AKENTEN APPIAH-MENKA UNIVERSITY OF SKILLS TRAINING AND ENTREPRENEURIAL DEVELOPMENT

OPTIMISING FINANCIAL RESILIENCE AND ANALYSING THE IMPACT OF SPECIFIC RISK EXPOSURES ON SMES IN GHANA

JOHN NTUL

JANUARY, 2024

AKENTEN APPIAH-MENKA UNIVERSITY OF SKILLS TRAINING AND ENTREPRENEURIAL DEVELOPMENT

OPTIMISING FINANCIAL RESILIENCE AND ANALYSING THE IMPACT OF SPECIFIC RISK EXPOSURES ON SMES IN GHANA

JOHN NTUL

7211540009

A PROJECT WORK SUBMITTED TO THE SCHOOL OF GRADUATE STUDIES AKENTEN APPIAH-MENKA UNIVERSITY OF SKILLS TRAINING AND ENTREPRENEURIAL DEVELOPMENT KUMASI IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTER OF BUSINESS ADMINISTRATION IN FINANCE

JANUARY, 2024

DECLARATION

I, John Ntul, do hereby declare that this Thesis is the result of my own original research in fulfillment of the requirement for the award of Masters in Business Administration Finance. References to other work are duly cited and acknowledged.

Signature:……. **Date**: ……

JOHN NTUL

Supervisor's Declaration

I hereby declare that the preparation and presentation of the thesis were supervised in accordance with the guidelines on supervision of thesis laid down by the Akenten Appiah-Menka University of Skills Training and Entrepreneurial Development

Signature:……. **Date**: ……

MR. ERIC EFFAH SARKODIE

DEDICATION

This study is dedicated to my supervisor and my close friends of the MBA finance class year 2023, who have been my source of inspiration and strength, when I thought of giving up, who constantly provided me with the emotional support. Lastly, I dedicate this study to my beloved mother who supported me domestically to afford me the peace of mind to be able to complete this work successfully.

ACKNOWLEDGEMENT

My profound gratitude goes to my supervisor Mr. Eric Effah Sarkodie who made this work possible. His significant support and insights saw me through all the stages of writing this thesis. I am forever thankful for his unconditional love and support throughout the entire thesis process and every day.

TABLE OF CONTENT

LIST OF TABLES

LIST OF FIGURES

ABSTRACT

The aim of the study is to assess the financial resilience and how certain risk exposures affect small and medium-sized enterprises in Ghana. The descriptive research design was utilized by the study. The study discovered that SMEs face credit and financial risks exposures as a result of clients default to pay for credit granted to them (clients), and inability of SMEs to meet their financial obligations as a result of the financial risk exposure the encountered in the businesses. It was found that liquidity and market risks were not risk the SMEs face in Kumasi. The findings show a positive association between businesses that maintain enough savings in case of an emergency and the businesses dedicated to approval of cash before payment is made while it has negative correlation with business that has a cash forecast that is revised regularly. It was found that the SMEs use identification of potential internal and external risks, evaluation of possible effects of each identified risk, and ensure appropriate as well as timely integration of risk management practices within the day to day running of the company and general decision making process of the company. On the basis of the discoveries, the research outlined the following recommendations for policy direction. That management of SMEs should ensure to assess the ability to pay of clients before credits are granted in order to reduce credit defaults. That management of the SMEs should design strategies that enable them to save enough money to meet financial obligations at any point in time and design health and safety measures to ensure no unforeseen danger befall them. In addition, management of SMEs should build credit worthy record, invest in less risky ventures, and practicable risk management and mitigation policy that incorporate risk awareness or education and effectively communicate to every member of the SMEs to ensure risks are well managed.

CHAPTER ONE

INTRODUCTION

1.1 Introduction

The chapter covers the study's introduction, encompassing the study's background, problem statement, objectives, research questions, and study significance. It also considers the study's scope and organization. The chapter in general underpins the overview or synopsis of the study. It provides a clear cut discussion on what goes into the scholarly investigation.

1.2 Background of the Study

Global attention has been paid to research on financial risk exposure. Amidst a highly volatile and uncertain environment, business ventures operate. As the business environment has become more globalized, this is the case. Institutions confront a multitude of financial hazards in the course of their routine activities. Even though some risks exist, in link with the globalization of the corporate environment, there are also numerous advantages. As opposed to the medieval method of conducting business, these advantages consist of an expanded clientele that guarantees maximum profits. The operational efficiency of businesses has been significantly enhanced by technological advancements and other innovations, allowing them to prosper in the long run (Sharifi, 2014).

A multitude of financial risks confront organizations, each of which has the potential to significantly impact their operations. A business is susceptible to a variety of risks by virtue of the nature of its operations. These risks may include environmental, health, and safety concerns as well as financial ones. There is both the potential for loss and the opportunity for gain or profit when an organization is exposed to the financial markets. Strategic or competitive advantages

may accrue to an organization as a result of financial market exposure. According to Muriithi (2016), the enhancement of performance and forecasting is facilitated by the mitigation of risks.

Integrated risk management practices are undervalued or underinvested in by organizations, despite the fact that their exposure to risk events continues to rise. Balancing resources to address risks that are likely to happen but with lower impact versus risks with high impact but less likely to occur is often mishandled in real-world situations, making it difficult to assess overall risk. Critical to an organization, risk management is by definition a highly strategic endeavor. The utility of the firm's risk management strategies is pertinent to the discussion. Already, diversified investors have achieved a reduction in total risk through the elimination of all specific risk associated with these activities. Therefore, investment firms that engage in risk management activities can expect a rise in the market value of their shares. Small and medium-sized enterprises can benefit greatly from tackling financial risks, including credit, market, and operational uncertainties (Wolfgang, 2005).

For the purposes of profitability and sustainability, significant corporations have implemented financial risk management on a global scale. An enterprise risk management (ERM) strategy in China was described in (Berrell, 2017). Generic business risk domains in China were identified through a literature search. By identifying and prioritizing business risks in the Chinese economy, they used an Expert Panel as a Nominal Group Technique and linear rating scales. Using intellectual capital as a guiding principle throughout, the method illustrated how a rapid and efficient risk assessment is possible (Song & Xiong, 2018).

Stronger financial structures are associated with faster economic growth, according to research by Hacievliyagil and Eksi (2019) and Jayaratne and Strahan (1996). (Regasa et al., 2019) have

identified several critical factors that exert an influence on the financial growth of an organization. The evaluation of available financing options and the assessment of associated risks and their potential impact on the organization are both imperative for the owner/manager. In the event that lenders and other financial institutions erroneously categorize SMEs, they are inherently susceptible to moral hazard.

To regulate the default rate of their financial institution, lenders might erroneously designate SMEs. Two important studies namely Nguyen et al. (2006) and Ilyas (2019), posited that assessment of CEO's true quality in financial dealings, such as credit provision and economic service delivery, presents difficulties for financial institutions. Furthermore, the information asymmetry hypothesis has been commonly employed by FIs to analyze the information disparity. Owners and managers conventionally refrain from disclosing critical information to lenders when pursuing credit, in accordance with this notion. Meanwhile, this information will likely impact the agreement underscoring the terms and conditions of the loan between the parties. As a consequence, lenders have arrived at an unfavorable decision. Although this argument has been presented in a number of studies as cited by Moyi (2019), the probability that proprietors and managers will be subjected to unfavorable choice due to the withholding of credit evidence or data has not been investigated. It is not uncommon for lenders to conceal evidence from their customers. The lack of transparency in the loan agreement between financial institutions and owners is a source of discontent among managers (Yen et al., 2019; Olah et al., 2019). Lenders frequently rely on their prior experience and interactions with SMEs when establishing the criteria for extending credit. Despite potential changes in the corporate features of a SME, owners most often maintain consistent requirements.

Financial risk refers to the inadequacy of a company's cash sources to meet anticipated and unanticipated cash requirements. In essence, this peril emerges when an organization lacks sufficient funds to settle its own obligations (James & Kepha, 2020). Fifty percent of the financial risks consist of the following: liquidity, technical provision, reinsurance, interest rate, foreign exchange, credit, underwriting, and solvency. The proprietor or manager may be subject to financial risk due to the consistent impact of this image on borrowing expenses. The manager or proprietor is exposed to a variety of financial risks from entities within the business ecosystem, in addition to lenders.

Additional entities and factions engaged in a financial transaction with the enterprise are delineated by the theory of stakeholders. The central tenet of this theory posits that individuals with vested interests in organizations either influence the organization itself or are influenced by it. These actors include managers, creditors, firms, rival organizations, communities, customers, suppliers, and employees; auditors, bondholders and stockholders, banks, and intermediaries; and Freeman et al., 2010). Risks and a pecuniary interaction between the organization and the particular stakeholder are introduced by each aspect of the business-stakeholder relationship. An instance of a potential financial risk for the organization could be the clientele and their purchasing power. In addition to the intermediary role, financial relationships are established through the supplier-owner/manager connection.

The way a business engages with people and groups, considering their interests and impact, is the foundation of stakeholder theory. The extent to which the organization is exposed to such influence and authority may vary, but it may particularly be exposed to financial hazards (Jenkins, 2004; Yiannaki, 2012). Academics in emergent nations are displaying a growing

interest in the subject of financial risks faced by small businesses, owing to the tremendous impact that these enterprises have on development.

Financial risk, an element of broader business risk, pertains to the uncertainties associated with the circulation of funds into and out of the organization (Ekaterina and Thielmann, 2020). Precipitated price fluctuations and their impact on the forthcoming cash flows of an organization are the subject matter (Jorge & Augusto, 2011). The future credit standing of SMEs can be predicted by their financial risk, according to Yang et al. (2020). The concept was defined by Gabriel and Baker (1980) as the possibility that the company's cash inflows will not be sufficient to cover previous claims. Monetary flows constituted the focus of these empirical surveys. Financial risk is inherent in each stakeholder-related business transaction and has an impact on the operational activities of the organization.

1.2 Statement of the Problem

Financial risk management is a practice used by large organizations worldwide in an effort to maintain profitability and sustainability. Berrell (2017) expounded on the Chinese use of Enterprise Risk Management (ERM). China has regions of general business risk, according to a literature search. To detect and rank business risks in the Chinese economy, they employed Linear Rating Scales and an Expert Panel as a Nominal Group Technique. The method showed how, by keeping intellectual capital as a guiding principle throughout, an efficient and rapid evaluation of risk may be achieved.

For instance, market risk can be observed in the context of commercial banks and other financial institutions that have made authorized decisions without conducting sufficient due diligence. This has resulted in directed lending, extensive credit expansion, and subsequent loan defaults

and nonperforming loans (Akong'a, 2014). The financial services industry also grapples with various challenges such as customer retention, financial risk, legal and regulatory risk, strategic risk, technology risk, and fierce competition from MFIS, mortgage firms, and SACCOs (Wanjohi, Wanjohi, & Ndambiri, 2017). Small and medium-sized businesses (SMEs), which are pivotal to every nation, are acknowledged as a significant driver of economic development in both developed and developing countries (Abeywardhana, 2017). The industry contributes significantly to any economy by generating jobs, increasing GDP, sparking inventions, and replicating other economic activity. Because they can grow extremely quickly and generate a lot of employment in the process, SMEs are a nation's primary source of economic growth. They also significantly raise wealth and enhance people's standard of living (Abdullah, 2017).

SMEs are independent, non-affiliated businesses with fewer than a predetermined workforce size. Different countries have different maximum limits, but generally speaking, 250 employees is the upper limit. SMEs classified as small have fewer than fifty employees. Small- to medium-sized enterprises (SMEs) have fewer employees. However, from their inception, they have encountered numerous challenges related to their main goal (Sharifi, 2014). The two main goals are financial success and sustainability. The same rules apply to small and medium-sized enterprises. The main goal is to achieve commercial viability. Financial performance is the only way this can be done.

The most important dangers at this time are financial and economic (Belas et al., 2018; Cipovovla & Dlaskola, 2016; Neacsu et al., 2018). It is often difficult for SMEs' owners and management to manage these risks, as authors such as Olah et al. (2019) have indicated. Given recent developments in the industry, it is crucial to conduct an investigation into the financial risks faced by SMEs. This is due to the alarming number of businesses collapsing as a result of

poor debt management (Asgary et al., 2020), inadequate cash flows, inappropriate financing methods (Utomo et al., 2020; Shaverdi et al., 2020), improper inventory practices (Xu and Li, 2019), and unsuitable credit-granting policies (Khan, 2020; Wasiuzzaman et al., 2020). In order to minimize their exposure to these risks and develop effective mitigation strategies, it is important to understand the level of awareness among SMEs and how they respond to financial dangers. By implementing appropriate mitigation measures, it is anticipated that SMEs will be able to reduce their financial losses.

Stakeholders may expose organizations to a range of financial risks that could have a detrimental impact on their operations due to their influence and interest. However, previous research hasn't looked at how managers' and owners' perceptions of risk—especially financial risks—affect how their businesses run. The aim of this study is to assess how managers and owners see financial risk and to determine whether or not there exists an association or linkage between the indicated expressed views and the firms' performance.

