

**FINANCIAL RISK MANAGEMENT AND SUSTAINABILITY OF SMALL AND
MEDIUM ENTERPRISES: A CASE STUDY OF SMALL AND MEDIUM
ENTERPRISES IN NAKASERO, KAMPALA DISTRICT**

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S23B05/068

**A DISSERTATION SUBMITTED TO THE SCHOOL OF BUSINESS IN PARTIAL FULFILLMENT
OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF BACHELOR OF
BUSINESS ADMINISTRATION OF UGANDA CHRISTIAN UNIVERSITY**

April, 2026



**UGANDA CHRISTIAN
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DECLARATION

I, NANKABIRWA VANESSA, hereby truthfully declare to the best of my knowledge that this research work is my original work and has never been published or submitted before for the award of a degree, diploma or for any equivalent academic title in any university or any other academic institution of higher learning.

Nankabirwa Vanessa.

Signature.....

Date: 22/04/2026.....

APPROVAL

This is to certify that this dissertation titled "FINANCIAL RISK MANAGEMENT AND SUSTAINABILITY OF SMALL AND MEDIUM ENTERPRISE CASE STUDY OF NAKASERO, KAMPALA DISTRICT " was written by Nankabirwa Vanessa under my supervision and it is ready for submission.

Signed by: J. Abiyar N. Date: 22/04/2026

Jennifer Abiyar N. (Mrs)

Academic supervisor

DEDICATION

I dedicate this work to my beloved parents, relatives, friends and my academic supervisor without their selfless efforts and enduring love, I would not be what I am. Therefore, this work would not have come into existence

ACKNOWLEDGEMENT

First and foremost, I thank God for the abundant blessings for having enabled me to complete my studies. I would also like to express my special appreciation to **Mrs. Jennifer Abiyar N** supervisor for this research project, for her valuable time, patience, guidance, constructive criticisms, for without her this research would have never been realized. For this, I sincerely thank you.

Furthermore, appreciation and gratitude go to all my lecturers of Uganda Christian University for their intellectual inputs that helped me compile this research. My sincere appreciation also goes to the class in Business Administration for their support and cooperation.

Sincere thanks go to the respondents, SME owners, managers and accountants in Nakasero, Kampala district who willingly participated in the research, without your cooperation, this research would not have been possible.

Lastly but not least, I am immensely grateful to friends and colleagues for their emotional support and their bravery during my stay away for studies.

LIST OF ACRONYMS

BBA – Bachelor of Business Administration

CMA – Capital Markets Authority

CVI – Content Validity Index

DOI – Diffusion of Innovation

FRM – Financial Risk Management

GDP – Gross Domestic Product

KCCA – Kampala Capital City Authority

SB4U – Sustainable Business for Uganda

SBIL – Stanbic Business Incubator Limited

SMEs – Small and Medium Enterprises

SPSS – Statistical Package for Social Sciences

UCU – Uganda Christian University

UWEAL – Uganda Women Entrepreneurs Association Limited

URSB – Uganda Registration Services Bureau

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ABSTRACT

This study investigated the relationship between financial risk management and the sustainability of Small and Medium Enterprises (SMEs) in Nakasero, Kampala District. The research was driven by the persistent challenge of high failure rates among SMEs due to inadequate risk identification and mitigation strategies. The specific objectives were to examine the effect of risk identification, assessment, mitigation, and monitoring on the long-term sustainability of these enterprises.

A correlational research design was employed, utilizing a quantitative approach to collect data from a sample of 152 SME owners and managers. Data was gathered using structured questionnaires and analyzed using the Statistical Package for Social Sciences (SPSS). Descriptive statistics were used to summarize respondent characteristics, while inferential statistics, including Pearson correlation and multiple linear regression, were used to test the research objectives.

There is an evident positive correlation between financial risk management and the sustainability of SMEs. In addition, the use of regression analysis showed that the financial risk management practices explain the variations in the sustainability of SMEs in Nakasero. Most firms conduct a simple environmental scan; however, most of them do not have insurance coverage or any funds set aside for emergencies.

The study therefore shows that proper financial risk management plays a vital role in determining the performance of businesses. It is therefore advisable that SME owners embrace financial planning and seek appropriate training to develop their skills in financial risk management. Additionally, the study recommends that policymakers and other regulatory bodies devise measures aimed at improving the financial literacy of the owners as well as offering them financial advice to ensure their sustainability.

CHAPTER ONE

1.0 INTRODUCTION.

The chapter presents the background to the study, statement of the problem, objectives of the study, research questions, scope of the study, significance of the study and the conceptual framework.

1.1 The background of the study.

The sustainability and expansion of small and medium-sized businesses (SMEs) worldwide now heavily depend on financial risk management, which is especially true in developing nations like Uganda (Turyatemba et al., 2022). SMEs are the foundation of many economies, making substantial contributions to the production of jobs, revenue, as well as general economic growth.

In Uganda, the Uganda Bureau of Statistics estimates that SMEs employ about 2.5 million people and account for over 80% of the nation's GDP (Christopher et al., 2022). Notwithstanding their importance, SMEs in Nakasero, Kampala district. Numerous financial concerns could obstruct the capital and economic center of Uganda's expansion and long-term viability. Liquidity problems, credit risks, interest rate changes, and foreign exchange volatility are the main hazards (Benard, 2023). With the help of recent data and pertinent literature, this background section explores the critical role that financial risk management plays in guaranteeing the viability of SMEs in Nakasero Kampala district (Christopher, 2022).

From the literature by Alex and Kazaara (2023), financial risk management involves identifying, assessing, and controlling financial risks in a bid to minimize any adverse consequences on the cash flows, profitability, and sustainability of businesses.

Financial risk management is even more critical when it comes to SMEs due to the low financial capacity of the entities as well as the vulnerability to external shocks. According to the governor of the Bank of Uganda, Akankwasa et al. (2022), some of the main challenges facing SMEs in Uganda include inadequate risk management strategies, which put them at risk of failing and hamper growth prospects. This becomes even more critical in areas such as Kampala, where fierce competition exists amidst an economic environment that lacks adequate finances.

The importance of financial risk management lies in its capability to ensure that a firm survives through economic risks and still maintains its growth trends (Racheal, Kazaara, et al., 2023). Firms unable to manage their financial risks effectively stand a chance of experiencing business disruptions, losing their competitiveness in the market, and ultimately closing down.

Effective financial risk management practices can be the determining factor in ensuring that an organization succeeds or fails in Kampala because there are many existing SMEs in this city operating on low profit margins. Over 60% of SMEs in Kampala fail after five years, mainly due to poor financial management skills and inadequate financial risk management measures, according to Christopher (2022). The various financial risks faced by SMEs in Kampala include credit risk, liquidity risk, interest rate risk, and foreign exchange risk (Akankwasa et al., 2022). Of particular interest is the fact that credit risk is common among SMEs because they borrow funds from the outside to finance their business operations (A. G. Kazaara & Christopher, 2023).

On the contrary, poor practices of credit risk management may lead to loan defaults, thus making it hard for these firms to obtain loans in future (Polycarp et al., 2023). Over 70% of SMEs operating in Kampala encounter difficulties in obtaining credit because of high default levels as cited in the Uganda Investment Authority (2021). The need for credit risk management practices by SMEs operating in Kampala is essential as it would assist them in improving credit worthiness and obtain the necessary resources needed to support growth (Polycarp et al., 2023).

The other important risk facing SMEs operating in Kampala is liquidity risks. Most of the businesses under this classification experience liquidity problems due to irregularity of revenues in different seasons of the year. For example, retail businesses have liquidity problems during off-peak periods when there is less expenditure from customers (Winny, Kazaara, et al., 2023). By engaging themselves in effective liquidity management practices, it would be possible for SMEs to prevent disruptions in their cash flow. In the research conducted by (Winny, Ariyo, et al., 2023), it has been revealed that over 55% of SMEs in Kampala experience liquidity problems.

Foreign exchange risk is another potential risk faced by SMEs in Kampala, especially by those engaged in exportation and importation activities (Racheal, Enock, et al., 2023). Fluctuations in the exchange rates can significantly affect the cost of importing goods and services, which will make them less profitable. As such, for example, the Ugandan Shilling.

It may prove to be difficult to predict the amount of expenses and revenues to be gained for small firms in comparison with larger economies such as the US Dollar and Euro. According to a report from the Bank of Uganda in 2022, even minor fluctuations in currencies can affect profitability, therefore making foreign exchange risk critical for SMEs engaging in international business activities (Polycarp et al., 2023).

