acquire basic resources for our business hampers our growth had a mean of 3.1100 and std.dev of 0.71205.

3.5.2 Credit Risk Management

The study sought to establish the influence Credit Risk Management has on financial perfomance of SMEs in Mavoko constituency. As shown in table 4.6; the descriptive measures on Credit Risk management and its relationship to financial perfomance are as follows.

Table 4.6: Credit Risk Management

Statement	Mean	Std. dev
We over borrow to finance our business	3.1610	0.88121
We have difficulties in differentiating various credit products offered in the financial market	4.2300	0.91551
Our misunderstanding on interest rate- computation has led to high indebtedness	3.4870	1.60453
Loan default rates are very high	4.6400	1.45223
Borrowed finances are most of the times used for personal use	3.8801	0.72310

As presented above, the findings show that on average mean of 3.1610 and 4.6400 respondents agreed that Credit Risk management influences financial perfomance of SMEs in Mavoko constituency. These findings prove the importance of Credit Risk management which influences financial perfomance of small

and medium enterprises in Mavoko constituency. As shown in the table above; the statement on: Loan default rates are very high had the highest mean of 4.6400 and std.dev of 1.45223; we have difficulties in differentiating various credit products offered in the financial market had a mean of 4.2300 and std.dev of 0.91551; Borrowed finances are most of the times used for personal use had a mean of 3.8801and std.dev of 0.72310; Our misunderstanding on interest rate- computation has led to high indebtedness had a mean of 3.4870 and std.dev of 1.60453 while the statement on we over borrow to finance our business had a mean of 3.1610 and std.dev of 0.88121.

3.5.3 Foreign Exchange Risk Management

The study sought to establish the influence Foreign Exchange Risk Management has on financial perfomance of SMEs in Mavoko constituency. As shown in table 4.7; the descriptive measures on Foreign Exchange Risk Management and its relationship to financial perfomance are asi follows.

Table 4.7: Foreign Exchange Risk Management

Statement	Mean	Std. dev
We understand how the foreign exchange-market works	4.2340	1.3245
We rarely to import or export products	3.9410	0.7234
Volatility in foreign exchange affects our-business perfomance	4.4562	0.76820
It's too cost to trade in international markets	3.2132	0.80321
Access to foreign markets is a problem	4.1761	1.27794

As presented above, the findings show that on average mean of 3.2132 and 4.4562 respondents agreed that Foreign Exchange Risk Management influences financial perfomance of SMEs in Mavoko constituency. These findings prove the importance of Foreign Exchange Risk management which influences financial perfomance of SMEs in Mavoko constituency. As shown in the table above; the statement on: volatility in foreign exchange affects our business perfomance had a mean of 4.4562 and std.dev of 0.76820; we understand how the foreign exchange market works had a mean of 4.2340 and std.dev of 1.3245; access to foreign markets is a problem had a mean of 4.1761 and std.dev of 1.27794; we rarely to import or export products while it's too costly to trade in international markets had a mean of 3.2132 and std.dev of 0.80321.

3.5.4 Equity Risk Management

The study sought to establish the influence Equity Risk Management has on financial perfomance of SMEs in Mavoko constituency. As shown in table 4.8; the descriptive measures on Equity Risk Management and its relationship to financial perfomance are as follows.

Table 4.8: Equity Risk Management

Statement	Mean	Std. dev
In most cases, partners fail to agree on the- shareholding ratios	3.3000	1.12013
Big shareholders put their self-interest first- and always seek to benefit more	4.1140	0.92080
We do not know the right balance between equity- and debt in business	3.8110	1.69032
Failure to attract big investors has affected- our expansion plans	4.4127	1.79162
We plough back our profits into the business	4.3342	1.45631

As presented above, the findings show that on average mean of 3.3000 and 4.4127 respondents agreed that Equity Risk Management influences financial perfomance of SMEs in Mavoko constituency. These findings prove the importance of Equity Risk management which influences financial perfomance of SMEs in Mavoko constituency. As shown in the table above; the statement on: Failure to attract big investors has affected our expansion plans had the highest mean of 4.4127 and std.dev of 1.79162; we plough back our profits into the business had a mean of 4.3342 and std.dev of 1.45631; big shareholders put their self-

interest first and always seek to benefit more had a meanof4.1140 and std.dev of 0.92080; we do not know the right balance between equity and debt in business had a mean of 3.8110 and std.dev of 1.69032 while statement on in most cases, partners fail to agree on the shareholding ratios had a mean of 3.3000 and std.dev of 1.12013.

4.5.3 Financial perfomance
The study sought to establish the descriptive measures financial perfomance of SMEs in

Mavoko constituency.