The concept of financial risk refers to the potential loss of money in an investment or business venture, which can lead to a decrease in capital for interested parties. In emerging nations, the topic of financial risk has gained significant attention among scholars due to the crucial role played by small and medium enterprises in economic development. According to Ekaterina and Thielman (2020), financial risk, as a subset of business risk, focuses on uncertainties related to the flow of funds into and out of a business. It encompasses unexpected fluctuations in prices and their impact on future cash flows (Jorge & Augusto, 2011). Yang et al. (2020) argue that financial risk in SMEs can be seen as an estimation of their future credit status. Empirical studies have highlighted the presence of financial risks associated with business transactions, which can

affect the overall operations of a business (Kozak & Danchuk, 2016; Beas et al., 2018; Olah et al., 2019).

An examination of financial risks in SMEs is essential due to development in the sector where many firms are failing because of poor cash flows, poor management of debt (Asgary et al., 2020); inappropriate credit granting policy (Wasiuzzaman et al., 2020) or adoption of inappropriate financial methods (Shaverdi et al., 2020) as well as wrong inventory management practices (Xu & Li, 2019).

Several studies on performance and financial hazards have been conducted. For instance, a 2019 study by Arif and Showket looked at how financial risks affected Turkish banks' business performance and found a strong positive correlation between financial performance and company size, liquidity risk, and solvency risk. The underwriting risk showed no discernible pattern of correlation. A minimal positive correlation was found between profitability and interest rate and foreign exchange risks, whereas a negligible negative correlation was found between credit and liquidity risks, according to a study by Eneyew (2020) on the relationship between financial risks and service organizations' performance.

Sisay (2017) found that while credit and liquidity had no appreciable positive effect on performance, financial risks like foreign exchange and operation risk greatly enhanced the financial performance of insurance firms in the service sector (measured by leverage and firm size). A study by Chipa and Wamiori (2020) found that while liquidity and operation risk had a positive statistical influence, interest rate and credit risk had a substantial effect on the financial performance (ROA) of insurance firms. Muinde (2018) found a strong positive correlation between underwriting risks and liquidity and banks' financial success (firm size and ROA).

There is a weak and negative correlation between credit risk and performance. As was already indicated, studies on the connection between financial risk and performance have produced results that are a little bit incongruous. Financial risk and performance have been found to have a positive association in certain research, yet to have a significant or minor negative relationship in others. Therefore, given the contradicting results, more research is required. Study by Abeyrathna and Kalainathan (2016) concentrated on financial risk management practices in SMEs in Sri Lanka. Furthermore, Offiong, Udoka and Bassey (2019) focused on relationship between financial and performance of SMEs in Nigeria. This provided the basis to assess the linkages between the two indicators. In Ghana, Agyapong (2020) focused on analysing financial risks in SMEs given to food processing companies. The results from these aforementioned studies cannot be conceptualised and generalised to reflect what is happening in the SMEs in Kumasi. Given these glaring flaws, the current study set out to close knowledge gaps in the area of optimising financial resilience and analysing the impact of specific risk exposures on SMEs in Ghana.

1.3 Objectives of the Study

The study generally sought to examine the financial resilience and analyse the impact of specific risk exposures on SMEs in Ghana. In view of this, the specific objectives are presented as follows;

I. To Assess the Nature and Magnitude of Financial Risks Faced by Small and Medium Enterprises in Kumasi
II. To Examine the Relationship Between Specific Risk Exposures and Financial Performance in Kumasi SMEs.

III. To Propose Risk Management Strategies for Enhancing Financial Performance in Kumasi SMEs.

1.4 Research Questions

The study is guided the following research question.

I. What is the Nature and Magnitude of Financial Risks Faced by Small and Medium Enterprises in Kumasi?

II. What is the Relationship Between Risk Exposure and Financial Performance in Kumasi SMEs?

III. What are Risk Management Strategies for Enhancing Financial Performance in Kumasi SMEs?

1.5 Significance of the Study

The management of the SMEs under investigation will be able to create a clear framework for risk mitigation when needed, by using the study to fully comprehend how each the risk underscoring finance affects their financial performance. The research may highlight the necessity for stakeholders in the SME sector, to address the requirement that SME create policies that support the monitoring of financial risk exposures in the regional market. The project will give the researchers a chance to examine financial risk exposures and how they affect financial performance, as well as to build a compelling case for the research topic. The study would give academicians with more literature reviews for upcoming investigations.

1.6 Scope of the Study

In context, the study focuses on risk exposure SMEs face. Geographically, it gave attention to SMEs in Kumasi. Specifically, the study concentrated on the Nature and Magnitude of Financial Risks Faced by SMEs in Kumasi, the link between Risk Exposure and Financial Performance and Risk Management Strategies for enhancing Financial Performance in Kumasi SMEs. Data were collected from the owners and management of the SMEs sampled.

1.7 Organisation of the Study

The introductory chapter is the beginning of the work covering the background, issue statement, goals, research questions, scope, and significance of the study. This scholarly work was organized into five major chapters. The second study chapter is devoted to a survey of the literature. It comprises a conceptual framework, an empirical review, and a theoretical framework. The approaches used to achieve its goals are presented in Chapter 3. It considers the population under investigation, sampling strategies, sample size, and research methodology. Among other things, it also covers analysis of research data and analysis. Chapter Four also covers analysis of data based on the respondents' responses. A summary of the main conclusions and recommendations for policy wrapped up Chapter 5.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This area of the research dealt with relevant scholarly works that has been carried out without the topic area. It gave attention to the nature and magnitude of financial risks faced by SMEs, the association between risk exposure and financial performance and risk management strategies for enhancing financial performance. The chapter provides insight into important and critical concept underpinning the study. Also, it presents appropriate theory and relevant of the theory to the study. The chapter also reviewed important scholarly works in accordance with the specific objectives of the study. The scholarly works are discussed and analyzed within the objectives defined by the research.

2.2 Overview of Small and Medium Sizes Enterprises

SMEs are defined as non-subsidiary, self-governing businesses with fewer than a specific number of employees by Sax and Torp (2015). Meidell and Kaarbøe (2017) define small and medium-sized organizations as those that have less than 100 employees and a turnover of less than EUR 15 million, based on employee count and turnover. Similar to this, the European Commission (1996) defined SMEs as companies that employ fewer than 250 people, generate at least 40 million euros in revenue annually, and have a net asset of at least 27 million euros (Abor & Adjasi, 2007). Many academics define SMEs as businesses with 0–250 employees; in Africa, this threshold is typically around 200 (Ayagari, 2005). SMEs, on the other hand, are American businesses that employ fewer than 500 people (OECD, 2005). The majority of definitions of

SMEs are predicated on factors like annual turnover, financial standing, and employee size and count.

2.2.1 Risks in SMEs

SME operations, similar to those of any other business, are susceptible to hazards that affect various facets of the enterprise. The exist diverse forms of risk including financial, operational, growth, manufacturing, and market risk are a few of the forms of risk that may be encountered by SMEs (Aduko, 2011; Afolabi, 2018). SME's have historically been ill-equipped with inadequate resources, inefficient procedures, and a dearth of risk management expertise, in addition to a dearth of guidance regarding the optimal way to manage risk and where to find counsel on the risks they encounter (Santoro et al., 2019). The performance, financial flow, and survival of SMEs have been impacted by this phenomenon, according to Ariyo (2008). This has become an impediment to the enhancement of SME performance, according to Azende (2012), who emphasized that SMEs are susceptible to cash flow, consumer loss, marketing, physical, competitive, and financial risks.

According to Boniface and Ibe (2012), a significant obstacle in the realm of small and medium-sized enterprises (SMEs) is the inadequate recognition of risks, which is contrasted with that of large corporations and medium-sized businesses. The inability of 70% of SMEs to manage the risk that compromises their survival prevents them from enduring for an extended period of time in the marketplace, according to Kinyua et al. (2015). Research findings suggest that a significant proportion of SMEs cease operations prior to their fifth year of existence, as only a minority of SMEs maintain variability beyond that time period (Afolabi, 2018). SME owners must therefore acquire the capacity to accurately identify risks and implement suitable risk

management measures in order to safeguard the long-term viability of their organizations (Kagwathi et al., 2014). \

2.2.2 Risk Management in SMEs

As market competition increases, the business environment for both large and minor enterprises is undergoing a transformation. (Alrashidi & Bakeel, 2012) In order to address these challenges, organizations must strive for excellence in both product and service provision to satisfy customers' demands and maintain a competitive edge in the market. In order to accomplish this, each organization must possess a comprehensive comprehension of its own organization, including its advantages, disadvantages, risks, and prospects. According to Maseko and Manyani (2011), the implementation of this strategy should enable the organization to forecast, quantify, and manage risk effectively, thereby ensuring its operational competitiveness. In the study by Crovini, Santoro and Ossola (2020), the authors found that the extent of the risks confronted by small and medium-sized enterprises (SMEs) frequently results in their insolvency, thereby affecting the operational efficiency and effectiveness of groups.

Because small and medium-sized enterprises (SMEs) are more susceptible to risk exposure compared to large corporations, they ought to prioritize risk management in order to mitigate the adverse effects of the risk on business losses (Ansong, 2013).

As a result of positive association between risk management and financial performance of SMEs, Ansong (2013) also strongly recommended the implementation of risk management. A correlation has been identified between performance and risk management, according to a review of the relevant literature (Ansong, 2013; Meidell and Kaarbe, 2017).

Scholarly investigations have reported that risk management enhances the financial performance of SMEs, particularly in Ghana, by facilitating their access to credit facilities. (Ansong, 2013). Conversely, the financial growth and development of SMEs has been positively impacted by

operational risk management, according to Alrashidi and Baakeel (2012). As a consequence, SMEs can enhance their prospects of long-term and fruitful prosperity by adopting risk management as a beneficial strategy (Panigrahi, 2012). This notion is commonly linked to sizable corporations as an essential component of corporate governance.

2.3 Theoretical Framework

This section of the study provides insight into the appropriate and relevant theories adopted by the study. The researcher outlined those theories and discusses their assumptions, strengths and weaknesses as well as their relevant and applicability in this study. The theoretical framework focuses on the following theories.

2.3.1 Agency Theory

Jensen and Meckling (1976) proposed the agency hypothesis. The theory is based on contractual relationships between two entities with distinct roles to fulfill - the principal and the agents. According to the notion, the principal assigns the agent decision-making authority (Jensen & Meckling, 1976). Furthermore, the business agent is required to have the authority to enter into a contractual arrangement between the principal and the third party without explicitly mentioning the third party. The theory assumes a mismatch in the information that management, debt holders, and shareholders have about how earnings are distributed. This mismatch can lead to firms taking on more risk-averse projects or failing to take on net profit projects that have a positive outcome (Panda & Leepsa, 2017).

The hypothesis states that it has been demonstrated that mismatch in agency issues affects managers' views on taking risks and hedging in the investment world. The theory is important for

current research as it impacts risk tolerance and business structure or governance factors. Therefore, it is essential for making decisions about credit risk management, which improves overall financial performance. Consequently, improved financial performance can stem from reduced conflicts of interest between principals and agents.

In order to remain competitive in the market and enhance financial performance, agency theory also examines managerial incentives and the separation of ownership and control (Hill & Jones, 1992). The relationship between the main agency connection and understanding significantly affects how management teams perceive and respond to the assessment and taking of risks in the company during daily operations. This approach recognizes the possibility of differences between managers and principals, including potential variances in how the corporation makes decisions and distributes earnings. Conflicts have the potential to lead to poor management and decision-making, which could ultimately expose the organization to operational risk and lower financial performance (Ross, 2005).

This theory is crucial to the investigation and its connection to operational risk exposure because it offers a firm basis for understanding why businesses employ strategies to mitigate financial risk exposures in order to reconcile the conflicting interests of the organization's management and principals (Donaldson & Davis, 1991). This is primarily because, in some cases, managers may choose short-term projects over long-term ones because of the lower risks involved, while principals may favor long-term projects over short-term ones because of the higher rewards involved. Although there is a link between high returns and high risks, principles think that in order to optimize high returns, managers should be able to minimize and manage these high risks that may be present in long-term projects. Because managers and principals make different

decisions, the company may be exposed to operational risk, which would result in poor financial performance (Donaldson & Davis, 1991).

2.3.2 Resource-Based View Theory

Barney (1991), noted that a resource can be considered a "source of competitive advantage" from the standpoint of the Resource-Based View (RBV) if it will provide value to the company, is rare and unique, and difficult to duplicate. A firm's existence (Pfeffer & Salancik, 1978) and sustainable growth are dependent upon its resources, which are classified as valuable, rare, inimitable, and non-substitutable (VRIN) (Barney, 1991). Businesses that utilize VRIN are more likely to develop internal resources that are difficult for other companies to replicate (Barney, 1991). Techniques in human resources management, such as targeted worker selection, improved skill development and training, heightened dedication and motivation, and the combined impact of these methods, can assist VRIN in generating these resources (Becker & Huselid, 2006). Small businesses can leverage these internal resources as the basis for creating superior goods and services, thereby boosting their prospects for survival and growth (Barney, 1991). These internal resources have the capacity to uphold an organization and facilitate its expansion.

RBV has faced criticism alongside its prevalence in existing literature. One notable critique of this perspective is that it often operates at a very high level of abstraction, simply suggesting that since people, or "human resources," can provide a competitive advantage, HR systems are essential. As a result, this perspective merely implies that the value of talented workers as a source of competitive advantage determines organizational performance.