1.2 Problem Statement

Despite small and medium enterprises are the foundation of Uganda's economy and the primary source of jobs. Many of these businesses face significant obstacles to their long-term survival and growth prospects, due to high interest rates, liquidity risks, market risks that limit their ability to contribute to economic development (Frank et al., 2023). About 60% of small firms shut down within the first five years of their founding, according to the census carried out by the Uganda Bureau of Statistics in 2021 (Winny, Kazaara, et al., 2023).

Therefore, most entrepreneurs lack the methods and resources to recognize, evaluate, and mitigate risks that jeopardize business continuity and profitability, poor financial risk management has been identified as a major factor weakening the sustainability of small businesses (Annet et al., 2023).

Hence, there is a need to investigate the role of financial risk management in sustaining business growth in Nakasero down town Kampala district.

1.3 Main objective of the study.

To examine the role of financial risk management in sustaining business growth in Nakasero down town, Kampala district.

1.4 Specific objectives.

1. To determine the relationship between risk identification and the sustainability of SMEs in Nakasero down town, Kampala district.
2. To determine the relationship between risk assessment and the sustainability of SMEs in Nakasero down town, Kampala district.
3. To determine the relationship between risk mitigation and the sustainability of SMEs in Nakasero down town, Kampala district.

4. To determine the relationship between risk monitoring and sustainability of SMEs in Nakasero down town, Kampala District.
5. To determine the relationship between financial risk planning and sustainability of SMEs in Nakasero down town, Kampala District.

1.5 Research questions

1. What is the relationship between risk identification and sustainability of SMEs in Nakasero down town, Kampala District?
2. What is the relationship between risk assessment and sustainability of SMEs in Nakasero down town, Kampala District?
3. What is the relationship between risk mitigation and sustainability of SMEs in Nakasero down town, Kampala District?
4. What is the relationship between risk monitoring and sustainability of SMEs in Nakasero down town, Kampala District?
5. What is the relationship between financial risk planning and sustainability of SMEs in Nakasero down town, Kampala District?

1.6 Scope of the study

1.6.1 Geographical scope

This study was carried out in the Nakasero down town, Kampala district, where businesses are usually privately owned, and often operate as single owner enterprises, firms, or cooperatives.

1.6.2 Time scope

The research is conducted in the time span from 2020 to 2025. The selected period will be helpful in examining how SMEs coped with financial risks in times of disruption in the economy due to the coronavirus disease.

1.6.3 Content scope

The investigation is centered on the link between Financial Risk Management (independent variable) and sustainability of SMEs (dependent variable). Four main pillars of risk management have been studied in detail and include risk Identification, risk assessment, risk Mitigation, and risk monitoring.

1.7 Significance of the study

The study of the role of financial risk management on the sustainability of small and medium enterprises in Nakasero Kampala District holds significant importance for various stakeholders;

The study will help SME managers. It will show how financial risk management affects their businesses' growth and sustainability. With this knowledge, managers will be able to make better decisions. In order to manage their finances, invest, and reduce risks. If managers grasp the value of financial risk management, they will be able to improve their skills which will lead to better budgeting, cash flow, and financial health for their businesses.

The study's insights will also help policymakers to create programs to boost financial risk management for small business owners in Nakasero Kampala District. This will lead to policies that boost growth, jobs, and reduce poverty. Policymakers will also use this research to design support programs that will offer training, resources, and mentorship to business owners. This will foster a better environment for business development.

The study is a basis for future researchers. It will provide a framework for future studies. They will explore specific factors that affect this relationship. Future researchers will use this study's findings to identify gaps in current knowledge and give propose to new research questions or methods to expand understanding in this area.

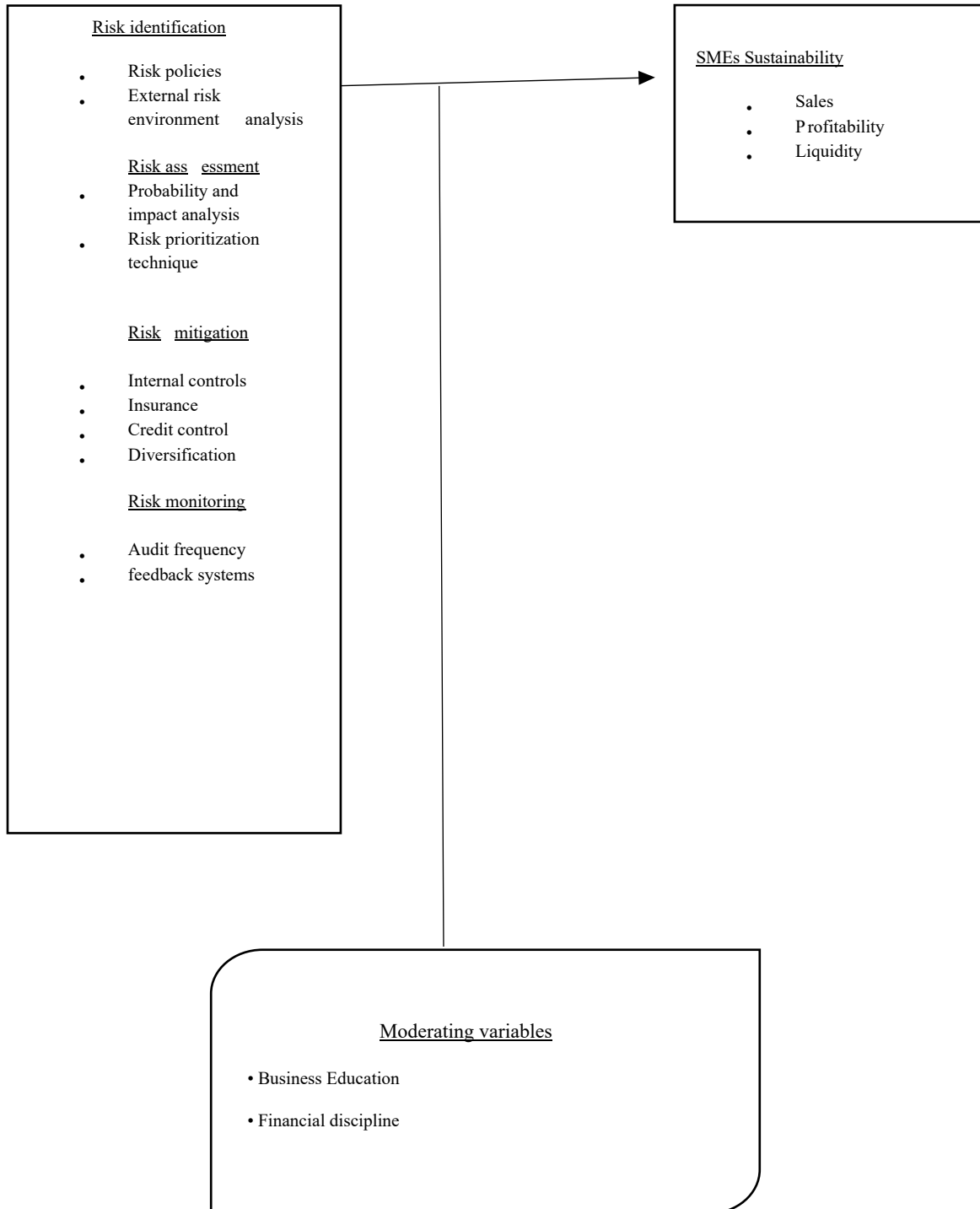
1.8 Conceptual framework

Independent variable

Dependable variable

Financial risk management

Sustainability of small medium enterprises



CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

The chapter presents the definitions of the key concepts, theoretical review and literature review.

2.1 Definitions of the key Concepts

2.1.1 RISK

The possibility that an uncertain event or condition will occur and negatively affect an organization's financial performance, cash flow, profitability, or overall objectives.

2.1.2 FINANCIAL RISK

Financial risk refers to the possibility of loss arising from unfavorable changes in financial variables such as interest rates, exchange rates, credit conditions, or liquidity positions, which can negatively affect an organization's financial performance and stability.

2.1.3 Financial Risk Management.

The concept of risk has been defined in multiple ways across disciplines. Lemos (2020) expands this view, viewing risk as exposure to unexpected impact, ontological uncertainty, and the socially perceived element of utility. From a practitioner-based viewpoint, Bhattacharya (2022) describes risk simply as "some uncertainty that may have some adverse effects either on business or on people's daily lives." At the organizational level, Stanford University defines risk as "the possibility that the occurrence of an event will adversely affect the achievement of the organization's objectives." Lyon & Popov (2022) further operationalize risk as "having the capacity to produce harm or loss" measured by "likelihood and severity of impact.