Table 4.9: Financial perfomance

Statement	Mean	Std.dev
Effective equity risk management positively affect business leverage	4.2431	1.3345
Effective foreign exchange risk management has a positive effect on business growth	4.0412	1.1543
Effective credit risk management leads to better business profits	4.5800	1.8572
Effective liquidity risk management affects business returns positively	4.1885	1.7417

As presented above, the findings show that; the highest financial management risk factor affecting the perfomance of SMEs in Mavoko constituency is effective credit risk management leads to better business profits with a mean of 4.5800 and std.dev of 1.8572; followed by, effective equity risk management positively affect business leverage with a mean of 4.2431 and std.dev of 1.3345; Effective liquidity risk management affects business returns positively with a mean of 4.1885 and std.dev of 1.7417 while effective foreign exchange risk management has a positive effect on business growth had a mean of 4.0412 and a std.dev of 1.1543. The findings are similar to the observation made by Dhuci (2011), which state that, weak credit risk management is a primary cause of many small business failures.

4.6 Correlation Results
Correlation analysis turned into accomplished to establish the energy of the connection among the unbiased variables in liquidity hazard, credit score hazard, forex hazard and fairness danger on financial perfomance of small and medium firms in Mavoko

constituency. The significance levels of the relationships are shown below;

Table 4.10: Correlation analysis

	FP	LRM	CRM	FER	ER
FP	1				
Sig					
LRM	.474	1			
Sig	.014				
CRM	.193	.167	1		
Sig	.017	.484			
FER	.536	.261	.695	1	
Sig	.003	.103	.000		
ER	.429	.442	.519	.391	1
Sig	.038	.013	.004	.012	

Where LRM = Liquidity Risk Management

CRM = Credit Risk Management

FER = Foreign Exchange Risk Management

ER= Equity Risk Management

FP = Financial Perfomance

The results reveal a significant positive relationship between liquidity risk, credit risk, foreign exchange risk and equity risk on financial perfomance of SMEs in Mavoko constituency. This affirms the study assumptions that the independent variables have an influence on financial perfomance of Small and Medium

Enterprises in Mavoko Constituency.

Regression changed into finished to estimate the relationships among a established variable and the unbiased variables. It changed into utilized to evaluate the power of the connection that exists among the variables and for modeling the future courting between them.Table 4.11: Regression Model Summary

4.7 Regression Results

Model R	R-Square	Adjusted Square	R Std. Error	Sig. F	Durbin-Watson
.647a	.0.419a	.302	2.03894	.023	.870

a. Predictors: (Constant), Liquidity risk, Credit risk, Foreign exchange risk and Equity risk. Dependent Variable: Financial performance

From table 4.23 above; it can be observed that the r-square value of the variable is 0.419 which means that the factors of financial risk management (liquidity risk, credit risk, foreign exchange risk and equity risk) strongly correlate with financial perfomance. This indicates that the predictor variables can only explain 41.9% of financial perfomance (dependent variable), hence there are other factors (58.1%) which were not covered in the study.

Table 4.12: ANOVA result

Model	Sum of Square	df	Mean Square	F	Sig
Regression	18.826	4	4.707	12.675	**.000**
Residual	62.112	96	.647		
Total	80.224	100			

   a. Dependent Variable: Financial perfomance
   b. Predictors: (Constant), Liquidity risk, Credit risk, Foreign exchange risk and Equity risk

ANOVA is considered significant if its p-value is less or equal to 0.05. The model has a

P- value of 0.00 < 0.05; hence fit in explaining the relationships between independent

variables and financial perfomance of SMEs in Mavoko Constituency. With an F value of

12.675 and P-value of 0.000 the model, shows that the regression is significant and the

variables have a positive influence on financial perfomance of SMEs.

Table 4.13: Regression coefficient

Model	Unstandardized Coefficients		Standardized	t	sig
	Beta	Std. Error Beta	Coefficients		
(Constant)	3.526	2.964		.0239	.000
Liquidity Risk Mgt	.178	.194	.124	.918	.003
Credit Risk Mgt	.006	.141	.006	.044	.009
Foreign Exchange Risk	.012	.137	.012	.087	.000
Equity Risk	.255	.144	.235	.766	.008

CRM = Credit Risk Management

FER = Foreign Exchange Risk Management

ER= Equity Risk Management

FP = Financial Perfomance

From table 4.26 above, it can be observed that the study had an intercept of 3.526 which

implies that when all other factors are held constant at zero, variation in financial

perfomance of SMEs would be 3.526.