The firm needs resources to survive (Pfeffer & Salancik, 1978). In addition, they are essential for development (Barney, 1991). According to Barney (1991), capabilities refer to distinct resources

that a company can utilize that are hard to replicate, valuable, and uncommon. The Resource-Based View (RBV) postulates that a firm's competitive advantage is derived from its scarce, valuable, non-substitutable, and imperfectly imitable resources (Wernerfelt, 1984). This approach is based on the idea that resources at the business level are diverse and that variations in resource combinations across time produce long-term competitive advantage (Amit & Schoemaker, 1993). A human resource is one of the essential components mentioned as a potential lever of sustainable competitive advantage (Barney, 1991; Delery, 1998). Since they enable businesses to achieve profitability improvements that contribute to the development of a durable competitive advantage, human resources are thought to potentially suit the VRIN type (Chadwick & Dabu, 2009).

As per Crook et al. (2008), the study conducted on over 29,000 SMEs revealed that the process of implementing RBV between strategy and operations can effectively improve organizational performance automatically. Additionally, research by Wernerfelt (1984) and Mintzberg et al. (2005) agreed that developing strategies for leadership should begin with improving organizational performance in the following areas: The following are some guidelines for using resources to create products that matter: 1) Classification of resources based on resource positioning; 2) Balance between development of new resources and existing resources; and 3) Acquisition of resources is like purchasing a collection of rare resources in an unfinished competitive market, so the most stable factors boost your trading and lower product loss.

2.3.3 Stakeholder theory

The two theories that are most frequently used to explain how stakeholders engage are the resource-based approach and the stakeholders' theory. Despite being created in the framework of

corporate social responsibility and business ethics, the stakeholder literature has now been included into various fields of study." Based on these considerations, many definitions and classifications of stakeholders have been proposed (for a revision, see Fassin, 2012). The primary focus of such studies (including those by Freeman et al. (2007), and others) has been the firm's obligations to its stakeholders. Consequently, it has been suggested that businesses should consider the various needs and interests of all stakeholders when planning their operations, as they bear accountability for the effects of their decisions on them (see, for example, Friedman and Miles, 2006; Freeman 2010).

In addition, the resource dependence theory arguments have been used to analyze the interdependency between stakeholders and the firm (Emerson, 1962; Pfeffer and Salancik, 1978). According to this viewpoint, there exists a power and dependency relationship between the company and its stakeholders due to the disparity in power. Implementing a management strategy that starts with the understanding that a business is a network of relationships among different groups with a vested interest in its activities is crucial. The concept of stakeholders should encompass the idea of stakeholder accountability, despite arguments supporting the company's responsibility, as indicated by recent studies (Goodstein and Wicks, 2007; Fassin, 2012).

Due to the fact that stakeholder cooperation is required in that scenario to maintain the firm's survival, the business failure process provides an important framework for studying stakeholder responsibility. More disparities between the moral and financial reasons for stakeholders' actions may result from the fact that "Every stakeholder contributes a specific set of resources to the company, assumes distinct risks, has their own expectations, and communicates unique demands to the managers" (Minoja 2012). To put it another way, stakeholders are essential to the process

of creating corporate wealth, and as such, stakeholder collaboration is essential to the firm's endurance. The future of the company may therefore be impacted by unethical behavior or a lack of trust and collaboration among stakeholders (Jones, 1995). Stakeholders must strike a balance between their personal interests and their ethical duty to address the firm's issues, or in other words, ethical perspectives suggest that tensions occur when this happens (Social Co-responsibility). According to Ooghe and Prijcker (2008), stakeholders' refusal to work with the company during a crisis shortens its ability to overcome failure and intensifies its problems. Sutton and D'Aunno (1989; Bachrach, 1989) put it this way: higher levels of crises lead to increased stress inside the company's organizational structure.

A stakeholder's relative power over the future of the business is derived from the resource dependence hypothesis. Literature clearly shows that certain stakeholder behaviors can govern some economic and financial resources, which in turn might influence the probability of business failure. As a result of taking into account the SMEs' surroundings, an analysis has been done on the financial and economic effects of suppliers, consumers, employees, financial institutions, and creditors on the probability of economic failure.

Studies conducted by Cole and Wolken (1995), and Scherr et al. (1993) have all confirmed that there is a gap in the capital market that prevents SMEs from obtaining public debt (long term debt) and equity. This states that equity (primarily share capital, retained earnings, and current earnings) represents the financial backing of the shareholders. According to the financial pecking order theory (Myers, 1984), SMEs first resort to internally generated funds in the form of retained earnings or informal sources like seven family members and friends before turning to outside funding. In contrast to SMEs' choice, this behavior is more in response to the necessity (Cole and Wolken, 1995). When the businesses start to show signs of financial or economic

distress, the issue of accessing outside funding becomes more apparent. According to studies by Calvo-Flores et al. (2006), Maroto and Melle (2001), and others, lenders may restrict credit to certain businesses or tighten credit terms (Módica-Milo et al., 2012), which would increase the risk of failure by making it more difficult to obtain new funding or repay debt. Therefore, increased internal financial support allows the business to be financially independent of external creditors and to capitalize on new ventures to get through slow times.

2.4 Empirical Review

2.4.2 Relationship between Risk Exposure and Financial Performance

According to Kundid and Ercegovac (2011), SMEs consistently face higher borrowing costs than large corporations; this difference gets worse during and after financial crises. Higher interest rates also lead to a further evolution in the market cleaning of SMEs' credit applications. The idea that SMEs are dangerous to work with is the context for this. According to Abimbola, Kolawole, and Owusu (2019), over 60% of SMEs fail during the first five years as a result of poor financial management abilities. According to Morgan et al. (2015), SMEs struggle with inventory control and financial management, this leads to their failure. Inadequate management of such circumstances may give rise to financial hazards for the company.

A research gap exists in the food processing industry because most earlier scholarly works on financial risk and firm performance (Ruziqa, 2013; Abdallah et al., 2014) concentrated on the banking industry, with only a small number on SMEs (Noor and Abdalla, 2014). According to Noor and Abdalla (2014), there is a mixed impact on firm performance from the several financial risks that small and medium-sized enterprises (SMEs) face. These risks include currency rate risk, liquidity risk, interest rate risk, credit risk, and market risk. Exchange rate concerns have the

potential to adversely impact the performance of small and medium-sized food processing enterprises (SMEs) in developing nations, as they heavily rely on imported tools and technology. According to Jones et al. (2018), one way to support their success in Africa's big cities is through technology-focused entrepreneurship development.

Financial risk significantly lowers profit levels, according to a 2011 study by Boermans and Willebrands. Qin and Pastory (2012) corroborated the finding. Liquidity risk is inversely connected with SMEs' performance levels, according to Van Greuning and Bratanovic (2009). Yusuf and Dansu (2013) also used Chi-square to investigate the connection between business risk and the sustainability of SMEs. Business risks have an impact on performance levels, they found. Chi-square, however, is quite susceptible to sample size. Consequently, the absolute difference decreases and becomes a smaller percentage of the expected value as sample size grows. As sample size shrinks, the opposite happens. The model's capacity for prediction is typically impacted by this circumstance. Abeyrathna and Kalainathan (2016) looked at the performance of SMEs in the Anuradhapura district in relation to financial risk. The study, which focused on 30 purposefully selected SMEs out of 5,000 registered SMEs, could not discover any connection between financial risk and performance that was noteworthy. The question remains, nevertheless, if the sample size accurately represented the chosen population. Ombworo (2014) also looked into how liquidity risk affected the profitability and performance of SMEs in Kenya. In conclusion, it was indicated that liquidity risk had a favorable but non-significant impact on the performance of SMEs using a descriptive research approach and both descriptive and quantitative analysis tools. Financial risks were found to have an impact on financial performance by Noor and Abdalla (2014), albeit the effect's direction was not stated. Offiong, Udoka, and Bassey (2019) discovered a weak but negative correlation between financial risk and

the performance of SMEs in Nigeria. SMEs' performance levels were found to be considerably but negatively impacted by liquidity risk, exchange rate risk, inflation, and interest hazards. According to Moyi's (2019) findings, lending to small firms has little effect on the credit and insolvency risk that lending institutions face. This is due to the possibility that a lending institution may become insolvent for a number of reasons, including governance and macroeconomic issues like regulations (Huhtilainen, 2020).

It follows that research on SMEs has yielded mixed results, with some studies (Qin & Pastory, 2012; Yusuf & Danso, 2013) finding significant relationships, while other studies (Abeyrathna and Kalainathan, 2016; Offiong et al., 2019) found no significant relationships between financial risk and SME performance. Research by Christopoulos and Barratt (2016), and Olah et al. (2019) shown the influence of financial risks on the performance of firms. They omitted to mention the effect's direction, though. Studies highlighting the performance and compliance of SMEs include Ozbugday et al. (2019). They contend that a SME can boost sales by implementing a quality strategy that complies with environmental regulations and invests in resource efficiency. Liu (2020) argues that in the meanwhile, companies must have the funding to carry out proactive environmental initiatives. A need for technology-focused entrepreneurship to increase entrepreneurial activity is mentioned in several studies (Jones et al., 2018). This implies that technology—and its associated risks—play a crucial role in SMEs' ability to survive. These discrepancies indicated areas that needed more study, especially in the food processing sector, which has enormous economic potential for Ghana's economy.

How social responsiveness affects SMEs' performance is a topic of significant debate in the literature. Corporate social responsibility codes of conduct, according to Boutin-Dufresne and Savaria (2004), can lower a company's overall business risk and even improve its long-term risk-

adjusted performance. K€olbelet al. (2017) came to the conclusion that media coverage of a company's corporate social irresponsibility exposes it to financial danger. Three main difficulties needed to be addressed, based on the research that is currently available. The literature on financial risks and business performance in SMEs in Ghana was insufficient, prior research on the food processing industry received insufficient attention, and there was disagreement over the impact of financial risks on firm performance. In addition, the paper's methodology differs from earlier research in that it uses a two-stage PLS-SEM hierarchical construct modeling. Consequently, the study fills in these gaps by investigating how financial risk affects the performance of SMEs in Ghana's fruit processing industry.

2.4.2 Financial Risks and Financial Performance

The relationship between financial risk and the financial performance of Indian insurance companies was studied globally by Wani and Ahmad (2018). We used eight life insurance companies as our sample size. Liquidity risk, capital management risk, solvency risk, company size, and underwriting risk were the predictor factors for which secondary data was collected. A negative substantial association was established between financial performance and solvency risk, liquidity risk, capital management risk, and business size. The financial performance of European banks was evaluated by Cuong (2019) based on an assessment of the impact of financial risk as a metric of liquidity risk. A panel representing EU banks from 2001 to 2011 made up the study's sample size. The research revealed that the financial performance was significantly impacted negatively by liquidity risk. An additional study conducted in 2016 by Patarai and Mohamad evaluated the effect of financial risks on the 2008–2014 performance of Malaysian Islamic banks. Operational risk, capital risk, and banks' financial performance were

found to be positively correlated in the study. Javid, Farooqi, Shoukat, and Rasheed (2020) conducted research on the influence of financial risks on the financial performance of traditional banks in Pakistan. Research revealed a noteworthy inverse correlation between credit risk and ROE and ROA. Conversely, there was a strong positive correlation between performance and interest rate risk over this period. Nonetheless, performance was barely impacted by liquidity risk. But GLS, which is challenging to interpret, was used in the study. In a different investigation, Onsongo, Muathe, and Mwangi (2020) evaluated how financial risk affected the operations of businesses providing goods and services. Secondary data covering the years 2013–2017 was gathered for the research. A negligible positive impact of credit risk on ROE was observed by the study. Whereas operational risk had a favorable but negligible impact on ROE, liquidity risk had a clearly negative impact.

Studies examining the correlation between financial risk and FP have shown three different kinds of relationships: mixed, positive, and negative (inverse). Financial leverage showed a strong positive correlation with FP, according to Yegon, Sang, and Cheruiyot (2014). According to Audax (2018), there was a noteworthy positive correlation between financial leverage, liquidity, and profits. Contrarily, Amin et al. (2014) observed a substantial inverse association between financial risk and FP. Ismail, Samad & Romaiha (2018) found mixed results, noting substantial correlations between performance, capital risk, and operational risk but not between performance and credit risk or liquidity risk. According to the research done by Haque and Wani (2015), there was an insignificant negative association between credit risk and FP, an insignificant positive relationship between capital risk and solvency risk and FP, and an insignificant negative relationship between liquidity risk and interest risk and FP. While there was a positive correlation between liquidity and FP, Kubai (2016) discovered that there was a negative

correlation between total debt and FP. There were no significant connections found between the ratios of debt to equity and ROA to ROE (Njenga, 2014).

It is also unclear how financial risk and FP should be related theoretically. A negative correlation between financial risk ratios and FP is predicted under the financial hardship theory, especially for those that include debt. Increasing borrowing costs are the cause of this. A firm's value is unaffected by its capital structure, as shown by the 5 capital structure irrelevance theorem. Thus, performance would not be impacted by capital structure risk ratios. According to the capital structure relevance theorem, capital structure ratios and performance should be positively correlated because of the tax shielding benefit. Capital asset pricing models and current portfolio theories both monitor the FP-affected volatility of stock returns. Risk aversion among investors means that if borrowing costs rose and had a detrimental impact on profitability, investors would sell their stock, which would limit the company's capacity to raise capital. FP is thus projected to be adversely affected by financial risk.