Financial risk is described as the unanticipated fluctuation of returns. The main types of financial risk are market risk, credit risk, liquidity risk, operational risk and legal risk (Pablo, 2020). The concept of financial risk involves risks such as interest rate risk, liquidity risk, credit risk, funding risk, exchange rate risk, etc., which both financial and non-financial organizations are exposed to.

The basic assumption is that financial risk, if not properly managed by SMEs owners, can possibly lead to fail to sustain their businesses. As such, the aim of financial risk management by SMEs is focused on reduction of earnings fluctuations as a result of its exposure to financial risk. According to Goldberg and Drogdt (2008), financial risk management assists the business in making profitable forecasts and investments and ultimately guiding the business against excessive operating costs and financial crises.

Financial risk management refers to the systematic process through which organizations identify, assess, and respond to potential financial uncertainties that could negatively affect their objectives. According to Hubbard (2020), it involves applying quantitative and qualitative methods to measure and mitigate exposure to possible financial losses resulting from uncertain events. Similarly, Hull (2020) defines financial risk management as the structured approach used by institutions to monitor, control, and minimize risks associated with market fluctuations, credit defaults, and liquidity challenges. Thus, effective financial risk management facilitates sound decision-making, safeguarding of resources, and financial stability in times of uncertainty. Generally speaking, it is an indispensable tool for achieving long-term sustainability through the incorporation of risk consciousness into financial planning and decision-making.

Financial risk management is the systematic approach to identifying, evaluating, monitoring, and managing financial risks, including liquidity risk, credit risk, price risk, and currency exchange risk, for the purpose of safeguarding the cash flow, financial health, and enterprise value of a company (Kotášková et al., 2020). In relation to small and medium-sized enterprises, FRM includes basic operational activities, such as cash flow forecasting, receivables management, and setting aside contingency reserves, as well as capabilities, such as financial literacy, record keeping, and access to financial counseling and financial tools (Kotášková et al., 2020; systematic review of SME FRM practices 2024-2025).

Sustainability

Sustainability means the ability of organizations to sustain themselves through successful operations over an extended period of time, while at the same time being able to balance economic performance with social responsibility and environmental sustainability. As per Purvis, Mao, and Robinson (2020), sustainability entails the incorporation of the triple bottom line concept, which

combines economic viability, social justice, and environmental sustainability in order to create sustainable organizational growth. Also, Eccles and Klimenko (2020) have pointed out that firms which incorporate sustainability within their strategic management will be able to exhibit resilience, stakeholder confidence, and competitive advantage.

Sustainability entails the sustainability of an entity's economic viability in the long run through proper financial planning and flexibility, relationships with stakeholders and environmental and social sustainability, when appropriate (Charina, 2023; Kato, 2024). Therefore, sustainability does not merely involve profitability in the short term but rather involves the capacity of an organization to endure shocks (resilience), to be able to adapt its strategy and operational approach, and to enjoy positive relationships with stakeholders such as customers and financiers.

2.1.4 Small and Medium Enterprises (SMEs).

SMEs are business organizations that operate below certain size limits set out by regulators (size limit is defined usually by the number of employees, turnover, or assets of the company) and usually have limited resources compared to large companies (OECD, 2020). Due to small size, SMEs depend on internal sources of finance more than big companies and are exposed to liquidity risks due to that factor (OECD, 2020).

Small and Medium Enterprises (SMEs) are independent, non-subsidary, formally registered business entities that typically employ a relatively small number of workers, have lower levels of assets and annual turnover compared with large firms, and operate in a context of higher resource constraints and limited formal financing access (Mabenge et al., 2021; Runde, Savoy & Staguhn, 2021). The specific thresholds for “small” and “medium” vary significantly by country and sector (Mabenge et al., 2021). In the African context, SMEs play a dominant role in employment and private-sector value creation; for instance, they account for an estimated 80 % of jobs across the continent and form the majority of private-sector firms (Runde et al., 2021).

In Uganda specifically, SMEs are often defined by a combination of criteria such as number of employees, annual sales/turnover, and level of capital investment (Eton et al., 2021). Because of their scale, SMEs in Uganda and similarly in many developing countries face pronounced

challenges of financing, regulatory burden and vulnerability to external shocks compared to larger firms (Eton et al., 2021).

2.2 Theoretical review.

2.2.1 Reviews of Related Theories of Sustainability of SMEs

1. Institutional theory

An institutional theory is a capable path for exploring the borders between businesses or society that have been shaped SMEs in various ways to sustainable growth (Fauzi & Sheng, 2020). Explaining that sustainable pursuits is not primarily a voluntary act, as the performance of firms are featured with several challenges, including government rules and marketplace pressures. Therefore, institutional theory focuses on factors that are externally or internally central within the firm and sustainable innovation. From the institutional theory of sustainable growth for small and medium-sized enterprises, opportunities with normative, coerciveness and mimetic drivers to influence small and medium-sized enterprises to shape environmental, social or economic decision-making and to legitimise the vision of sustainable business practice (Shibin et al., 2020; Caldera, Desha & Dawes, 2019). Sustainable business practise 'is an aspiration for an increasing proportion of small and medium-sized enterprises around the world, promising profitability, resilience and positive social and environmental impacts' (Caldera et al., 2019). In many creative ways, business owners are responding to institutional constraints, such as implementing innovative business strategies, developing strength and courage, partaking in associations, trying to give back to the community and collaborating with the authorities (Eijdenberg, Thompson, Verduijn & Essers, 2019). Institutional theory has been widely used in addition to establishing sustainable growth policies and procedures (Roxas, Lindsay, Ashill & Victorio, 2007; Heiskanen, 2002) and in recognition of quality plans or technology orientation (Hatch, 2006; Barratt & Choi, 2007; Nair & Prajogo, 2009; Liu, Ke, Wei, Gu & Chen, 2010).

Institutional theory provides enhanced enlightenment once the driving force behind the practise of technology orientation has been acceptability (DiMaggio and Powell 1983)

2. Diffusion of Innovation (DOI) Theory

From the perspective of innovation and technology orientation, Rogers (1995) proposed the Diffusion of Innovations (DOI) theory in order to explain the concept by which innovation could be transferred between different people over certain periods of time by different means. The process of introducing a new innovation has been investigated for more than 30 years (Rogers, 2003; Rogers, 1983). Rogers' theory as noted by (Al Mamun, 2018) describes, among the most popular models of adoption in his book "Diffusion of Innovations" and has used the model as a framework for many studies from a wide range of subjects. The diffusion of innovation theory has been used in several fields, such as strategic management, political science, management, public health, communications, accounting, history, economics, technology, innovation and entrepreneurship, etc. (Johnson, 2015; Stuart, 2000)

2.3. EMPIRICAL REVIEW

This section reviews the relevant empirical literature that underpins the research problem. In this way, it ensures that the focus of the study is shaped by previous findings in the field.

Risk Identification and sustainability of small medium enterprises

2.3.1 Risk Identification and Sustainability of Small and Medium Enterprises,

Risk identification entails identifying and recording risks that can cause harm to an organization's operations, objectives, and financial performance. Identifying risk involves identifying the risks, determining what causes the risks, and categorizing the risks, making risk management easier. For SMEs, risk identification is necessary for the business owner to foresee challenges, whether financial, operational, or in terms of market conditions. Early identification of risks in businesses allows for interventions that ensure that the firm sustains itself.

Financial risk identification is vital in financial risk management, as the business owner will be able to identify threats that might jeopardize the sustainability of the firm. In the urban area of Nakasero, Kampala, the competitive environment faced by SMEs, regulatory complexities, and the fluctuation in consumer demands require business owners to foresee risks. Research shows that SMEs who can foresee risks have a higher chance of preventing them and, hence, sustaining themselves.

As observed in recent research done by Bukirwa and Musoke (2020), SMEs with access to microfinance and financial literacy are in a position to identify risks related to liquidity and credit and hence can make sound decisions about investments and operational processes. Likewise, according to Kisambira (2023), financial risks such as the risks associated with cash flow problems and loans pose challenges to SMEs; however, awareness of these risks helps the enterprises to plan ahead.

On the other hand, operational risk is also a key risk facing many SMEs located in Nakasero. According to Bugembe (2023), SMEs that employ innovation such as using marketing through social media, incorporating technologies into business activities, and being energy efficient are capable of predicting and mitigating operational challenges.

Risks associated with regulatory and compliance also exist within Nakasero. For instance, according to Sendawula et al. (2024), awareness of regulations, which include permits, taxes, and even safety requirements, promotes adoption of sustainable operations in the SMEs within the area. Compliance promotes sustainability through prevention of penalties, operation disruption, and negative reputation, which may cause the businesses not to sustain. Similar to this, Irumba & Kabanda (2025) argue that complicated tax and levies regimes pose risks of reduced profitability in the firms. Firms aware of such risks are able to manage their operations without hindrances to sustain.