$Y= 3.526+ 0.178X_i + 0.06X_2+ 0.012X_3+ 0.225X_4 +$

From the above regression results, it can be deduced that a unit change in liquidity risk

management influences financial perfomance of SMEs by 0.178, a unit change in credit

risk management influences financial perfomance of SMEs by 0.06, a unit change in foreign exchange risk management influences financial perfomance of SMEs by 0.012 while a unit change in equity risk management leads to 0.225 change in financial perfomance of SMEs.

4.8 Discussion of Findings

4.8.1 Liquidity Risk Management

Descriptive statistics show that; liquidity risk management influences financial perfomance of SMEs in Mavoko constituency. Correlation analysis revealed a positive relationship between liquidity risk management and financial perfomance of SMEs in Mavoko constituency with a correlation co-efficient of0.474 and significance of 0.14. Furthermore, regression analysis portrays the relationship to be positive and significant with a co-efficient of 0.178 and significance of 0.03. The study findings relate to the findings Rotich and Wahome (2018) study which examined the influence of financial management practices on the financial performance of youth group funded by the government in Kuresoi south and established a statistically significant positive association between liquidity and financial performance of government funded youth groups. Respondents were observed to follow the assumptions of the prospect theory and were very cautious in using cash at hand, they prefer borrowing from financial institutions as a way of protecting their businesses from insolvency.

4.8.1 Credit Risk Management

Descriptive statistics revealed that; Credit Risk management influences financial performance of SMEs in Mavoko constituency a correlation co-efficient of 0.193 and significance of 0.017. Furthermore, regression analysis portrays the relationship to be

positive and significant with a co-efficient of 0.06 and significance of0.009. The findings are similar to that of Angote, Malenya and Musiega (2015) study that analyzed the impact of financial risk management on profitability of commercial banks in Kenya in the western region which revealed a significant positive relationship between effective financial risk management and performance in KCB, Western region. In seeking credit to fund their businesses, small business owners were observed to follow the assumptions prospect theory and sought to find out the possible problems for each financial instrument before deciding on the best choice.

4.8.2 Foreign Exchange Risk Management

Descriptive statistics reveal show that; Foreign Exchange Risk Management influences financial perfomance of SMEs in Mavoko constituency. Correlation analysis revealed a positive relationship between foreign exchange risk management and financial perfomance of SMEs in Mavoko constituency with a correlation co-efficient of 0.536 and significance of 0.003. Furthermore, regression analysis portrays the relationship to be positive and significant with a co-efficient of 0.012 and significance of 0.000. The findings of the study are very similar to the study by Rotich and Wahome (2018) Regression changed into finished to estimate the relationships among a established variable and the unbiased variables. It changed into utilized to evaluate the power of the connection that exists among the variables and for modeling the future courting between them. These findings supported the theoretical assumptions of prospect and modern portfolio theory as respondents were selective in their credit choices with expectations of higher returns from their ventures.

4.8.3 Equity Risk Management

Descriptive statistics revealed that; Equity Risk Management influences financial perfomance of SMEs in Mavoko constituency. Correlation analysis revealed a positive relationship between equity risk management and financial perfomance of SMEs in Mavoko constituency with a correlation co-efficient of0.429 and significance of 0.038. Furthermore, regression analysis portrays the relationship to be positive and significant with a co-efficient of 0.255 and significance of 0.008. The findings are similar to Abeyrathna and Kalainathan (2016) study which sought to identify the impact of financial risk and quality of financial risk management towards performance of SMEs in Anuradhapura district. In their investment decisions, small business owners were discovered to favour equity with higher return on equity, this observation approves the assumptions of modern portfolio theory adopted by the study.

CHAPTER FIVE

SUMMARY, CONCLUSION ANDRECOMMENDATION S

5.1 Introduction

This chapter summarizes the studty findings and recommends areas for further study.

5.2 Summary

The study response rate was good and appropriate for generalization of study findings.

The responses given by the respondents were tested for reliability and it was established

that the data used in analysis was reliable and had a high degree of consistency. The

study engaged 100 participants who were given questionnaires to fill. Out of 100

participants engaged, 81% filled and returned the questionnaires for data analysis. Data

obtained was tested for reliability by use of Cronbach Alpha; all variables had an alpha of

more than 0.7 which means data was reliable with a high degree of consistence. General

information obtained from participants show that; majority of respondents are aged 35-

40n years at 55.5%. 83% of study participants are self-employed and they own the

businesses; 55.5% of participants have operated their businesses for 0.5 years; 54.3% of

respondents have secondary school level of education and 38.3% of respondents sourced

their starting capital through loans.