Capital structure ratios are used by the researcher to proxy financial risk in studies that she reviewed, which focus on manufacturing companies. The several elements that affect the financial performance of industrial organizations in Jordan were examined by Matar & Eneizan (2018). Different companies' financial statements were examined by them. While business size, revenue, profitability, liquidity, and leverage were factors associated with risk, ROA reflected performance. The results of their multiple regression study showed that, whereas leverage and firm size were adversely correlated with return on assets (ROA), liquidity, profitability, and revenue were positively correlated (Matar & Eneizan, 2018). The research takes a more comprehensive approach to financial risk by utilizing a range of ratios for financial risks. Since

the panel in this study is brief, variability among the characteristics pertaining to various firms is anticipated. Unfortunately, the report does not address this.

Using a focus on the impact of capital structure on performance, Ajibola, Okere, and Oyedeji (2018) examined Nigerian manufacturing enterprises. We sampled ten different companies. Information was gathered over the ten-year span of 2005-2014. Performance was shown by ROA and ROE. There were three separate debt-to-asset ratios in the capital structure that indicate financial risk. Regression analysis using panel data was done. Ajibola, Okere, and Oyedeji (2018) found that whereas ROA had an insignificant negative association with all risk ratios, ROE had a substantial positive link with both total debt and long-term debt. Panel data approaches are used in this study to solve the heterogeneity issue. A mixed link between financial risk and the two FP proxies is not explained by the study's results, which also indicate varied associations between them. In addition, the sole risk factor used to simulate financial risk is capital structure; risks from changes in interest rates and exchange rates, for example, have not been examined. This means that the analytical model does not provide a whole picture of financial risk.

The impact of financial risk on Tanzanian banks' financial performance was examined by Amin et al. (2014). Samples were taken from 21 Tanzanian banks. Information from financial statements was obtained and examined for ten years, from 2003 to 2012. Performance was shown by ROA and ROE. Interest rate, credit, and liquidity risk measures were used to depict financial risk. Via instrumental variables, the fixed effects model was calculated. Financial risk has a notably beneficial impact on ROA, according to study data. That being said, financial risk had a very detrimental impact on ROE. ROA and ROE were found to have an inverse influence on financial risk when the opposite effect was investigated. Utilizing panel data models, this

study use a brief panel to address the heterogeneity issue. A conflicting association between financial risk and FP is demonstrated by the study. But this ambiguous link is left unanswered.

Financial risk's effects on the banking industry's FP were investigated in a study conducted by Muriithi (2016). Data from financial statements was gathered from all 43 Kenyan banks over a ten-year period, from 2005 to 2014. The performance measure employed was ROE. Several risk ratios served as metrics for financial risk. We performed ratio analysis and imbalanced panel data analysis. Performance was found to be significantly impacted negatively by liquidity, market, credit, and operational risks. According to Murithi (2016), the ratio of cost to income was the most significant financial risk. Panel data approaches are used in this brief panel study to solve the heterogeneity issue. By comparing earnings to capital and providing a view of profitability from the shareholder's perspective, ROE is a stronger indicator of profitability, according to the researcher, who uses it as the performance metric (Muriithi, 2016). The ability of a business to make money from its assets is not, however, indicated by ROE.

To ascertain how financial risk affected the performance of Kenyan insurance companies, Obudho (2014) conducted an analysis of these businesses. Using financial statement data for five years, from 2009 to 2013, the study served as a census of the 49 companies within the industry. When it came to solvency, liquidity, and interest rate volatility, various risk ratios reflected financial risk, while ROA represented financial risk. Multiple regression was used in the research. According to Obudho's (2014) findings, the current ratio, equity to asset ratio, and interest rate changes had a substantial negative impact on FP year over year. Although a brief panel was used in the study, the topic of firm heterogeneity was not addressed. A more comprehensive picture of financial risk was provided by the study's use of a wider range of financial parameters.

2.4.3 Risk Management and Risk Mitigation

Scholars from many different fields are drawn to the rapidly evolving field of risk management. Consequently, the phrase has diverse applications in different fields (Atkin & Bates, 2019; Isimoya, 2017; Raghavan, 2018). For businesses of all stripes, risk management is essential to seizing opportunities that require taking risks (Acharyya & Mutenga, 2022).Risk administrators take proactive steps to protect an organization's or individual's future, which is known as risk management (Raghavan, 2018). By giving managers the capacity to make better decisions, risk management arguably provides value in the most basic way. The company's reputation for strategic acumen and quick decision-making in the face of new prospects is further enhanced by risk management (Milliman Risk Institute Survey, 2022).

According to Head (2020) and Mead (2022), risk management is the planned, managed, and controlled use of resources to accomplish organizational objectives. In order to maximize company profitability, risk management can be defined as taking steps to prevent losses from occurring or as a means of protecting organizational assets from destruction through the use of a number of techniques (Urciuoli & Crenca, 2022). (Raghavan, 2018). An approach of contracting out hazardous tasks to seasoned risk takers such as insurance firms may be required for this. According to Atkins and Bates (2019), risk mitigation is the process of lessening the severity of a loss after an event has occurred, whereas risk management concentrates on steps taken to reduce risk prior to the event. Administrative actions may be erroneous due to newly identified dangers when organizations grow, according to Peck et al. (2017), if business operations are not routinely examined.

While risk receptive people are more likely to be found on the right side of the scale and are less likely to acquire insurance, risk averse people select safer measures, like getting insurance, to reduce their exposure to risk. The middle ground is occupied by a sizable population (Atkins & Bates, 2019). But given that it has a direct impact on people's perceptions of risk, Peck et al. (2017) emphasized the need of understanding this unconscious process. As a result, human risk may be perceived or real. As humans tend to exaggerate or underestimate the true hazard (which is observable by objective risk), Atkins and Bates (2019) claim that people do not always react to risk rationally. Negative consequences can arise when decisions are based on perceptions of danger that differ significantly from the actual risk (Peck et al., 2017).

Therefore, the familiarity hypothesis and the exposure and control hypothesis were put forth by Atkins and Bates (2019) in relation to human risk perception. According to the familiarity hypothesis, people's perceptions of risk could be influenced by how familiar they are with the dangerous situation, which could be influenced by exposure to it in the media or by personal experience that makes it easy to remember. Both outcomes are possible. People's understanding of risk can therefore be enhanced by exposure to and familiarity with the risk, leading them to overestimate its consequences. But people who are more likely to overstate the actual level of risk are those who have learned about a particular risk from media coverage.

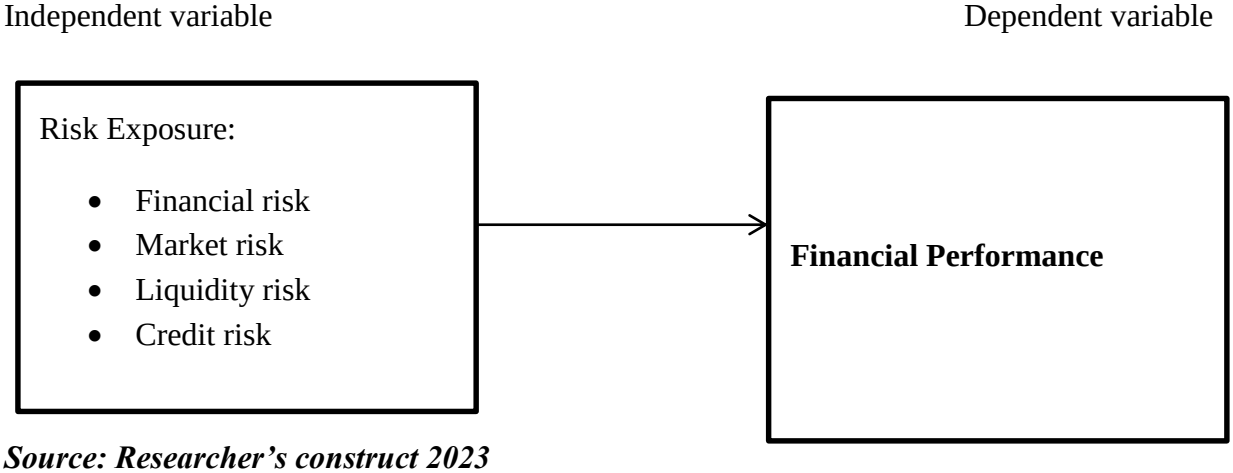
However, the exposure and control hypothesis postulates that people may overestimate a threat if they believe they have little or no control over the circumstance, but they may underestimate it if they feel in control of it (Atkin & Bates, 2019). A person's perception of risk can be greatly influenced by their degree of exposure to and control over risk at work (Krallis & Csonto, 2022). According to Slovic (2017), an individual's response to a major loss that occurs infrequently may differ from that of a minor loss that occurs frequently. As noted by Hillson (2017), there may be

a relationship between risk perception and behavior since individual differences affect decision-making.

2.5 Conceptual Framework

Financial performance served as the dependent variable in this study, whereas financial risk served as the independent variable. Exposure to Liquidity Risk is the risk related to the company's capacity to settle its debts when they become due. Douglas (2014) used the current ratio to gauge the firms' liquidity in his research. Market risk refers to the possibility of an investment losing value due to changes in market factors such as interest rates and currency exchange rates. Interest coverage ratio was employed by Muriithi et al. (2016) as a metric.

Figure 2.1: Conceptual framework



Source: Researcher's construct 2023

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter of the research work focus on the methods employed by the study. It provides insight into the rationale for the choice of each method, strategy, or techniques for the study. The chapter begins with research approach, then the design, strategy, population, sample and sampling technique and data collection procedures. It also discusses the instrument for data collection, ethical issues, and data analysis. The chapter is very important because it shows the processes and procedures carried out in obtaining relevant data for the research work.

3.2 Research Approach

The quantitative and qualitative research approaches are the two primary categories of research approaches. According to Yin (2017), the research strategy employed should take the researcher's abilities and goals into account. A quantitative research approach was chosen in accordance with the study's stated objectives. The capacity of the quantitative research approach to accelerate research is one of its numerous benefits. Additionally, it provides a more comprehensive coverage of a sequence of events by combining statistics from a bigger sample (Amarantunga & Baldry, 2002). Furthermore, the application of statistical data analysis techniques is improved by the quantitative approach, which facilitates the generalization of study results. Moreover, quantitative methods bring the speculation to a more certain conclusion. This is so that they can be applied in the future and compared to other efforts, as the outcomes are typically based on quantitative measures rather than just interpretation.

3.3 Research Design

A research design is a plan created with the intention of addressing the given research questions (Kumar, 2011). In order to describe the linkage between the study variables, descriptive research design was adopted (Cooper & Schindler, 2014). Three main types of research can be distinguished: exploratory, descriptive, and causal (also known as explanatory) research. According to Malhotra and Malhotra (2012), each has a distinct function and has limited applications. Instead of gathering data that is statistically correct, the goal of exploratory research design is to uncover concepts and insights. Open-ended questions are the most typical way that exploratory research is conducted. Text answers will provide you with higher quality information that may help you identify new projects or issues that need to be addressed, even though they may not be statistically measurable (Yin, 2017). To conduct exploratory research, surveys, focus groups, case studies, and literature reviews are typically employed (Darabi, 2007).

Because descriptive research is quantitative, it is seen as definitive. Descriptive research is organized and planned in advance, in contrast to exploratory research, so that the data gathered can be statistically inferred about a population. The major goal of this kind of research is to provide a clearer definition of a belief, attitude, or behavior that a group of people has about a particular topic (Robson, 1993). It's categorized as descriptive research because the respondent has to select from pre-established options. Unlike exploratory research, these questions won't provide the same unique insights on the problems. On the other hand, statistically inferred data will be obtained by classifying the responses into options.

According to Bryman and Bell (2015), this enables you to gauge the impact of your findings on the population as a whole as well as the evolution of your respondents' beliefs, attitudes, and actions over time. Research is required to characterize, clarify, and explain the inner

relationships and properties of a phenomenon that is being studied (Huczynski & Buchana, 2004). However, rather than being an end in and of itself, descriptive research should be viewed as a means to an end (Yin, 2017).

Causal research, similar to descriptive research, is quantitative in nature, preplanned, and structured in design. It is considered conclusive research due to these characteristics. Unlike other types of research, causal research focuses on elucidating the cause-and-effect relationship between variables. In contrast to the observational approach of descriptive research, causal research employs experimentation to establish the causality of a relationship. The ultimate objectives of causal research are to determine the causal and effect variables, as well as to understand the nature of the relationship between the causal variables and the predicted effect (Yen, 2019). This particular study utilized a descriptive-explanatory research design as it aimed to achieve both descriptive and predictive goals.

3.4 Research Strategy

A research strategy is a broad plan outlining the methodology the researcher will use to address the study issues (Saunders & Lewis, 2012). There are many different kinds of research strategies, and different academics have different classifications for them. Saunders and Lewis (2012), for instance, discuss action research, grounded theory, surveys, case studies, archival research, and experiments. There are five sorts of research strategies, according to Bryman and Bell (2015): case study, comparative, longitudinal, cross-sectional or survey, and experimental designs.

Moreover, three factors should be taken into account while selecting a research method, according to Yin (2017): the nature of the research topic, the degree of control an investigator has over real behavioral events, and the degree of emphasis on current events as opposed to

historical ones. The study's research approach was a cross-sectional survey design because of the kind of research topic that was chosen, the researcher's limited influence over real behavioral events, and the researcher's strong emphasis on current events rather than historical ones.