Credit and liquidity risks are among factors influencing sustainable operations of SMEs in Nakasero. According to Polycarp et al. (2023), SMEs operating in Kampala face challenges accessing affordable credits due to high levels of defaults and ineffective risk assessments. Businesses undertaking regular risk identification can monitor and evaluate their repayments and thus be in a position to improve their capacity to get credit for the growth of their businesses. Similarly, cash flow shortage is one of the liquidity problems identified by Winny, Ariyo et al. (2023) faced by retail SMEs within Nakasero.

The foreign exchange risk is another element that impacts SMEs engaged in importing and exporting services. As per Racheal, Enock, et al. (2023), exchange rate fluctuations for the Ugandan shilling compared to other currencies like the US dollar and the euro affect the profit-

making capability. When SMEs detect foreign exchange risks at an early stage, they will be able to use hedging techniques, adjust prices, or bargain payment terms with the suppliers.

In conclusion, from the analysis, there is sufficient empirical evidence of a significant association between risk detection and the sustainability of SMEs in Nakasero. Companies that detect risks are able to implement risk management procedures, ensure cash flow consistency, follow the regulation, and respond to market dynamics. In addition, SMEs have an advantage because they have external mechanisms to mitigate risks. Examples include government initiatives, financial institutions, and business incubation programs such as SBIL (2024) and SB4U 2.0 (2025).

Sustainability of SMEs in Nakasero, Kampala, is greatly affected by how the businesses are able to identify the risks they face and how to manage the same within their operations. Risk identification is part of financial risk management and entails recognizing potential risks that might pose a threat to the objectives, continuity, and sustainability of a company. SMEs within the Nakasero area face numerous challenges due to the high level of competition, changeable customer needs, regulatory requirements, and financial accessibility within the environment. All these factors expose the firms to different kinds of financial, operational, and regulatory risks. Literature in Uganda shows that firms that practice risk identification have an advantage and are more sustainable compared to those that don't (Bukirwa & Musoke, 2020; Kisambira, 2023). Through risk identification, business owners will be able to know what financial risks to protect themselves against.

The financial risks facing SMEs in Nakasero are a serious issue. There are many SMEs that depend on external funding, such as bank loans and loans from microfinance institutions, to keep their operations running and to grow further. However, without proper financial risk management skills, SMEs will face problems with loan repayments. This limits their future ability to raise capital and expand (Polycarp et al., 2023). In retail and service-oriented SMEs, liquidity risks are quite high due to the seasonality of income and changes in the market environment. For instance, retail SMEs have low income flows during low-demand seasons. Identifying these moments allows SMEs to prepare for contingencies by creating emergency funds, cutting costs, or securing favorable loan deals, thus increasing their sustainability (Winyi, Ariyo, et al., 2023). Likewise, exposure to foreign currency risks faces SMEs engaged in international business, where changes in the

exchange rate between the Ugandan shilling and foreign currencies affect the cost of their products and earnings. Proper identification of these risks helps SMEs adopt hedging measures, adjust prices, or find alternative sources to reduce losses (Racheal, Enock, et al., 2023).

Furthermore, besides financial risks, other issues like operational risks and regulatory compliance may threaten the survival of the SMEs in Nakasero. The importance of compliance with permits, taxes, and market levies cannot be understated since they help to prevent any form of disruption to operations and sanctions from the government. In addition, firms that have been proactive in assessing potential regulatory risks have a higher likelihood of instituting internal controls, planning for compliance costs, and retaining their legal status among customers and regulatory agencies (Sendawula et al., 2024; Irumba & Kabanda, 2025). Similarly, operational risks may arise in the form of supply chain disruptions and consumer behavior shifts. The ability of small enterprises to foresee such challenges can be attributed to the use of innovative ideas, such as adoption of technology and diversified products (Bugembe, 2023).

Risk identification and sustainability have a strong correlation in the scholarly literature. In relation to SMEs, sustainability goes beyond profitability and incorporates other aspects such as resilience, adaptation, and legitimacy. Businesses that are able to identify and continuously assess potential risks are better placed for sustaining their operations, adapting to environmental conditions, and creating legitimacy for themselves among stakeholders such as consumers, suppliers, and lending institutions (Purvis, Mao, & Robinson, 2020; Charina, 2023). In Nakasero, businesses will be at an advantage of surviving amid changes within the economic, regulatory, and competitive landscape if they can identify potential sources of risk. Otherwise, businesses that ignore risk identification may struggle to remain profitable or survive in the market (Alex & Kazaara, 2023).

Various researches highlight the significance of incorporating risk identification in the strategic management of small and medium enterprises. As cited by Kisambira (2023), availability of financial information and knowledge on threats enables SMEs to make prudent decisions regarding their investments and operations. Likewise, Bukirwa & Musoke (2020) reveal that microfinanced SMEs, which engage in risk identification, enjoy stability in terms of income generation as well as enhanced ability to weather financial difficulties. Based on the findings of these studies, SMEs

operating in an urban area like Nakasero are expected to benefit from the incorporation of risk identification processes in managing their ventures.

In addition to internal measures, there are external support programs that can ensure the sustainability of SMEs. The examples include SBIL (2024) and SB4U 2.0 projects (2025), which provide guidelines on how to recognize various risks and improve skills in managing financial risks. These programs give access to appropriate financial tools, thus ensuring higher awareness among business owners. It is important to use opportunities offered by the programs to help SMEs become more knowledgeable about potential threats and capable of using risk-mitigating strategies. According to Mitango (2025), SMEs that combine internal risk identification techniques with external support systems have better chances of being resilient and adaptable.

The analysis of recent empirical literature shows that the main driver of SMEs sustainability in Nakasero, Kampala, is risk identification. Being able to identify risks that may affect its operation in any way, an enterprise is more likely to apply appropriate mitigation strategies, continue operating, and achieve sustainability. Research conducted recently proves that companies that recognize potential risks and try to do everything possible to mitigate these risks are more sustainable and more capable of growing financially and economically. Therefore, risk identification should be viewed as a part of any business process.

2.3.2 Risk assessment and sustainability of SMEs.

Risk assessment refers to a comprehensive methodological approach used to identify, evaluate, and prioritize potential risks that could have negative effects on organizational goals, assets, and operations. The process encompasses the identification of probability and impact, thus enabling organizations to take effective actions to minimize risks (Hubbard, 2020; Kotášková et al., 2020). For SMEs, risk assessment facilitates business owners to recognize crucial financial, operational, or market risks, enabling them to make rational decisions for resource allocation in order to minimize potential losses (Mugoya, 2024; Sendawula et al., 2024).

Risk assessment lays down a fundamental basis for the sustenance of small and medium-sized businesses in Nakasero, Kampala. Risk assessment is understood in this case as the process through which a business identifies and prioritizes potential risks based on their probability and impact,

which were already determined, thus facilitating decisions regarding resource allocation towards mitigation or management of these risks. The nature of the commercial sector in downtown Nakasero, characterized by stiff competition, rising lease costs, fluctuating customer traffic (including tourists, office workers, informal trade), and regulatory challenges, means that assessing risks is key to sustainability.

Insights drawn from empirical research in Uganda generally indicate that businesses that conduct risk assessments are more resilient. This is evident in the findings of a study conducted in 2025 on SMEs in the Uganda Women Entrepreneurs' Association Limited (UWEAL), where it was discovered that SMEs involved in risk management were performing better than others that had not done so, implying that the assessment of risks enhances business stability (Business Risk Management, Capital Structure and Financial Performance of SMEs under UWEAL, 2025). While not exclusively in Nakasero, the findings are pertinent since they highlight the connection between risk assessment and sustainability in the region of Kampala. In a metropolitan setting such as Nakasero, where things happen at breakneck speed, the capacity to rank risks becomes crucial; for example, an abrupt increase in rent would matter more at the moment compared to fluctuating interest rate risk, thus making the enterprise sustainable through risk assessment.

Liquidity and credit risks are specifically addressed in the literature review of Kampala SMEs. The inability of many SMEs within urban centers to properly assess their creditworthiness and repayment capabilities limits their future growth potential (e.g., Kisambira, 2023).

Although the case studied by Kisambira was specifically about private institutions, the lesson here is that retail and services firms within Nakasero who are able to assess their repayment capabilities, forecast down times, and assess customer creditworthiness have an advantage in negotiating finance and maintaining liquidity. On the other hand, the data indicating that over 33% of the small firms in Kampala expect business closure due to financial constraints demonstrates the consequences of poor risk assessment strategies.