5.2.1 Liquidity Risk Management

The study sought to determine the influence of liquidity risk management on financial

perfomance of SMEs in Mavoko constituency. To test the relationships, inferential

statistics were conducted to test correlation and regression. The test proved positive

relationships between liquidity risk management and financial perfomance of SMEs in

Mavoko constituency. The findings prove the importance of Liquidity Risk Management

which influences financial perfomance of SMEs in Mavoko constituency. The most influential factors as indicated by respondents is continued cash shortages that make them borrow to sustain their

businesses.

5.2.2 Credit Risk Management

The study sought to determine the influence of credit risk management on financial perfomance of SMEs in Mavoko constituency. To test the relationships, inferential statistics were conducted to test correlation and regression. The tests proved positive relationships between credit risk management and financial perfomance of SMEs in Mavoko constituency. The findings prove the importance of credit risk management which influences financial perfomance of SMEs in Mavoko constituency. The most influential factors as indicated by respondents are loan default rates to be very high.

5.2.3 Foreign Exchange Risk Management

The study sought to determine the influence of foreign exchange risk management on financial perfomance of SMEs in Mavoko constituency. To test the relationships, inferential statistics were conducted to test correlation and regression. The tests proved positive relationships between foreign exchange risk management and financial perfomance of SMEs in Mavoko constituency. The findings prove the importance of foreign exchange risk management which influences financial perfomance of SMEs in Mavoko constituency. The most influential factors as indicated by respondents are volatility in foreign exchange.

5.2.4 Equity Risk Management

To test the relationships, inferential statistics were conducted to test correlation and regression. The tests proved positive relationships between equity risk management and financial perfomance of SMEs in Mavoko constituency. The findings prove the importance of equity risk management which influences financial perfomance of SMEs in Mavoko constituency. The most influential factors as indicated by respondents are failure to attract big investors has affected our expansion plans.

5.3 Conclusions

The study sought to establish the influence of Liquidity Risk Management on the financial perfomance of SMEs in Mavoko constituency. Data analysis reveals a positive correlation and regression co-efficient of Liquidity Risk to financial perfomance of SMEs. As a result, the study concludes that; Liquidity Risk Management is positively and significantly related to financial perfomance of SMEs in Mavoko constituency.

The study also sought to establish the influence of credit risk management on the financial perfomance of SMEs in Mavoko constituency. Data analysis reveals a positive correlation and regression co-efficient of credit risk management to financial perfomance of SMEs. As a result, the study concludes that; credit risk management is positively and significantly related to financial perfomance of SMEs in Mavoko constituency.

Furthermore, the study sought to establish the influence of foreign exchange risk management on the financial perfomance of SMEs in Mavoko constituency. Data analysis reveals a positive correlation and regression co-efficient of foreign exchange management to financial perfomance of SMEs. As a result, the study concludes that; foreign exchange risk management is positively and significantly related to financial perfomance of SMEs in Mavoko constituency.

Lastly, the study sought to establish the influence of equity risk management on the financial perfomance of SMEs in Mavoko constituency. Data analysis reveals a positive correlation and regression co-efficient of equity risk management to financial perfomance of SMEs. As a result, the study concludes that; equity risk management is positively and significantly related to financial perfomance of SMEs in Mavoko constituency.

5.4 Recommendations of the Study

Study findings show that owners of small business in Mavoko constituency rely on credit to finance their business. To ensure that, the business owners realize the full potential of credit facilities in the maret, the study recommends for business owners to see more training on credit management from financial and educational institutions.

Study findings also show that SME owners fail to acquire basic resources for our-business hampers our growth, this problem can be attributed to poor business planning, hence its recommended that SME owners to consult experts in the business field in order to gain knowledge on how best to make good use of the resources they have.

Lastly, it was observed that SME owners in Mavoko constituency fail to attract big investors in their businesses which affect their expansion plans. It's advisable for the small business owners to scan the environment so as to have a better understanding of their business opportunities and threats. With such an understanding they can easily identify the future prospects of their fortunes hence it will be easy for investors to buy shares with assurance of good returns.

5.5 Suggestion for Further Research

The study findings have revealed a positive and significant relationship between financial risk management factors and financial perfomance of SMEs in Mavoko constituency. However, it's evident from the responses that respondents have little knowledge on some critical aspect of financial risk management which should be studied further to fill the existing information gaps. Further studies should be done to establish; the effect of lack of collaterals on capital acquisition and how they affect SMEs financial perfomance. Another study on reasons why borrowed finances are most of the times used for personal use and lastly a study on strategies that small business can adapt to maximise on opportunities in foreign markets.