3.5 Population of the Study

A research population comprises individuals, events, or documents that hold the necessary data for the study (Cooper & Schindler, 2014). Further, according to Malhotra (1996), the group's constituents or units ought to be in possession of material facts pertinent to the investigation and the investigator.

According to Ghana Stistical Service, around 123,644 of Ghana's 638,234 establishments are small and medium-sized enterprises (SMEs) in the Ashanti area (2016). Around 90% of registered businesses are SMEs, according to other studies (Mensah, 2004; Asamoah, 2014). That's why SMEs in each of these economic subsectors are the subject of our study. As the second largest city in Ghana, Kumasi is home to a considerable concentration of businesses, particularly small and medium-sized enterprises (SMEs), as revealed in the 2017 Kumasi Metropolitan Assembly composite budget report. We will target small and medium-sized enterprises (SMEs) in the following locations: Kumasi Central Market, Bantama Market, Kejetia Terminal, Adum Shopping Center, Suame and Asafo Magazine, Kaase / Asokwa Industrial Enclave, Sokoban Wood Village. The Ghana Revenue Authority has records for some of these SMEs, while not for others.

3.6 Sampling Technique and Sample Size

Purposive sampling and convenience sampling were used in this study to gather data. Convenience sampling is a non-probability sampling method that facilitates the researcher's selection of respondents more readily in terms of time and place (Saunders, Lewis & Thornhill, 2012). Purposive sampling aids in choosing respondents who possess the necessary expertise of managing SMEs (Clark, 2016). Using the de Vaus (2002) sample size determination formula, the sample size is determined in order to obtain a representation of the respondents. A sample size of one hundred SMEs was chosen using the de Vaus (2002) formula.

Owners and members of the management teams of the companies the study chose to focus on were the primary targets of this investigation. This made sure that the samples are limited to those who have pertinent information. Using the following de Vaus (2002) formula, the sample size for each category or group was calculated:

$$n = \frac{N}{1 + N(a)^2}$$

Considering n representing the sample size, the formula utilized a confidence level of 90% and a margin of error of 10%, which is deemed acceptable in social science research. The sample size for the study is 100, and the breakdown for each group is calculated accordingly.

Total Number of SMEs

N=123,644

$$n = \frac{123{,}644}{1 + 123644(0.1)^2} \Rightarrow n = \frac{123{,}644}{1 + 1236.44} \Rightarrow n = \frac{123{,}644}{1237.44} \therefore n = 100$$

The study further sampled all the owners / CEOs of businesses and two other staff including a staff from the accounts department for the purpose of the study. In view of that the study used sample size of 300 was used by the study.

3.7 Research Instrument

Primary data gathered from the field were the only ones used in the study. A study questionnaire was utilized to gather primary data. Designed to gather primary data, the questionnaires are a set of pre-structured inquiries pertaining to the study project and addressed to participants. Open-ended and closed-ended questions are both included in the questionnaire. Obtaining the necessary information about the subject is the aim of using questionnaires. Nonetheless, the precise goals of the study served as the foundation for the question design. Both closed-ended and open-ended questions were included in the questionnaires, which the researcher distributed electronically.

3.8 Reliability and Validity

Cronbach's Alpha, a measure of internal consistency, was used to assess the questionnaire's reliability. The reliability of the relationship between SMEs' risk exposure and financial performance was found to be highest at 0.894, according to Cronbach's alpha calculation using SPSS version 26. The nature and extent of financial risks faced by SMEs were found to be second most reliable at 0.884, and risk management strategies for improving financial performance were found to be most reliable at 811. The fact that all of the scales' values were over the recommended cutoff point of 0.7 indicates that the results were all dependable (Mugenda & Mugenda, 2008). The results of the data collection were analyzed using SPSS version 26 to determine the mean and standard deviation.

3.9 Data Collection Instrument

Compared to the other approaches, it is thought to be less costly and time-consuming. Because the questionnaire was semi-structured and self-administered, it included a mix of open-ended and closed-ended questions.

The questionnaire was divided into four pieces. Section A asked respondents to provide five demographic characteristics: sex, age in years, highest educational level, tenure in the organization, and type of business. Statements in "Section B" were intended to gather information about accounting record keeping. The example item is "In my business, we construct petty cash book to keep track of all business payments done on a small scale" (AR01), which was anchored on a Likert scale with five points: 1 representing poor agreement and 5 representing great agreement.

There were seven items related to accounting record keeping that were taken from the literature. Data on SMEs' business performance was then gathered by "Section C." An example item is "Our company's customer base has risen" (BP02), which was anchored on a five-point Likert scale with 1 denoting weak agreement and 5 denoting high agreement. The six items in the business performance category were from Oppong's study (2019).

Lastly, remarks about the difficulties SMEs have maintaining accounting records were examined in "Section D." The example item, "The cost of hiring competent accountants to preserve adequate accounting records restricts SMEs in its adoption," (CH01), was anchored on a five-point Likert scale, with 1 representing poor agreement and 5 representing high agreement. This scale permitted the participants to rate the series of questions used as the construct (Agyapong &

Attram, 2019). Likert scale has been employed in several studies to examine behaviour that cannot directly be measured (Agyapong & Attram, 2019).

3.10 Ethical Considerations

Patten and Newhart's (2017) paper outlined the main ethical concerns that must be taken into account for each research project. Voluntary involvement, the right to privacy, anonymity, and information secrecy are these main ethical concerns. Therefore, every effort is focused on making sure that all of these moral concerns are taken care of. For example, voluntary participation allows each responder to take part in the data collection process voluntarily. Additionally, by letting respondents complete the questionnaires on their own and answering any ambiguous questions in a way that was comfortable for them, it was possible to address potential privacy rights concerns.

Additionally, the issue of anonymity was addressed by limiting the amount of personal information that respondents may provide on the questionnaire, such as names, phone numbers, and addresses. Additionally, respondents received guarantees that their information would not be disclosed to third parties or utilized for purposes other than this research. Lastly, by promising to keep all information supplied anonymous, the study guaranteed information secrecy.

3.11 Data Analysis Procedure

Data analysis includes summarizing, finding patterns in the data, statistical analysis, and decreasing the data for ease of handling (Cooper & Schindler, 2014). Following the data collection process, a thorough examination of the completed questionnaire was conducted to guarantee that any potential errors resulting from incorrect or incomplete filling out the

questionnaires were either completely eliminated or significantly reduced. After carefully coding and editing the error-free questionnaires to eliminate any potential missing values, the data were processed.

Tables present the results of the analysis of the data acquired using Windows Statistics version 26. Standard regression technique was utilized to analyze objective two, and mean, standard deviation, and one-sample t-test were employed to analyze objectives one and three. Frequencies and percentages were utilized to analyze the demographic attributes of the participants. But first, in order to make sure the results are trustworthy, the validity and reliability of the scales were examined before analyzing objective two.

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSION

4.1 Introduction

The chapter covered the analysis and result presentation. This deals with the analysis of data obtained from respondents of SMEs. It presents the results in congruence with the study objectives. It is divided into two main sections or parts. The first section provides the analysis of the demographic of respondents while the second part takes into account the analysis of the various objectives designed for the study. In each of the objective, discussion of findings followed. The discussion was done in order to draw inference from findings of the study in consistent with literature.

4.2 Demographic Data

The study considered seven key variables under this section. This includes the gender, age and education level of respondents. It also focuses on availability of risk committee, effectiveness of the committee if existing, and number of years respondents have worked with their respective businesses.

4.2.1 What is your Gender?

The study revealed that out of three hundred participants, two hundred and four (204) of then was males represents 68.0% and ninety-six (96) represents 32.0% of the respondents. This result indicates that the selected small and medium enterprises in Kumasi have more male workers as compared with the females. It could also mean that the study sampled more males than females. It could be mentioned the working hours will be more due to the fact that men will not go on

maternity leave as compared with the female. Table 4.1 throws more light on the findings of the study.

Table 4.1: What is your Gender?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	204	68.0	68.0	68.0
	Female	96	32.0	32.0	100.0
	Total	**300**	**100.0**	**100.0**	

Source: Field Data, 2023

4.2.2 Age of Respondent

The study revealed that most of the respondents were within the 31 – 40 years. According to the results, it showed that one hundred and eighty-three (183) of the respondents, represents 61.0% were the majority age group. This was followed by above 50 years with a frequency of fifty-two (52), forty-seven (47) were in the category of 41 - 50 years while below 30 years were eighteen (18). The results of the study infer that the SMEs in Kumasi have more workers who are in their youthful age, and therefore could be mean that if all things been equal they would work with their respective businesses for many years. Table 4.2 illustrates the outcomes of the study.

Table 4.2: What age range do you fall?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Below 30 years	18	6.0	6.0	6.0
	31 – 40 years	183	61.0	61.0	67.0
	41 – 50 years	47	15.7	15.7	82.7
	Above 50 years	52	17.3	17.3	100.0
	Total	**300**	**100.0**	**100.0**	

Source: Field Data, 2023

4.2.3 Level of education of Respondent

On the issue of respondents' educational level, it was revealed that majority of the participants were holding degree with a frequency of two hundred and twenty (228). It was further ascertained that sixty-two (62) of the respondents were holding masters certificates in various disciplines while nine (9) and one of the respondents were holder of Diploma / HND and one (1) holder of professional certificate in that order. These represent 75.0%, 20.7%, 3.0% and 0.3% respectively as portrayed in table 4.3 for further clarification. This infers that most of the respondents are well educated to understand the research questions as well the importance of the study. It therefore implies that responses received are reliable.

Table 4.3: What is your educational qualification?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Diploma / HND	9	3.0	3.0	3.0
	Degree	228	76.0	76.0	79.0
	Masters	62	20.7	20.7	99.7
	Professional	1	0.3	0.3	100.0
	Total	**300**	**100.0**	**100.0**	

Source: Field Data, 2023

4.2.4 Does your business have a risk management committee?

The study also sought to find out if the SMEs sampled for this study have risk management committee. Evidences gathered from the field indicated that majority of the respondents were with view that their firms do not have risk management committee. This was confirmed by two hundred and twelve (212) of the respondents. This was followed by seventy-one (71) of the

respondents who agreed that their respective businesses have risk management committee, while seventeen (17) could not either agree or disagree. The latter category could confirmed whether their SEMs have risk management committee or not. This implies that most SMEs in Kumasi do not see the importance of risk management. Table 4.4 displays the details of the responses obtained from the respondents.

Table 4.4: Does your business have a risk management committee?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	71	23.7	23.7	23.7
	No	212	70.7	70.7	94.3
	Uncertain	17	5.7	5.7	100.0
	Total	300	100.0	100.0	

Source: Field Data, 2023

4.2.5 If yes, how effective is the risk management committee?

The result of the study revealed that two hundred and nineteen (219) were uncertain whether risk management committee is effective or otherwise. It was identified that fifty (50) respondents mentioned that the risk management committee is ineffective, twenty-six (26) said that the risk management committee was effective while five (5) stated that their committees were very ineffective as depicted in table 4.5. This means that the few risk management committees the SMEs have were ineffective and serve as obstacle within the SMEs in Kumasi. It could further be mentioned the SMEs do not give proper attention to risk management in their firms.

Table 4.5: If yes, how effective is the risk management committee?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very Ineffective	5	1.7	1.7	1.7
	Ineffective	50	16.6	16.6	18.3
	Uncertain	219	73.0	73.0	91.3
	Effective	26	8.7	8.7	100.0
	Total	**300**	**100.0**	**100.0**	

Source: Field Data, 2023

4.2.6 How long have you been working with your SME?

In addition, the study sought to find out the length of service the respondents have worked in their respective businesses. The outcomes of the study confirmed that majority of the respondents have worked with their companies for more than 15 years. This group was one hundred and thirty-four (134) represents 44.6%. The study further found that eighty-six (86) had worked between 10 – 15 years with their firms. It was shown that seventy-one (71) of the respondents, represents 28.7% had been their businesses between 3 – 9 years while nine (9) have worked for less than 3 years. Table 4.6 exhibits these findings. The results infer that the respondents possess enough information about their SMEs and therefore could imply that data obtained were reliable.

Table 4.6: How long have you been working in the SME?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Below 3 year	9	3.0	3.0	3.0
	Between 3 – 9 years	71	23.7	23.7	26.7
	Between 10 – 15 years	86	28.6	28.6	55.3
	Above 15 years	134	44.7	44.7	100.0

	Total	**300**	**100.0**	**100.0**	

Source: Field Data, 2023

4.2.7 Type of business

The study ascertained that most of the SMEs the study sampled were in trading business. It was revealed that one hundred and twenty-six (126) of the respondents were in trading. It was further showed that one hundred and eleven (111) of the respondents were into manufacturing, forty-six (46) were in service industry while seventeen (17) were in agribusiness. These represent 42.0%, 37.0%, 15.3% and 5.7% respectively as portrayed in table 4.7. Based on the results, it could be stated that either the study sampled more trading businesses in Kumasi or there more trading SMEs in Kumasi.