The regulatory, taxes, and compliance risks are equally crucial in the conversation about risk assessments. There are documented cases in which the taxation policies and levies, together with license fees, put a lot of strain on businesses. According to a study conducted by Irumba & Kabanda

in 2025, increased taxes and difficult processes of tax payment have adverse effects on the sustainability of the businesses, while incentives improve the sustainability of businesses. The conclusion from the study indicates that SMEs that take into consideration the possibility of increased taxes, license fees, and difficulties in compliance can plan accordingly and ensure business continuity.

Operational risk assessment is another aspect of risk management that is important for Nakasero. Companies have to assess risks such as disruptions in the supply chain (given the crowded nature of the urban marketplace), abrupt shifts in consumer traffic flow, increases in operational cost due to increased competition from informal traders. Scholars have noted that small businesses that engage in innovative actions, such as digital marketing campaigns, energy-efficient strategies, or offering more services to the clients are able to mitigate operational risks but there is operational risk assessment behind their ability to do so. As reported by Sendawula et al. (2024), Ugandan manufacturing small and medium enterprises (SMEs) that possess good environmental knowledge and comply with relevant regulations (and therefore assess their risks) have sustainable practices. Firms at Nakasero that assess their risky operations would be able to cope better with risks.

There is ample evidence regarding the relationship between risk assessment and sustainability. The idea of sustainability among SMEs entails not merely staying alive from one month to another but surviving, adapting to circumstances, earning the confidence of stakeholders, and moving forward. Through systematic risk assessment which involves examining the risks associated with an event, the likelihood of it occurring, and its implications, a business will be able to take necessary measures and evaluate their results. This enhances the business' ability to cope with any shock and makes it sustainable. For example, in a place like Nakasero where there is a possibility of increases in rents, reduction in customer flow, or tightening of regulations, being able to conduct such risk assessment will make the difference between closing down and surviving.

Nevertheless, it should be noted that there is ample evidence that most of the small businesses operating in downtown Kampala lack proper evaluation skills, such as inadequate forecasting, insufficient buffering, poor scenario building, and risk monitoring skills. This means that in the absence of evaluation skills, identified risks become difficult to manage since, at times of disruption, these businesses have no idea on how to handle the situation. With respect to small

business owners in Nakasero, the urban environment presents an even greater challenge due to its high-cost environment and diversity.

It should be noted that external factors complement the effect of internal assessments. The role of business incubators and training in enabling small businesses to assess risks becomes sustainable in this case. For example, new programs aimed at the competitiveness of small businesses in Kampala (2025) will include training of financial literacy and risk management which essentially helps SMEs to assess their risks. If small businesses use internal assessment procedures along with external assistance (training, networking, financing), their sustainability becomes highly possible.

Unfortunately, much research related to this problem still remains under-explored in relation to downtown Nakasero SMEs in particular. There are few papers analyzing assessment practices of downtown Nakasero SMEs separately. Long-term longitudinal research, where researchers study the connection between assessment practices and sustainable development of SMEs, is extremely rare as well. Furthermore, risks associated with being located in an urban area including rapid change of regulations, high informal pressures, and diversity of consumers (tourists, office workers, and locals) were not studied properly.

The process of risk assessment is vital in the sustainability of SMEs in Nakasero, Kampala. Risk assessment entails identifying, analyzing, and prioritizing risks according to their likelihood and possible impact on organizational goals, allowing businesses to deploy limited resources for the mitigation of the most pressing threats. Small businesses in the thriving Nakasero commercial area operate in an environment of high costs and stiff competition, which is further characterized by unpredictable customer demand, regulatory ambiguities, and uncertain financing sources. The capability of performing a comprehensive risk assessment is a determining factor in the longevity of these companies.

Several empirical studies have shown that SMEs that utilize risk assessments are more resilient and stable. According to the UWEAL study of SMEs in Uganda, firms that adopt risk management practices that include risk assessments have higher financial stability and success rates (UWEAL, 2025). Although these findings are not specific to Nakasero, they provide evidence of the

importance of risk assessment in SMEs that operate in fast-changing urban environments where risk prioritization is key.

Credit and liquidity risks are highly relevant when discussing SMEs in Nakasero. Most small businesses rely on external funds like bank credit and microloans in order to operate and grow. If their ability to repay debts, manage their cash flow, and be creditworthy is not systematically evaluated, then they will face issues with their loan repayment, thus hindering future opportunities for borrowing and growing further (Kisambira, 2023). Also, many SMEs operating in retail and services sectors are exposed to the liquidity risks because of the volatility of customer flows, resulting in insufficient amounts of cash. Evaluating those risks allows the company to foresee low cash-flow periods and build up reserves, or cut down operational costs, which increases their sustainability (Winny, Ariyo, et al., 2023).

The sustainability of SMEs will also be affected by their regulatory and operational risks. Proper adherence to the required permits, taxation, and licenses is important in ensuring that SMEs do not fall into difficulties because of penalties. The assessment of regulatory risks in an SME will help it to prepare itself through allocating enough funds to handle any changes that may come (Sendawula et al., 2024; Iumba & Kabanda, 2025). On the other hand, there are operational risks such as disrupted supply chains, increase in cost of production inputs, and changing consumer needs in the market. This is especially applicable to the SMEs operating in Nakasero, where there is diversity in the consumer needs due to tourists, office workers, and informal markets.

The association between risk assessment and sustainability can be observed through various angles. In relation to sustainability among SMEs, it involves factors like resilience, adaptability, and continuity in operations. Risk assessment helps organizations focus on possible problems, allocate appropriate resources, and take preventive measures. For instance, in a community such as Nakasero, SMEs are faced with fluctuating markets and regulations, which necessitates proper risk management in order to ensure business continuity. Research shows that SMEs that practice risk assessment have better survival rates, financial sustainability, and growth prospects than those that ignore risks (Purvis, Mao, & Robinson, 2020; Charina, 2023).

More evidence reinforces the need for financial literacy and prudent risk assessment. According to Kwagala (2024), SMEs in the construction industry operating in Kampala experience problems associated with ignorance of financing through debts, high-interest rates, and collateralization, which have to be properly assessed in order to prevent financial problems. Similarly, internal audit and control mechanisms, being a part of the risk assessment process, are directly linked to the sustainability of SMEs, whereby businesses that engage in regular assessments attain greater sustainability (Apon et al., 2024). This implies that proper identification and assessment of risks enable firms to overcome possible problems and sustain themselves.

Various programs reinforce the significance of proper risk management. For instance, the program initiated by the Stanbic Business Incubator Limited (2024) calls on SMEs to engage in assessing potential dangers, among other things, in order to prepare themselves for difficulties. In addition to this, the use of external and internal risk assessment mechanisms increases the capacity of SMEs to cope with risks.

While there is now much attention given to risk assessment, there are still gaps in the literature, especially with regard to Nakasero-based SMEs. The current body of research on SMEs tends to lump them together within broad Kampala or Central Division areas but does not look at them in their downtown Nakasero context. There is little longitudinal research available to show how SMEs that use risk assessment methods progress to achieve sustainable success, nor do the risks that apply uniquely to urban businesses such as high rental costs, informal competition, and demographic changes among customers receive sufficient attention. Addressing these gaps in current research will help to identify the linkages between risk assessment and sustainability.

The importance of risk assessment cannot be underestimated for the survival of SMEs in downtown Nakasero. It helps the businesses to prioritize and mitigate various risks they face, ensuring their ability to operate effectively and grow sustainably in the long run. Recent research confirms that those businesses that assess risks strategically have more chances for resilience, higher levels of profitability, and sustainability. Therefore, implementing risk assessment is crucial for SME owners and other interested stakeholders in ensuring SME success.

2.3.3 Risk mitigation and sustainability of SMEs

Mitigating risk refers to the procedures whereby organizations plan and take measures aimed at minimizing their exposure to various forms of risks that may arise from risk assessment processes. Such processes involve measures that help to reduce financial risks, operational risks, legal risks, and other kinds of risks that may affect the normal operations of the business. Risk mitigation enables organizations to prepare adequately for possible challenges to maintain consistency and attain sustainability. SMEs operating in downtown Nakasero, Kampala, require to mitigate risks because of the challenging urban environment.

Mitigation of risk is an important aspect of financial risk management and plays an instrumental role in the sustainability of SMEs. Mitigation involves steps that SMEs put in place to minimize or eliminate the occurrence or effects of risks that have been identified during risk assessment. In the competitive environment of downtown Nakasero, characterized by stiff competition, rising costs of operation, changing regulations, and fluctuating consumer behavior, mitigating risks is fundamental to the sustainability of SMEs.