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APPENDICES

Appendix 1: LETTER OF INTRODUCTION

Patrick
University of Nairobi,
P.O. Box
Nairobi.

April, 19, 2019

Dear Sir/Madam,

RE: RESEARCH PROPOSAL

I am Patrick, a student of the University of Nairobi pursuing Master's degree in entrepreneurship. I request for your help in providing information for my research which looks at the effect of financial risk management on financial performance among micro and small medium enterprises in Mavoko constituency, Machakos County.

The purpose for this letter is to request you to provide me with the necessary support and assistance to enable me to obtain data necessary for the project. Kindly note the information given is purely for academic purposes.

Thank you.

Yours faithfully,

Patrick

Appendix II: Questionnaire

This questionnaire seeks to collect data about the effect of financial risk management on financial performance among SMEs in Mavoko constituency, Machakos County. The data collected will be utilized for academic purposes. Tick the form provided appropriately.

1. Demographic data

i) Age.

25 - 30 years ( )   30 - 35 years ( )   35 - 40 years ( )

40 - 45 years ( )   45 - 50 years ( )   50 years and above ( )

ii) Please state whether you own the business or you are employed.

   Self-employed ( )

   Employed ( )

iii) How long has the business been in operation?

0 - 5 years ( )	5 - 10 years ( )	10 - 15 years ( )
15 - 20 years ( )	20 - 25 years ( )	Over 25 years ( )

iv)   What is your highest level of education?

   Primary education   ( )

   Secondary education   ( )

   Tertiary   ( )

   University   ( )

v)   What was the source of your starting capital?

   Savings ( )

   Loan ( )

   Friends and family contributions ( )

   Lease of property ( )

Other ( )

Section B: Questions for Research Objectives i.

Liquidity Risk Management

To what extent do the following factors affect the financial perfomance of SMEs in Mavoko constituency? Pick the best choice in the table provided: Strongly Agreed = 5; Agreed = 4; Neutral = 3; Disagreed = 2; Strongly Disagreed = 1.

Statement	5	4	3	2	1
1. Insufficient cash affects the financial perfomance of our business					
2. We have a challenge in proper usage of resources meant for business					
3. Failure to acquire basic resources for our business hampers our growth					
4. Due to continued cash shortages, we borrow to sustain our businesses					
5. Lack of collaterals have limited our capital acquisition efforts					

ii. Credit Risk Management

To what extent do the following factors affect the financial perfomance of small and medium enterprises in Mavoko constituency? Pick the best choice in the table provided: Strongly Agreed = 5; Agreed = 4; Neutral = 3; Disagreed = 2; Strongly Disagreed = 1.

Statement	5	4	3	2	1
1. We over borrow to finance our business					
2. We have difficulties in differentiating various credit products offered in the financial market					
3. Our misunderstanding on interest rate computation has led to high indebtedness					
4. Loan default rates are very high					
5. Borrowed finances are most of the times used for personal use					

iii. Foreign Exchange Risk Management
To what extent do the following factors affect the financial perfomance of small and medium enterprises in Mavoko constituency? Pick the best choice in the table provided: Strongly Agreed = 5; Agreed = 4; Neutral = 3; Disagreed = 2; Strongly Disagreed = 1.

Statement	5	4	3	2	1
1. We understand how the foreign exchange market works					
2. We rarely to import or export products					
3. Volatility in foreign exchange affects our business perfomance					
4. It's too cost to trade in international markets					
5. Access to foreign markets is a problem					

Equity Risk Management

To what extent do the following factors affect the financial perfomance of small and medium enterprises in Mavoko constituency? Pick the best choice in the table provided: Strongly Agreed = 5; Agreed = 4; Neutral = 3; Disagreed = 2; Strongly Disagreed = 1.

Statement	5	4	3	2	1
1. In most cases, partners fail to agree on the shareholding ratios					
2. Big shareholders put their self-interest first and always seek to benefit more					
3. We do not know the right balance between equity and debt in business					
4. Failure to attract big investors has affected our expansion plans					
5. We plough back our profits into the business					

V: Financial perfomance

To what extent do the following factors affect the financial perfomance of small and medium enterprises in Mavoko constituency? Pick the best choice in the table provided: Strongly Agreed = 5; Agreed = 4; Neutral = 3; Disagreed = 2; Strongly Disagreed = 1.

Statement	5	4	3	2	1
1. Effective equity risk management positively affect business leverage					
2. Effective foreign exchange risk management has a positive effect on business growth					
3. Effective credit risk management leads to better business profits					
4. Effective liquidity risk management affects business returns positively					