Table 4.7: Type of business

		Frequency	**Percent**	**Valid Percent**	**Cumulative Percent**
Valid	Manufacturing	111	37.0	37.0	37.0
	Trading	126	42.0	42.0	79.0
	Services	46	15.3	15.3	94.3
	Agribusiness	17	5.7	5.7	100.0
	Total	300	100.0	100.0	

Source: Field Data, 2023

4.3 Specific Objectives of the Study

This section focuses on the various specific objectives tested by the study. These are the nature and magnitude of financial risks faced by SMEs, relationship between risk exposure and financial performance and risk management strategies for enhancing financial performance of SMEs in Kumasi.

4.3.1 Nature and Magnitude of Financial Risks Faced by SMEs

The goal of the study was to categorize the many risks that small and medium-sized businesses in Kumasi are subject to when conducting business. Given this, tests were conducted on the variables listed below. According to the report, the majority of respondents didn't think their SMEs faced risks to their health and safety. A mean score of 2.4967 and the accompanying standard deviation supported this conclusion. According to 1.00333, the majority of respondents, one form of risk that SMEs in Kumasi face in their operations is health and safety. The outcome runs counter to Frigo and Anderson's (2009) findings. Table 4.8 presents these results.

In a similar vein, most respondents did not agree that SMEs run danger when applying for loans from financial institutions. This suggests that the danger we encounter when applying for a loan from a financial institution is different from the risk faced by SMEs. With a mean score of 2.6933 and a matching standard deviation of 1.02443, the field results showed that most survey participants disputed that SMEs experience risk when applying for loans from financial institutions. The results of research conducted by Akinola (2014) and Biasi (2011).

Deloitte (2015) and Head (2009) proposed that certain small and medium-sized firms experience credit default on the share of credit supplied to clients. The study determined to ascertain the state of affairs at the SMEs utilized for this investigation based on these claims. Based on the evidence collected, the majority of respondents agreed that SMEs experience credit default when credit is extended to clients; the mean score for this credit type was 4.2665, and the corresponding standard deviation was 0.5928, as shown in table 4.8. The study's findings verified that SMEs run the risk of credit in their business dealings. The study's findings corroborated earlier claims made by Deloitte (2015) and Head (2009) that the majority of the studied SMEs

had credit defaults on client-issued credit. This suggests further that one of the types and extent of financial risks that Kumasi's SMEs confront is the possibility of client credit default, which could have an impact on the SMEs' profitability.

Furthermore, the study found that the majority of respondents believed that SMEs' exposure to financial risk prevented them from meeting their financial responsibilities. Based on the results, it was established that the SMEs' failure to fulfill their financial commitments affects their risk exposure, which is a different kind and degree of risk that they face in their day-to-day operations. The majority of respondents acknowledged, according to the data, that their companies are unable to pay their debts, which increases the financial risk that these businesses—which had a mean score of 4.21567 and a standard deviation of 0.67847—face. According to the respondents' responses, the firms' inability to pay their debts has an impact on their risk exposure, as shown in table 4.8 for clarification. Thus, it can be said that one of the types and extent of financial risks that SMEs in Kumasi confront is their incapacity to bear financial risk, which prevents them from fulfilling their financial commitments due to risk exposure.

According to the study, the majority of respondents did not agree that their SMEs would eventually lose money on their investment. A mean score of 2.6067 and a matching standard deviation of 1.08438 support this conclusion, which suggests that the majority of respondents believed that SMEs lost money on their company operations. This indicates that one more type and degree of financial risk that SMEs in Kumasi must deal with is lost investment. The outcome runs counter to what Hallikas, Lintukangas, and Kahkonen (2020) found. Table 4.8 presents these results.

Similarly, the majority of respondents did not feel that unfavorable regulatory regulations cause SMEs to lose money on a regular basis. This suggests that unfavorable regulatory regulations do not frequently cause SMEs to suffer financial losses. With a mean score of 2.6833 and a corresponding standard deviation of 0.96583, the field results also showed that the majority of study participants disagreed that SMEs frequently lose money as a result of unfavorable regulatory policies. This was one of the nature and magnitude of financial risks that SMEs in Kumasi faced. The results of research conducted by Akinola (2014) and Kiradoo (2019).

Table 4.8: Descriptive Statistics on the Nature and Magnitude of Financial Risks faced by SMEs

	N	Minimum	Maximum	Mean	Std. Deviation
We are exposed to exchange rate risk	300	1.00	5.00	2.4967	1.00333
We face risk when seeking a loan from financial institutions	300	1.00	5.00	2.6933	1.02443
We experience credit default on the part of credit granted to clients	300	2.00	5.00	4.2667	.59728
Our inability to meet its financial obligations is influences risk exposure	300	2.00	5.00	4.1567	.67847
We at time loss our investment	300	1.00	4.00	2.6067	1.08438
We often lose money due to unfavourable regulatory policies	300	1.00	4.00	2.6833	.96583
We are unable to replace our assets after natural disasters	300	2.00	5.00	4.1400	.53668
Valid N (listwise)	300				

Source: Field Data, 2023

In the view of Head (2009) posited that there are several natural disasters that affect many small and medium enterprises. In his view, this affects most businesses to replace their assets after natural disasters. With reference to this assertion the study sought to examine the condition at the SMEs in Kumasi. The results obtained from the study revealed that majority of the respondents settled with the assertion that SMEs at time are unable to replace their assets after natural disasters with mean score of 4.1400 while its related standard deviation revealed 0.53668 as displayed in table 4.8. The results from the study supported the earlier assertion by Head (2009)'s posit that Head (2009) posited that there are several natural disasters that affect many small and medium enterprises. These findings are showed in table 4.8. This further means that one of the nature and magnitude of financial risks faced by SMEs in Kumasi is natural disaster such as fire, storms, rain among other which affects their ability to replace the assets damaged or lost in the process.

4.3.2 Relationship between Risk Exposure and Financial Performance in Kumasi SMEs

The study also assessed the connection between Kumasi SMEs' financial performance and their exposure to risk.

The study found a positive correlation—Pearson Correlation of 315 and p-value of 0.000—between our businesses' ability to save enough money for emergencies and the presence of a staff member tasked with approving cash advances prior to payment. Cohen (1988), referenced in Lunenburg (2011), states that this conclusion indicates a positive and moderate association between the amount of money our firms keep set aside for emergencies and the presence of a dedicated employee who approves funds before payments are made. The result confirmed that

risk exposure has effect on financial performance. The results validated Matar and Eneizan's (2018) findings.

Additionally, the study found that there is a negative link (Pearson link of -207 and p-value of 0.000) between our firms' ability to save enough money for emergencies and the fact that our cash projection is updated on a frequent basis. This is due to the fact that the p-value of 0.000 is below the 0.01 significant level. The results show a strong association. According to the study's findings, which were proposed by Cohen (1988) and referenced by Lunenburg (2011), there was little to no association. Table 4.9 illustrates the results, which suggest that our businesses have sufficient funds for unexpected expenses and a frequently updated cash forecast. The findings are in opposition to Ajibola, Okere, and Oyedeji (2018).

Furthermore, the study's results showed a positive correlation (Pearson Correlation of 114, p-value of 0.049, low link) between our company's ability to save adequate money for emergencies and its regular revision of its cash estimate. This is as a result of the p-value of 0.049 being below the 0.05 level of significance. According to Cohen (1988), referenced in Lunenburg (2011), this result indicates that our company has a cash projection that is updated on a regular basis and that it has sufficient funds in case of need.

The study also found a favorable link (Pearson link of 413 and p-value of 0.000) between our company's regular revisions to its cash estimate and the timely payment of creditors as their loans mature. According to Lunenburg (2011) and Cohen (1988), the study's findings indicate a substantial but moderate association. This is due to the fact that the p-value of 0.000 is below the 0.01 significant limits. The findings indicate that creditors are paid on time when the loans are due, as shown in table 4.9, and our company maintains a cash projection that is updated on a

regular basis. The study's conclusion aligned with the findings of an earlier investigation by Amin et al (2014).

Furthermore, the study found a negative connection with timing discrepancies having a short-term impact on payments received from currency fluctuations, and our company has a regularly revised cash projection with a Pearson connection of -144 and p-value of 0.013. According to the study's findings, which were proposed by Cohen (1988) and referenced by Lunenburg (2011), there is a substantial but weak link. The p-value of 0.013 is less than the significant level of 0.05, which makes this result significant. The findings indicate that creditors are paid on time when the loans are due, as shown in table 4.9, and our company maintains a cash projection that is updated on a regular basis. The current study's findings concurred with those of Muriithi's (2016) investigation into the relationship between bank financial performance and financial risk exposure.

The study also found a negative correlation—Pearson Correlation of -144 and p-value of 0.013—between currency fluctuations and the short-term impact that timing discrepancies have on the payments that businesses receive. This is relevant to our business, which routinely updates its cash projection. According to the study's findings, which were proposed by Cohen (1988) and referenced by Lunenburg (2011), there is a substantial but weak link. The p-value of 0.013 is less than the significant level of 0.05, which makes this result significant. The findings indicate that creditors are paid on time when the loans are due, as shown in table 4.9, and our company maintains a cash projection that is updated on a regular basis. The study's conclusions are consistent with a study conducted in 2014 by Obudho on the impact of financial risk exposure on the performance of insurance businesses in Kenya.

The study also found a negative correlation between currency fluctuations and the profitability and operations of businesses. Our company, for example, has a cash projection that is updated on a regular basis, with a Pearson Correlation of -183 and a p-value of 0.001. According to the study's findings, which were proposed by Cohen (1988) and referenced by Lunenburg (2011), there is a substantial but weak link. Because the p-value of 0.001 is less than the significance level of 0.01, this result is significant. The results, as shown in table 4.9, indicate that currency fluctuations have an impact on business operations and performance. Our company also maintains a cash projection that is updated on a regular basis. Similarly, the study's conclusions align with those of Obudho's (2014) investigation of the impact of financial risk exposure on the operations of insurance firms operating in Kenya.

The study also found that, with a Pearson link of -152 and a p-value of 0.008, there was a positive link between having a person in the company committed to approving cash before payments are made and our company's regular revision of its cash estimate. According to the study's findings, which were proposed by Cohen (1988) and referenced by Lunenburg (2011), there is a substantial but weak link. This is as a result of the p-value of 0.008 being below the 0.01 and 0.05 significant levels. Table 4.9 illustrates the results, which indicate that the company has a cash forecast that is updated on a regular basis and that there is a committed employee who approves cash before payments are made. The study's conclusion aligned with the findings of an earlier investigation by Amin et al (2014).

However, the study found no correlation between the amount of money our company keeps set aside for emergencies and the impact that currency fluctuations have on business operations and performance. Additionally, the study found that there is daily cash management and monitoring in the company, with Pearson Correlations of -0.025 and p-value of 0.665 and -0.097 and p-value

of 0.093, respectively. Because the study's p-values are higher than the 0.01 and 0.05 significant levels, the findings, as reported by Cohen (1988) and referenced in Lunenburg (2011), are not statistically significant.

Furthermore, the research findings indicate that there is no association between creditors' timely payments and the timing of loan repayments. Currency fluctuations impact payments received in the short term due to timing discrepancies, and they have an impact on business operations and performance, as evidenced by Pearson Correlations of 0.022 and p-value of 0.702 and -0.077 and p-value of 0.187, respectively. Because the study's p-values are higher than the 0.01 and 0.05 significant levels, the findings, as reported by Cohen (1988) and referenced in Lunenburg (2011), are not statistically significant. The study's conclusions were reconciled with those of Atkin and Bates (2019); Isimoya (2017) and Raghavan (2018) as well as the results of the literature review. Table 4.9 presents these findings.

In the same vein, the study discovered that there was no link between how currency fluctuations affect business operations and performance and how they have a short-term impact on payments received as a result of timing changes (Pearson link: -0.006, p-value: 0.913). Because the study's p-values are higher than the 0.01 and 0.05 significant levels, the findings, as reported by Cohen (1988) and referenced in Lunenburg (2011), are not statistically significant. The study's conclusions were reached with Isimoya (2017) and Atkin and Bates (2019).

Furthermore, the analysis showed that there was no relationship between the profitability of the business and currency changes, and that a certain employee was responsible for approving funds before payments were made (Pearson Correlations: 0.043, p-value: 0.457). This suggests that the assertion made by Cohen (1988) and referenced by Lunenburg (2011) was not supported by any

meaningful correlation. This is as a result of the higher p-value and the 0.01 and 0.05 significant levels. Table 4.9 illustrates how these results confirmed Raghavan's (2018) findings.