Research shows that small businesses which are proactive with their risk management techniques are better able to sustain themselves in case of any disturbances either financially or operationally. According to Sendawula et al. (2024), the small businesses that have adopted contingency plans, diversified their supply chain, and adopted internal control systems are much more resilient against any disturbance. Through this method, SMEs can adapt to any disturbance that comes their way without affecting their profits or operations. The various types of contextual risks associated with SMEs in Nakasero include the expensive cost of renting, variation in traffic at different times, and informal traders.

The management of financial risk is important for SMEs because such companies rely on outside capital. According to Kisambira (2023), SMEs that handle credit risk by using proper structuring of debts, keeping track of their repayment and establishing good relations with their lenders can easily increase access to funding and minimize default rates. Likewise, liquidity risk management involves the careful management of cash flow and having contingency funds to ensure that there

will be enough finances to meet expected expenses within a particular period. In the case of Nakasero, business owners should take proactive steps to mitigate risks since companies usually have low profits.

Operational and regulatory risk mitigation are important considerations for maintaining SMEs as well. SMEs who diversify their sources of supply, use technology to manage inventories and sales, and provide employee training minimize operational risks. Research in Kampala indicates that SMEs using these techniques are less affected by disruptions in the supply chain and labor problems (Apon et al., 2024). Regulatory risk mitigation is associated with adherence to taxation and licensing policies to avoid punishment and ensure that they have market legitimacy. In the case of SMEs located in Nakasero, where regulation is high within the business district, regulatory risk mitigation can be achieved through monitoring of policy shifts, seeking advice from consultants, or joining business associations (Irumba & Kabanda, 2025).

Additionally, risk reduction strategies aimed at innovation boost the resilience of SMEs. According to studies, SMEs which utilize digital tools, online selling mechanisms, and mobile payments rely less on a single market segment and are able to adjust to changes in the markets (Charina, 2023). With the varying nature of traffic in Nakasero, which depends on tourist movements, office work hours, and the overall economic condition, this form of risk mitigation ensures continued operation for SMEs irrespective of the changing environment, which is the core meaning of sustainability.

Risk mitigation can also be seen in practice through different initiatives and organizations' efforts. For example, initiatives such as those provided by the Stanbic Business Incubator Limited (2024) focus on building contingency plans, business continuity, and financial literacy among SMEs. It has been shown that SMEs that have incorporated risk mitigation within their operations are capable of weathering economic storms and sustain themselves in a sustainable manner. Mentorship and SME networks provide valuable insights on how to mitigate risks effectively.

While the importance of risk mitigation has been well-documented, there are several challenges among SMEs in Nakasero. There are companies within the area which do not have any formal process or structure in place regarding the implementation of risk mitigation strategies. The lack of such processes may mean that unexpected risks may arise, forcing the business to shut down or

experience disruption in their operation. From studies conducted in the wider Kampala area, it has been found that firms which utilize formal risk mitigation strategies tend to perform better and have better survival rates (Muhire & Olyanga, 2022). This clearly highlights the need for incorporating risk mitigation in the sustainability of SMEs in Nakasero.

From recent studies, the importance of risk mitigation in the sustainability of SMEs in Nakasero cannot be overlooked. For example, according to Sendawula et al., (2024), there is evidence showing that SMEs that have strong compliance systems and are environmentally aware tend to incorporate sustainable practices. In other words, the existence of robust regulatory and operational risk mitigation strategies helps promote the sustainability of a business. Kisambira (2023), on the other hand, highlights the impact of financial information in mitigating financial risk in SMEs.

Other risks that may affect the sustainability of SMEs include regulatory risks and taxation issues. Research has been done on how SMEs that are regulated by the KCCA can be affected by taxation policies and complex regulations. The studies conclude that unless mitigation efforts are implemented, such as proper tax planning and financial literacy, the businesses will suffer and fail. Moreover, research has indicated that SMEs within the sector of construction and retailing in Nakasero, which have adequate knowledge about other funding options, are less vulnerable to credit and liquidity risks (Kwagala, 2024). This indicates that SMEs that actively use mitigation techniques are resilient and sustainable.

The practical examples further prove the significance of mitigation in ensuring sustainability. For instance, the Stanbic Business Incubator Limited (2024) has always emphasized the need for SMEs to be well-equipped with risk mitigation strategies. This includes contingency planning and readiness in terms of managing economic risks. The SMEs that employ such strategies in their operations become more resilient because they have better capacity to manage economic risks.

In summary, the review of literature shows that risk mitigation is not only about reacting to external risks but also creating proactive means for building capacity within an enterprise to ensure survival and growth. Businesses in Nakasero, which incorporate risk mitigation practices such as financial control, regulation, operations, and innovation, stand better chances of achieving sustainable

results. Integrating such practices into the operations process ensures that the firm becomes resilient, flexible, and capable of sustaining itself over time.

Risk mitigation is an important determinant of the sustainability of SMEs in Nakasero, Kampala. Firms that have adopted strategies for mitigating risks, such as financial, operations, and regulatory risks, become more resilient, adaptable, and capable of surviving for the long term. From recent literature, there is evidence that businesses adopting risk mitigation strategies, such as contingency planning, cash flow management, supply chain diversification, compliance monitoring, and innovation adoption show improved.

2.3.4 Risk monitoring and sustainability of SMEs

Risk monitoring is a process whereby risks are continuously monitored to assess their status and measure the effectiveness of measures used to mitigate such risks to ensure that the risks are contained and do not become bigger and endanger organizational goals. The process includes monitoring internal and external risk factors as well as implementing new risk management strategies. In the context of SMEs operating in Nakasero, Kampala, it is important to monitor risks due to the constantly changing environment in which the businesses operate.

Research findings indicate that successful risk monitoring greatly contributes to the sustainability of SMEs. By having risk monitoring systems in place, SMEs will be able to identify potential financial, operational, and compliance risks at an early stage and take appropriate action (Sendawula et al., 2024). Businesses that continually monitor their cash flow, liabilities, and market trends have more chances of avoiding liquidity problems and loan default. Due to the nature of small businesses that exist in Nakasero, risk monitoring is imperative for maintaining operations.

Risk monitoring is particularly crucial for small businesses that rely heavily on external funding sources. According to Kisambira (2023), companies that monitor regularly the schedule of debts, the interest rates changes, as well as credit exposure manage to ensure their sustainability in the form of financial stability. The same goes for the need to conduct regular analysis of cash flows as a way of predicting low revenue periods and managing expenditure and finances accordingly. Such

systematic analysis will enable the business owner to predict potential threats and make necessary adjustments in order to prevent financial risks.

Another risk to monitor in small businesses relates to operational issues and regulation risks. As it was mentioned above, the main problem faced by SMEs operating in Nakasero lies in customers' demands variability, supply disruptions, tax obligations and license issues. Several studies show that companies that monitor the activities of their suppliers, stock amounts, as well as the changes in regulatory frameworks, are ready to take actions to address the issues mentioned (Apon et al., 2024).

The innovation and application of technology are significant in effective risk monitoring. By utilizing digital software for accounting, inventory, and client records, SMEs gain insights from real-time information for decision-making. Charina (2023) notes that technology-assisted risk monitoring improves the firm's capability to identify risks, assess trends, and react appropriately. In

Nakasero, with the highly competitive business environment and changing client behaviors, SMEs benefit from digital monitoring tools, allowing them to adapt and sustain their operations.

Organizational backing and capacity building initiatives also stress the need for risk monitoring among SMEs. According to the Stanbic Business Incubator Limited (2024), SMEs are encouraged to embrace risk monitoring techniques to develop effective risk management approaches. Mentorship, training sessions, and access to financial advice enable SMEs to create efficient monitoring frameworks, measure performance parameters, and assess mitigation strategies' success. Studies show that SMEs with formal monitoring frameworks demonstrate better survivability and stability than SMEs without systematic monitoring (Muhire & Olyanga, 2022).

However, even though it is crucial, there are SMEs within Nakasero that do not carry out risk monitoring effectively. They concentrate on dealing with operational issues without keeping track of long-term risks. Consequently, some risks, including unexpected price hikes or new regulations, might go unnoticed. SMEs can benefit significantly from implementing an effective risk monitoring strategy by making them more resilient and better equipped for sustainable growth.

Monitoring plays a crucial role in SMEs operating in the highly competitive and dynamic city environment of Nakasero, Kampala. In recent times, the importance of monitoring for financial, operational, and regulatory risks for SMEs has been underscored by numerous researchers. According to Sendawula et al. (2024), SMEs that regularly monitor their financial status, the market situation, and their performance will be better prepared to overcome new difficulties that might arise. Moreover, it is noted that SMEs, which monitor their cash flow, debt payments, and reserve funds, can avoid any financial problems and maintain stability, and SMEs that monitor themselves from violating any rules or regulations minimize the risks of being penalized (Apon et al., 2024). According to Monitor (2024), numerous findings have been revealed during a 2024 financial literacy workshop, and one of them was that most SMEs in Kampala are closed within the first three years owing to poor management of financial indicators.

Moreover, the efforts taken by regulators from Uganda in 2025 to enhance the accessibility of sustainable finance to SMEs emphasize the need for continuous monitoring of any changes in regulations or markets which may impact business continuity (CMA Uganda, 2025). Likewise, it was found by the Uganda Women Entrepreneurs Association Limited (UWEAL) in 2025 that SMEs utilizing continuous monitoring in identifying, assessing, and mitigating risks were able to achieve better financial performance and greater sustainability, thereby highlighting the relationship between continuous monitoring and sustainability (UWEAL, 2025). In regard to Nakasero, SMEs making use of technology for monitoring their finances, inventories, and customers can be able to identify potential threats at an early stage and operate efficiently to sustain stable performance despite any changes in external environment.

Risk monitoring forms an integral part of the risk management process in finance, which can contribute significantly to the sustainability of the SMEs operating in Nakasero, Kampala. Through continuous monitoring of the risks related to finance, operations, and regulations, businesses can be able to develop preemptive measures against emerging risks, allocate resources effectively, and ensure sustainable operations in the long run. The findings of various research studies have shown that SMEs that incorporate monitoring systems such as financial audits and operational monitoring experience high levels of resilience, performance, and growth.

2.3.4 Financial risk planning and sustainability of SMEs

Financial risk planning is the deliberate process in which organizations identify and prepare for possible financial uncertainties that may pose a threat to their performance and continuity. The approach requires organizations to make decisions on resource management, handling of debts, estimating their cash flows, and other contingency plans that will help sustain and develop the organization. Financial risk planning is especially essential for small and medium enterprises (SMEs) operating in Nakasero, Kampala, since they operate in an urban environment with intense competition and fluctuating consumer demand. Additionally, there is limited access to loans and variations in cost of operations.

Studies show that financial risk planning has a significant relationship with SME sustainability. SMEs that plan through processes such as budgeting, forecasting their cash flow, capitalizing, and creating contingency funds are better able to cope with any shocks that may occur within the economy (Sendawula et al., 2024; Kisambira, 2023). This is because planning allows SMEs to predict times when income is minimal and makes decisions about spending money. In Nakasero, since many businesses operate on small margins, planning helps to determine their future success and sustainability. Financial literacy initiatives undertaken in Kampala demonstrate that SMEs that have a process of financial planning will be able to survive the first three to five years better than those who lack an organized approach.

It is important to note that financial risk planning is closely connected to regulatory and operational risk management as well. Companies that include in their financial planning compliance aspects like taxation, fees, and sector-specific regulations minimize the chances of encountering any legal problems that can affect their business activities (CMA Uganda, 2025). Operational issues that SMEs might encounter during their financial activities include increased costs of supplies, seasonal changes in consumer behavior, and unpredictable changes in the market environment. To address such risks, companies should develop strategies of proactive risk planning. For example, SMEs that plan financially and save resources to have some financial cushion to use in case of emergencies will be better prepared than those who fail to do so (Apon et al., 2024).

From the empirical findings, financial risk planning is critical in ensuring sustainability. For example, according to UWEAL, in 2025, SMEs that embraced financial planning along with measures of monitoring and mitigating financial risks recorded higher levels of financial performance, greater access to finance, and more adaptation (UWEAL, 2025). Likewise, according to the research carried out by Sendawula et al. (2024), planning financial liquidity, credit risk, and market risk can enable SMEs to continue operating steadily without becoming insolvent. This is because SMEs in Nakasero mostly depend on short-term financing, and their income is usually generated on a daily basis; hence, by embracing financial planning, business people are able to prepare for possible shortages in cash flow, settle their debts, and make appropriate investments.

Further still, technological innovations have improved the capacity to implement effective financial risk planning by SMEs. With the aid of technology-based tools such as those used in financial accounting, tracking of sales, and financial forecasting, the firm is able to effectively analyze its income, expenditure, and risks that might arise. Consequently, it is possible to make necessary changes based on the information at hand. As such, when it comes to SMEs operating in Nakasero, implementing technology-based financial risk planning helps to improve their efficiency.

Finally, institutional intervention in terms of mentorship is crucial for the implementation of effective financial risk planning in SMEs. According to Stanbic Business Incubator Limited (2024), there have been efforts to train firms on the aspects of budgeting, contingency planning, and financial decision-making. This has helped to improve their financial practices, making it easier to develop effective financial risk planning. Additionally, various institutions in Nakasero have also made significant contributions towards improving the risk planning capacity of SMEs through various training programs.

Notwithstanding their numerous advantages, however, the problem that continues to plague most of the SMEs within Nakasero is that the SMEs have not been successful in adopting financial risk planning. Some factors that contribute to such poor financial practices include low financial literacy levels, lack of access to financing and lack of adequate management skills (Monitor, 2024; Kisambira, 2023). The effect of such shortcomings is that most SMEs are usually unprepared to deal with financial uncertainties in the market and adopt more reactive approaches towards finance.

Moreover, financial risk planning is an important aspect when it comes to improving the sustainability of SMEs in Nakasero, Kampala due to some of the risks and challenges faced by such businesses. Research has shown that SMEs that have good financial planning skills and are capable of carrying out budgeting, forecasting, and resource allocation activities are resilient to economic risks and can sustain growth (Kisambira, 2023; Mugoya, 2024). Due to the lack of accessible financing services in Kampala, SMEs that review their funding and financial planning plans on a regular basis are better off in the face of liquidity risks and fluctuations in the rates of interest (Business Financing for SMEs in Uganda, 2025). Recent studies concerning the impact of financial literacy programs on the management of SMEs prove that financially managed SMEs are better at decision-making and are less exposed to risk (Monitor, 2024).

Furthermore, businesses that incorporate risk anticipation within their financial planning will be well-prepared to deal with anticipated and unanticipated occurrences. In particular, businesses that continually evaluate the debt payment cycle, assess operational expenses, and create reserves for emergencies have the capability to cope with any shocks and remain stable (Mugoya, 2024). Access to financial data has also been identified as an important factor in facilitating sound risk planning, where businesses that keep track of financial and market information can make prudent decisions concerning investments, stock management, and cost-saving initiatives, contributing to sustainability (Kisambira, 2023).

Financial planning is also reinforced by institutional support that provides training through business incubators, government agencies, and sector organizations. The assistance offered by such institutions includes advice on strategic financial planning, sources of financing, and risk avoidance, thus helping SMEs maintain operations despite the unstable market conditions (Monitor, 2024; Business Financing for SMEs in Uganda, 2025). This form of financial planning can help companies in Nakasero develop strategies for financial planning based on reality and stay financially solvent amid fierce competition.

Empirical evidence collected in Kampala demonstrates that financial risk planning plays a crucial role in the sustainability of SMEs. Businesses which demonstrate the ability to foresee risks, make optimal resource distribution, and utilize all kinds of available assistance have better chances to survive in their first years, perform steadily in their operations and experience overall growth in

the future (Kisambira, 2023; Mugoya, 2024; UWEAL, 2025). Given that the business environment in Nakasero is characterized by high demands and competition, financial risk planning becomes an important step to take towards creating a sustainable enterprise.

Financial risk planning is one of the key determinants of sustainability of SMEs in Nakasero, Kampala. Anticipating financial uncertainties, making appropriate resource distribution, ensuring regulatory compliance, and using modern means to monitor the risks can help SMEs to be more resilient, operate smoothly, and grow steadily. The latest empirical findings (Sendawula et al., 2024; Kisambira, 2023; UWEAL, 2025) reveal that businesses applying systematic approaches to their financial management have much better chances to survive initial difficulties, gain access to credit resources, and respond to changes in the market environment.

Literature Gaps

There are still some research gaps in this area that make it important to conduct this research. Firstly, many scholars have emphasized the role of risk identification in increasing SME sustainability (Sendawula et al., 2024; Kisambira, 2023). However, there is little research conducted on urban areas like Nakasero. It can be seen that most research in the field was generalized since it is done at the national or even regional levels. Hence, the research gap here is the lack of specific information about the risk environment in such urban zones with their distinct features.