Table 4.9: Correlations on relationship between Risk Exposure and Financial Performance in Kumasi SMEs

		Our business maintains enough savings in case of an emergency	Creditors are paid on time as the loans fall due	Currency fluctuations has a short-term effect on the payments received due to timing differences	Currency fluctuations affect business operations and performance	There is day-to-day management and monitoring of cash in business	There is a person in the business dedicated to approval of cash before payment is made	Our business has a cash forecast that is revised regularly
Our business maintains enough savings in case of an emergency	Pearson Correlation	1	-.025	-.094	.315**	-.097	-.207**	.114*
	Sig. (2-tailed)		.665	.105	.000	.093	.000	.049
	N	298	298	298	298	298	298	298
Creditors are paid on time as the loans fall due	Pearson Correlation	-.025	1	.022	-.077	-.083	-.070	.413**
	Sig. (2-tailed)	.665		.702	.187	.151	.225	.000
	N	298	298	298	298	298	298	298
Currency fluctuations has a short-term effect on the payments received due to	Pearson Correlation	-.094	.022	1	-.006	-.002	-.061	-.144*
	Sig. (2-tailed)	.105	.702		.913	.969	.293	.013

timing differences	N	298	298	298	298	298	298	298
Currency fluctuations affect business operations and performance	Pearson Correlation	.315**	-.077	-.006	1	-.031	.043	-.183**
	Sig. (2-tailed)	.000	.187	.913		.599	.457	.001
	N	298	298	298	298	298	298	298
There is day-to-day management and monitoring of cash in business	Pearson Correlation	-.097	-.083	-.002	-.031	1	-.001	-.053
	Sig. (2-tailed)	.093	.151	.969	.599		.989	.361
	N	298	298	298	298	298	298	298
There is a person in the business dedicated to approval of cash before payment is made	Pearson Correlation	-.207**	-.070	-.061	.043	-.001	1	-.152**
	Sig. (2-tailed)	.000	.225	.293	.457	.989		.008
	N	298	298	298	298	298	298	298
Our business has a cash forecast that is revised regularly	Pearson Correlation	.114*	.413**	-.144*	-.183**	-.053	-.152**	1
	Sig. (2-tailed)	.049	.000	.013	.001	.361	.008	
	N	298	298	298	298	298	298	298
**. Correlation is significant at the 0.01 level (2-tailed).								
*. Correlation is significant at the 0.05 level (2-tailed).								

4.3.3 Risk Management Strategies for Enhancing Financial Performance

The risk management techniques used by Kumasi's small and medium-sized businesses to improve their financial performance were also evaluated in the study. The following queries were put to the test with the aim of achieving this particular goal in mind, and the results are examined and discussed below.

According to Raghavan (2018), risk administrators take proactive measures to protect an organization's or individual's future through risk management. According to Raghavan (2018), a firm's capacity to recognize possible hazards, both internal and external, aids in the management and mitigation of risks that could have an impact on its operations. This remark served as the basis for the study's question, which sought to determine whether SMEs could recognize potential hazards to their company from the inside as well as the outside. As shown in table 4.10, the field data showed that SMEs in Kumasi identified potential hazards that the firm may encounter, both internal and external, with a mean score of 4.0767 and a standard deviation of 0.30182. The study concluded with Raghavan's (2018) assertion.

The study's findings showed that the majority of respondents agreed that small and medium-sized businesses assess the possibility and possible impact of each risk that has been identified. Table 4.10's mean score of 4.0733 and standard deviation of 0.51851 supported this. This suggests that while evaluating risk management and mitigation measures, the majority of SMEs consider the likelihood and potential impact of each identified risk. The findings of the study validated the findings of Kliestik, Nica, Musa, Poliak, and Mihai (2020). The study comes to the conclusion that assessing the possible impact of each identified risk's likelihood is one risk management technique for improving financial performance. It is thought that once the risk has been identified, it may be efficiently managed to improve the SMEs' financial performance.

Atkins and Bates (2019) and Peck et al. (2017) have reported from the reviewed literature that SMEs contract out risky operations to seasoned risk carriers. The purpose of the study was to determine if SMEs in Kumasi contract out hazardous tasks to knowledgeable risk takers. According to the study's findings, the majority of participants disapproved of the idea that SMEs in Kumasi contract out hazardous tasks to seasoned risk takers. As shown in table 4.9, data collected in the field indicated a mean value of 2.3767 and a standard deviation of 0.89300. The study's findings run counter to the claims made by Peck et al. (2017) and Atkins and Bates (2019) that SMEs contract out hazardous tasks to knowledgeable risk takers.

Dorfman (2019) asserts that integrating risk management methods into day-to-day operations and decision-making procedures is a smart way for SMEs to mitigate risk. The study aimed to determine if SMEs in Kumasi integrate risk management methods into their day-to-day operations and decision-making procedures based on the studied literature. Table 4.10 presents the study's findings, which indicate that SMEs integrate risk management methods into their everyday operations and decision-making processes. The average score for SMEs was 3.8600, with a corresponding standard deviation of 0.76311. The study's findings validated Dorfman's (2019) findings, which were examined in the literature review.

According to Frigo et al. (2009), the assessment process should always be consistent with the corporate model and be backed by a legitimate strategic risk profile, action plan, and communication about risk management. The goal of the study was to determine how SMEs in Kumasi might successfully inform every employee of their risk management plan. With a mean score of 2.5400 and a standard deviation of 1.12760, the results showed that most respondents believed that SMEs in Kumasi do not properly communicate risk management plan to all

employees. The specifics of the results that concurred with Frigo, et al. (2009) are shown in Table 4.9.

According to Acharyya and Mutenga (2022), an organization model that enables adaptation and prompt reactions to new risks and changing conditions is necessary to ensure that risk mitigation is effective. The goal of the study was to investigate the situation of SMEs in Kumasi, the study's location. With a mean value of 2.3100 and a standard deviation of 1.12760, it was found that most participants disagreed that SMEs in Kumasi ensure that risk mitigation approach allows for adaptability and quick reactions to new risks and changing conditions. Table 4.10 illustrates how the results differ from those of Acharyya and Mutenga (2022).

According to Atkins and Bates (2019), SMEs minimize risks they face by regularly assessing the efficacy of risk mitigation and management techniques and updating them as needed. The purpose of the study was to determine whether SMEs in Kumasi regularly assess the efficacy of risk reduction and management techniques and make any necessary updates to them. With a mean value of 4.1667 and a standard deviation of 0.52262, as shown in table 4.10, the study's results showed that most participants agreed that SMEs in Kumasi regularly assess the efficacy of risk mitigation and management techniques and adjust them as needed. The study's findings supported the claim stated by Atkins and Bates (2019).

The study's findings showed that the majority of respondents said that Kumasi's small and medium-sized businesses minimize risk by avoiding any exposure to it as a way to control risk and improve financial performance. Table 4.10's mean score of 3.9902 and standard deviation of 0.52385 supported this. This suggests that most SMEs try to manage risks to improve their

financial performance by avoiding any exposure to risk. The study's conclusions concurred with those of Kliestik, Nica, Musa, Poliak, and Mihai's prior research (2020).

Table 4.10: Descriptive Statistics on Risk Management Strategies for Enhancing Financial Performance

	N	Minimum	Maximum	Mean	Std. Deviation
The firm identifies both internal and external potential risks that the firm may face	300	3.00	5.00	4.0767	.30182
We evaluate the potential effect and likelihood of each identified risk	300	2.00	5.00	4.0733	.51851
We outsource risky activities to experienced risk carrier	300	1.00	5.00	2.3767	.89300
We incorporate risk management practices into the company's daily operations and decision-making processes	300	2.00	5.00	3.8600	.76311
My firm effectively communicate risk management plan to all employees	300	1.00	5.00	2.5400	1.14868
Ensure that the risk mitigation model allows for adaptability and quick responses to emerging risks and changing circumstances	300	1.00	5.00	2.3100	1.12760
We continuously monitor the effectiveness of risk mitigation and management strategies and update them as necessary	300	2.00	5.00	4.1667	.52262
We avoid any exposure to risk	300	2.00	5.00	3.9500	.51807
Valid N (listwise)	300				

Source: Field Data, 2023

CHAPTER FIVE

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS SUMMARY

5.1 Introduction

This chapter presents a summary of key findings, conclusions, and recommendations in order to enhance the effectiveness of risk management and reduce the risk exposure of small and medium enterprises in Kumasi. The summary of the findings, conclusions, and recommendations particularly focused on the specific objectives the study tested.

5.2 Summary of Findings

This section presents a summary of the findings obtained from the study.

5.2.1 Nature and Magnitude of Financial Risks Faced by SMEs in Kumasi

The study sought to identify the nature and magnitude of financial risks faced by small and medium enterprises in Kumasi. Evidences gathered from the field of study revealed that specifically the SMEs experience credit risk as a result clients default to pay for credit granted to them (clients), and was affirmed that most respondents admitted that their firms is unable to meet its financial obligations as a result financial risk exposure the businesses see in the businesses. However, the study revealed that SMEs in Kumasi are not exposure to health and safety dangers and that do not also encounter risk when seeking a loan from financial institutions. It was further revealed that SMEs at time loss our investment. The results of the study indicated that the SMEs do not often lose money due to unfavourable regulatory policies.

5.2.2 Relationship between Risk Exposure and Financial Performance in Kumasi SMEs

The study revealed that there was positive correlation between our businesses maintains enough savings in case of an emergency and there is a person in the business dedicated to approval of cash before payment is made. This means that because the SMEs keep enough funds for emergencies have designated officers to approve such funds before they are released for payment. According to results obtained from the study, majority confirmed correlation between our businesses maintains enough savings in case of an emergency and our business has cash forecast that is revised regularly revealed positive correlation.

The results of the study revealed that there was negative correlation between our businesses maintains enough savings in case of an emergency with our business has a cash forecast that is revised regularly. In the same way, there was indication that currency fluctuations has a short-term effect on the payments received due to timing differences and our business has a cash forecast that is revised regularly there was negative correlation between. Similarly, the study ascertained that there was negative correlation between currency fluctuations has a short-term effect on the payments received due to timing differences and our business has a cash forecast that is revised regularly.

Similarly, the study established that there was negative correlation between currency fluctuations affect business operations and performance and our business have cash forecast.

5.2.3 Risk Management Strategies for Enhancing Financial Performance in Kumasi SMEs

The study revealed that the selected small and medium enterprises have strategies to manage and mitigate the risks they face in their business operations. One of the key risk management and mitigation strategies is the identification of potential internal and external risks. In addition to

that, these SMEs had the ability to evaluate the possible effects of each identified risk. Similarly, the findings indicated that SMEs incorporate risk management practices into the company's daily operations and decision-making processes. It was observed that continuous monitoring of the effectiveness of risk mitigation and management strategies and updating them as necessary, as well as the avoidance of risk the firms are likely to suffer, were other strategies for mitigating and managing risk by the SMEs.

However, evidence showed the study revealed that the SMEs in Kumasi do not outsource risky activities to experienced risk carriers, and effective communication of risk management plans to all employees were not strategies the SMEs used to mitigate and manage risks.

5.3 Conclusions

The study derives these conclusions based on the findings established in the study. The showed there are some financial risks SMEs in Kumasi face in their business operations. It is concluded that some clients of the SMEs default in repaying credit granted to them. The study further concludes that SMEs are unable to meet its financial obligations due to financial risk they encounter in businesses. This means that the nature of financial risk is clients' default and the extent or magnitude of the risk is that most SMEs fail to meet financial obligations.

The study further concludes that health and safety dangers, threat in seeking loan from financial institutions and loss of investments were not some of the nature and magnitude of financial risks SMEs in Kumasi face.

Based on the findings obtained from the study, conclusion is drawn that the SMEs investigated maintain enough savings for emergency, hence the designated officers for approval prior to

payment of financial obligations. The study concluded that businesses maintains enough savings in case of an emergency has positive correlation with business has cash forecast that is revised regularly revealed positive correlation while our businesses maintains enough savings in case of an emergency has negative correlation with our business has a cash forecast that is revised regularly. In addition, conclusion is drawn from the study that currency fluctuations has a short-term effect on the payments received due to timing differences has negative correlation with our business has a cash forecast that is revised regularly.

Conclusion is drawn based on the findings that the small and medium enterprises adopt risk management strategies identification of potential internal and external risks, evaluation of the possible effects of each identified risk, and incorporate risk management practices into the company's daily operations and decision-making processes to enhance financial performance. It is concluded that continuous monitoring of the effectiveness of risk mitigation and management strategies and avoidance of risk are other strategies SMEs in Kumasi employed to enhance their financial performance.

Finally, the study concludes that the SMEs in Kumasi do not outsource risky activities to experienced risk carriers, and also do not effectively communicate risk management plans to all employees of the SMEs. This is believed affects financial performance enhancement.

5.4 Policy Recommendations

In respect of the discoveries made by the study the following recommendations are provided for policy direction: It is believed the implementation of this direction would promote growth and stability and, most importantly, protect shareholders' investments and stakeholders' interests.

5.4.1 Nature and Magnitude of Financial Risks Faced by SMEs in Kumasi

The study suggests that in order to lower credit default rates, Kumasi small- and medium-sized business management should be sure to evaluate clients' ability to pay before extending credit. The report also suggested that small and medium-sized enterprise (SME) management should develop techniques that allow them to conserve money for financial responsibilities at any moment. It's also suggested that SMEs' management create health and safety protocols to make sure they don't encounter any unanticipated risks. Furthermore, the study recommended that small and medium-sized enterprises (SMEs) establish a creditworthy record to mitigate the difficulties and trials they face while trying to secure loans from financial institutions. The survey also recommended that SMEs engage in less hazardous business activities.

5.4.2 Relationship between Risk Exposure and Financial Performance in Kumasi SMEs

The research suggested that the management of the SMEs under investigation should develop policies that encourage them to save more money. Management of the SMEs should ensure that all payments go through all designed process to ensure monies are paid services or goods the business has genuinely benefitted. It is recommended that management should budget for all expected revenue and expenditure, and put in strategies that will aid them to achieve the budget. Proper monitoring and evaluation should be designed to ensure the firms deviate from the planned so as to guarantee availability funds. In addition, it is suggested that management be mindful of the continuous currency fluctuations in Ghanaian economy and devise means not suffer such fluctuations.

5.4.3 Risk Management Strategies for Enhancing Financial Performance in Kumasi SMEs

Recommendation is given that management of the small and medium enterprises formulates proper risk management strategies that enhance financial performance by persistently identify potential internal and external risks, evaluate suck risks and best ways to reduce, eliminate or prevent them from happening.

It is recommended that management of the SMEs should practicable designed risk management and mitigation policy that incorporate risk awareness or education and effectively communicate to every member of the SMEs to ensure risks are well managed. In view of this, the finances of the SMEs would be enhanced and improve financial performance to create value for stakeholders.

It is suggested that the SMEs in Kumasi could at time outsource risky activities to experienced risk carriers when necessary. This could be done by insuring some of their businesses with functional insurance companies to reduce the risks.

5.5 Suggestions for future studies

With a focus on SMEs in Kumasi, this study primarily examined how to maximize financial resilience and analyzed the effects of several risk exposures on SMEs in Ghana. The primary goal of the study was to determine the type and extent of financial risks that Kumasi's small and medium-sized enterprises (SMEs) faced. It also looked at the connection between SMEs' financial performance and risk exposure, and it suggested risk management techniques to improve SMEs' financial performance. A structured questionnaire was employed to obtain primary data for the investigation.

This constraint suggests that future research should investigate various variables, concentrate on different geographic locations, and use secondary data. Moreover, it is recommended that future research focus on other industries. It is suggested that further research be done on the elements of financial risk management that affect financial performance. It would be helpful to examine the results of studies done in different regions to ascertain whether the effect of financial risk management on the financial performance of SMEs in Kumasi is consistent.

REFERENCES

Abor, J., & Adjasi, C. K. D. (2007). Corporate Governance and the Small and Medium Enterprises Sector: Theory and Implications. Corporate Governance: The International Journal of Business in Society, 7, 111-122.

Abor, J., & Adjasi, C. K. D. (2007). Corporate Governance and the Small and Medium Enterprises Sector: Theory and Implications. Corporate Governance: The International Journal of Business in Society, 7, 111-122.

Abdullah, M. (2017). *The effect of board structure on financial performance of commercial banks in Somalia: The case of Mogadishu.* Nairobi Kenya: University of Nairobi.

Abeywardhana, D. K. (2017). Capital Structure Theory: An Overview. *Accounting and Finance Research, 6*(1), 133-138

Acerbi, C. (2008). *Pillar II in the New Basel Accord: The Challenge of Economic Capital, chapter9: Portfolio Theory in Illiquid Markets.* London.: Risk Books.

Agyapong, D. and Attram, A.B. (2019), "Effect of owner-managers financial literacy on the performance of SMEs in the Cape Coast Metropolis in Ghana", Journal of Global Entrepreneurship Research, Vol. 9 No. 1, pp. 1-13.

Akong'a, J. C. (2014). *The effect of financial risk management on the Financial performance of commercial banks in Kenya.* Nairobi: University of Nairobi.

Alshatti, A. S. (2015). The effect of credit risk management on financial performance of the Jordanian commercial banks. *Investment Management and Financial Innovations, 12*(1), 338-345.

Angote, , A. V., Malenya, A. A., & Musiega, D. (2015). Effect of Enterprise Financial Risk Management on Performance. *International Journal of Business and Management Invention, 4*(6), 19-40

Asgary, A., Ozdemir, A.I. and Ozyurek, H. (2020), "Small and medium enterprises and global risks: evidence from manufacturing SMEs in Turkey", *International Journal of Disaster Risk Science,* Vol. 11 No. 1, pp. 59-73.

Berrell, M. (2017). Enterprise Risk Management in China. *researchgate*.

Busato , F., & Coletta , C. M. (2017). A moral hazard perspective on financial crisis. *Banks and Bank Systems, 12*(3), 298-307

Duong, L. (2009). *Effective Risk Management Strategies for Small-Medium Enterprises And Micro Companies A Case Study For Viope Solutions Ltd.* Helsinki, Finland: Arcada University.

Ekaterina, S. and Thielmann, K. (2020), "Financial Risks and Management", International Encyclopedia of Human Geography, 2nd ed., *Elsevier*, pp. 139-145.

Hida, E. (2017). *Global risk management survey.* New York: Deloitte's financial services industry practice.

Jonker, J., & Pennink, B. (2009, May 2). The Essence of Research Methodology: A Concise Guide for Master and PhD Students in Management Science. Germany, Berlin, Heidelberg : Springer Berlin Heidelberg.

Jorge, M.J.D.S. and Augusto, M.A.G. (2011), "Financial risk exposures and risk management: evidence from European nonfinancial firms", *Revista de Administraçao Mackenzie,* Vol. 12 No. 5, pp. 65-97.

Khan, B. (2020), “Microfinance banks and its impacts on small and medium scale enterprises in Nigeria”, World Scientific News, Vol. 141, pp. 115-131.

Kimunya, I. M. (2015). *factors influencing performance of small and medium enterprise tea firms in mombasa county, kenya.* Nairobi, Kenya: Nairobi University.

Kociu, L., Mano, R., & Armand, H. (2015). Financial Risk Assessment of Albanian SMEs with the Help of Financial Ratios. *European Scientific Journal, 11*(4), retrieved 20th July 2018 from European Scientific Journal

Kothari, R. (2014). *Research methodology; Methods & techniques.* . New Delhi: New Age International Publishers.

Kozak, L.S. and Danchuk, M.V. (2016), “Evolution of enterprise risk management under current conditions of economic development: from fragmented to integrated”, Актуальнпроблеми економ ки, No. 4, pp. 23-29.

Krugman, P. (2009). The Return of Depression Economics of 2008.

Lagat , F. K., & Tenai, J. (2017). Effect Of Risk Identification On Performance Of Financial Institutions. *International Journal of Business Strategy, 2*(1), 75-87

Madembu, A. W., Namusonge, G., & Sakwa, M. (2015). The Role of Risk Management on Financial Performance of Small and Medium Enterprises in Kenya. *International Journal of Science and Research, 6*(1), 21262130

Mugenda, M., & Mugenda, G. A. (2009). *Research methods, qualitative and qualitative approaches.* Nairobi: Acts Press.

Muriithi, J. G. (2016). *Effect of Financial Risk On Financial Performance of Commercial Banks In Kenya.* Nairobi: Jomo Kenyatta University of Agriculture and Technology.

Martin, S. (1986). Causes and Effects of Vertical Integration. . *Journal of Applied Economics*, 737-755.

Napp, A.-K. (2011). *Financial Risk Management In Sme The Use Of Financial Analysis For Identifying, Analyzing And Monitoring.* Aarhus, Denmark: Aarhus University.

Ochola, V. O. (2013). *The relationship between board structure and financial performance of fund managers in Kenya.* Nairobi, Kenya: University of Nairobi.

Olah, J., Kovacs, S., Virglerova, Z., Lakner, Z., Kovacova, M. and Popp, J. (2019), "Analysis and comparison of economic and financial risk sources in SMEs of the Visegrad group and Serbia", Sustainability, Vol. 11 No. 7, p. 1853.

Salant, Priscilla,I.Dillman and A.Don. (1994). *How to conduct your own survey?* New york: John Wiley & Sons Inc,

Shaverdi, M., Yaghoubi, S. and Ensafian, H. (2020), "A multi-objective robust possibilistic model for technology portfolio optimization considering social impact and different types of financing", Applied Software Computing, Vol. 86, p. 105892.

Sharifi, O. (2014). Financial Risk Management for Small and Medium Sized Enterprises. *International Journal of Information, Business and Management, 6*(2), 82-89

Shields,Patricia,and Rangarjan,N. (2013). *A Playbook for research methods: Integrating Conceptual Frameworks and Project Management. [1]. Stillwater, OK: New Forums Press. See Chapter 4 for an in-depth discussion of descriptive research.*

Song, Z., & Xiong, W. (2018). Risks in China's Financial System. *mycpanelprincetonedu*, 1-42

United Nations Assistance Mission in Somalia. (2017). *International partners welcome orderly election of Mohamed Abdi Ware as new president of HirShabelle state.* Somalia: United Nations Assistance Mission in Somalia.

Utomo, M.N., Cahyaningrum, W. and Kaujan, K. (2020), "The role of entrepreneur characteristic and financial literacy in developing business success", Jurnal Manajemen Bisnis, Vol. 11 No. 1, pp. 26-42.

Wanjohi , J. G. (2013). *the effect of financial risk management on the financial performance of commercial banks in Kenya.* Nairobi, Kenya: Nairobi University.

Wanjohi, S. M., Wanjohi, J. G., & Ndambiri, J. M. (2017). The Effect of Financial Risk Management on the Financial Performance of Commercial Banks in Kenya. *International Journal of Finance and Banking*

Wasiuzzaman, S., Nurdin, N., Abdullah, A.H. and Vinayan, G. (2020), "Creditworthiness and access to finance of SMEs in Malaysia: do linkages with large firms matter?", Journal of Small Business and Enterprise Development, Vol. 2 No. 27, pp. 197-217

Wolfgang, J. (2005). Vertical Integration and Bank Performance. *Internationale Tagung Wirtschaftsinformatik*.

World Bank. (2015). *Transition amid Risks: with a Special Focus on Intergovernmental Fiscal Relations.* Geneva: World Bank.

Wu, D. (2009). *Measuring Performance in Small and Medium Enterprises in the Information & Communication Technology Industries.* RMIT: RMIT University.

Xu, J. and Li, J. (2019), The impact of intellectual capital on SMEs' performance in China, Journal of Intellectual Capital.

APPENDIX

AKENTEN APPIAH-MENKA UNIVERSITY OF SKILLS TRAINING AND ENTREPRENEURIAL DEVELOPMENT (*AAMUSTED*)

QUESTIONNAIRE

Dear Respondent,

I am a student of the above university and currently undertaking a study that seeks to examine the effect of risk exposure on the financial performance of small and medium enterprises in Kumasi. To assist in achieving this objective, I humbly request you to provide relevant and objective responses to the questions asked in this questionnaire. Note that responses you will provide would strictly be treated confidential and used for the purpose of this study only.

Thank you.

Section A: Demographic Data of Respondent

Please tick answers as applicable to you

1. Gender of Respondent a. Male ( ) b. Female ( )

2. Age of Respondent. a. Less than 30 years ( ) b. 31 – 40 years ( ) c. 41 – 50 years ( ) d. More than 50 ( )

3. Level of education of Respondent

a. No formal education ( ) b. Primary / Secondary ( ) c. Diploma / HND ( ) Degree ( ) d. Masters ( )

4. Does your business have a risk management committee?

a. Yes ( ) b. No ( ) c. Uncertain ( )

5. If yes, how effective is the risk management committee?

a. Very Ineffective ( ) b. Ineffective ( ) c. Uncertain ( ) d. Effective ( ) e. Very Effective ( )

6. Length of service in your business.

a. Less than 3 year ( ) b. Between 3 – 9 years ( ) c. Between 10 – 15 years ( ) d. More than 15 years ( )

7. Type of business.

a. Manufacturing ( ) b. Trading ( ) c. Service ( ) d. Agribusiness ( )

Section B: Specific Objectives

Instructions: Please respond to the following statements by circling or ticking the answer that most accurately represents your opinion concerning your experience using the following scale:

1	2	3	4	5
Strongly Disagree	Disagree	Uncertain	Agree	Strongly Agree

	Types of risks	**1**	**2**	**3**	**4**	**5**
1.	We are exposed to health and safety dangers					
2.	We face risk when seeking a loan from financial institutions					
3.	Our experience non-payment of credit granted to clients					
4.	The firm does not adopt proper way to recruit staff					
5.	The firm does not business strategic plan					
6.	We often encounter inconsistency and inappropriate in the implementation of business plan					`

7.	We see natural disasters					
	Risks management and mitigation strategies	**1**	**2**	**3**	**4**	**5**
1.	The firm identifies both internal and external potential risks that the firm may face					
2.	We evaluate the potential effect and likelihood of each identified risk					
3.	We outsource risky activities to experienced risk carrier					
4.	We incorporate risk management practices into the company's daily operations and decision-making processes					
5.	My firm effectively communicate risk management plan to all employees					
6.	Ensure that the risk mitigation model allows for adaptability and quick responses to emerging risks and changing circumstances					`
7.	We continuously monitor the effectiveness of risk mitigation and management strategies and update them as necessary					
8.	We avoid any exposure to risk					

	Effect of risk management on financial performance	**1**	**2**	**3**	**4**	**5**
	Return on Assets					
1.	Our internal risk assessment improves our cash					
2.	Risk management improves our inventory level					
3.	We improve our size through risk avoidance					
	Return on Equity					
4.	Risk identification improves equity effectiveness					
5.	Our investors are earning at a much more efficient rate					
6.	Risk transfer improves our ending equity					
	Gross Profit Margin					
7.	Enhance profit level					
8.	Improve our revenue level after cost of sales is deducted					
	Earnings per Share					
9.	Increase growth of shareholders' wealth					
10.	Investors get better returns from their investments					`

Section C

Please provide response to the open-ended questions below, which seek.

1. Apart from what is stated above, mention other types of risks exposed to business.

   ……

   ……

   ……

   ……

   ……

2. State other strategies your business used to manage and mitigate risk exposed to your business different from those mentioned above.

   ……

   ……

   ……

   ……

   ……

3. Kindly state other effects risk management on financial performance of your business.

   ……

   ……

   ……

   ……

Thank you for your attention.