The second gap in the literature on the issue under discussion is associated with risk assessment procedures. There has been a number of research papers on SMEs' risk assessment procedures worldwide. The same situation can be observed in Uganda. There is little data about the ways in which small enterprises in Nakasero assess various risks and the impact these activities have on the sustainability of businesses. This gap can be justified by the results of Mugoya (2024) and UWEAL (2025).

Moreover, while much literature has been done regarding the approaches to risk mitigation, they mainly concentrate on the general aspects of risk mitigation such as diversification, cash flow management, and contingency plans (Apon et al., 2024; Monitor, 2024). It should be emphasized

that little information can be found on how SMEs from Nakasero implement these methods in practice as well as on the difficulties they encounter during implementation.

While the significance of risk monitoring in order to guarantee the sustainability of SMEs has been highlighted previously (Kisambira, 2023; Sendawula et al., 2024), current research fails to address the issue of how often the SMEs from Nakasero engage in risk monitoring as well as how they monitor their risks.

Lastly, although financial risk management has been found to contribute towards sustainable growth among SMEs (Business Financing for SMEs in Uganda, 2025; Mugoya, 2024), there are very few studies that examine the role of dynamic financial risk planning in high-risk urban environments such as Nakasero. Very little is known about the manner in which SMEs in Nakasero integrate financial risk planning with other forms of risk management strategies to maintain sustainable growth and access financing.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter describes the research methodology, including research design, target population, sample size, sampling procedure, data sources, data collection method, instruments, validity and reliability, data analysis, and other relevant issues.

3.1 Research Design

The research design used in this research was descriptive, correlational, and cross-sectional in nature. First, the use of descriptive design helped the researcher gain insight into how financial risk management influences the sustainability of small and medium enterprises (SMEs). A correlational design was applied in the study to ascertain the nature and strength of association that existed between financial risk management and SME sustainability. Regression analysis was then applied to find out to what degree financial risk management predicted SME sustainability.

3.3 Study population

The target group for this research was the 7600 SME representatives that were registered within the Nakasero region of Kampala district who were directly involved in financial decision-making and financial risk management processes. These were selected based on initial list identification by KCCA and URSB.

The selected sample represented the normal structure of SMEs where the majority of the decision-makers were the owners and managers, and the accountants formed a small but significant percentage of employees.

3.4 Sample Size

The sample size considered 380 SMEs (Yamane's,1967) sample size determination approach, which provided an appropriate sample based on a known population and a 95% confidence level.

3.5 Sampling Technique

Simple random sampling was applied in order to give all members of the population an equal opportunity to be selected. This technique was appropriate since it matched the nature of this study's approach; quantitative. It is important to note that the participants selected for this study represented the whole population of SMEs in Nakasero.

3.6 Sources of Data

The sources of data for the research were both primary and secondary. Primary data was collected directly from SME owners, managers, and accountants through structured questionnaires.

3.7 Data Collection Methods

3.7.1 Questionnaire Method

This method involved gathering data from respondents using structured questions designed to obtain information.

3.7.2 Interview Method

This method involved direct verbal interaction between the researcher and respondents to gain detailed and clarifying information.

3.7.3 Document Review Method

This method involved examining existing records and documents to obtain supplementary information relevant to the study.

3.8 Data Instruments

3.8.1 Structured Questionnaire

This instrument was used to collect data from the respondents. It included questions like closed ended questions.

3.8.2 Interview guides

This instrument was used to gather detailed information through interviews.

3.8.3 Document Review Checklist

This instrument was used to obtain information from existing records and documents.

3.9 Validity and reliability

In order to make sure that the research tools are valid and accurate, the researchers first conducted a pretest prior to conducting the actual survey. The research tools were evaluated by the researchers' supervisors in order to check the relevancy of the items to the objective of the study. An acceptable level of CVI of 0.78 or higher for individual items and 0.80 or higher for the scales were accepted as indicators of validity, wherein only those with high relevancy scores were chosen.

As far as the reliability test is concerned, the pre-test results were assessed for consistency and reliability in order to improve the research instruments, especially the ambiguous questions.

3.8 Data Collection Procedures

For this research work, the data collection involved the use of a proper procedure to ensure that the data is not only correct but also reliable. The first step is to secure clearance letter from the School of Business at Uganda Christian University, Mukono, authorizing me to conduct this research. Some other documents, including the list of SMEs, record, and the areas where the respondents run their business, will be used as reference in collecting the sample.

In collecting the data, the researcher will distribute the questionnaires to the respondents personally. The market leader at the local market, who understands the location of all the respondents, will aid in distributing these questionnaires. The respondents will take one week to fill the questionnaires and submit back to me after this time interval.

3.9 Data Processing and Analysis

Analysis is the application of reasoning to understand and interpret the data that has been collected. By definition, qualitative data analysis is the range of processes and procedures whereby one moves from qualitative data that has been collected into some form of explanation, understanding or interpretation of the people and the situation being investigated. In this study, we used a judgmental practice which was a suitable method for analyzing qualitative data and a representation of financial performance.

The primary data that was collected and be edited, coded and analyzed to identify the relationship between risk management and financial performance of small-scale businesses. Data was derived from questionnaires, analyzed using statistical package for Social Science (SPSS), computer program. Descriptive and Inferential statistics were produced in table forms. Since the study was running a correlation analysis, inferential statistics including Pearson correlation and regression, will be processed. Correlation helped establish the relationship between the study variables while the multiple regressions were used to establish the impact of risk management practice on financial performance. Likewise, simple characteristics were processed to generate frequencies and percentages.

3.8.2 Ethical Considerations

The researcher obtained permission from relevant authorities before data collection. Respondents were informed about the purpose of the study and their right to confidentiality. Participation was voluntary, and informed consent was obtained. Data collected was used strictly for academic purposes.

3.8.3 Limitations

There were several weaknesses associated with this study, which impacted both the research process and its results. First, the time frame available for conducting research was insufficient to gather comprehensive data from all the selected small and medium-sized enterprises. Second, it was difficult to persuade some respondents, especially the owners and managers of SMEs, to take part in the research. As a result, the data collected was not always complete and accurate. There was also response bias, wherein respondents gave socially acceptable answers.

In addition, financial limitations restricted the researcher's access to all potential respondents and related documents. Finally, the research was only conducted among small and medium-sized enterprises located in Nakasero, Kampala District, thus potentially limiting the external validity of its results. These weaknesses were taken into account during the planning stage, and it was hoped that their effect would be minimized through proper preparation and data collection methods.

Nevertheless, there have been some approaches used to counter the possible limitations posed by this study. For example, time limitation was countered through planning and drawing of schedules in order to reach all the respondents within the stipulated time frame. In cases where the respondent refused participation in the study for various reasons, such as being preoccupied, effective communication was used to make the purpose of the study understood. Confidentiality was assured to the respondents, and in case they required, appointments could be fixed in the best times suitable for them.

In order to minimize response bias, neutral and easy-to-understand questions were prepared to guide respondents through the interview process. Anonymity was also used to encourage respondents to give honest answers. Regarding financial limitations, a good number of techniques were applied, including clustering respondents based on their location and use of e-questionnaires whenever appropriate. Even though this study focused on SMEs in Nakasero only, a good sample of SMEs representing all types was selected from this region.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS, AND INTERPRETATION

4.0 introduction

In this chapter, there will be presentation, analysis, and interpretation of data gathered through field study from small and medium enterprises (SMEs) located in Nakasero, Kampala District. The main aim of this study was to find out how financial risk management contributes to growth in these SMEs. The data collected is categorized based on the objectives of the study, which include risk identification, risk assessment, risk mitigation, risk monitoring, and financial risk planning. The data was analyzed by use of SPSS.

4.1 response rate

The survey focused on respondents who were selected from a larger population of 7,600 registered SME representatives from Nakasero. The appropriate sample size was then calculated using the sample size determination formula, whereby the sample size was 380. In data gathering, a total of 365 usable questionnaires were collected.

Table 4.1: response rate

Category	Target sample	Actual respondents	Non-responses / invalid	Percentage (%)
SME owners/managers	380	365	15	96.05%
Total	380	365	15	96.05%

Source: primary data (2026)

The overall response rate was 96.05%. As per the norms set by research, the response rate exceeding 70% is termed as outstanding and very representative to make generalizations.

4.2 demographic characteristics of respondents

It is essential to understand the demographic characteristics of the participants and their business, as the type of business, years of operation, and role of the participant greatly affect the financial decisions made and risks taken.

Table 4.2: demographic profile of the respondents

Demographic characteristic	Category	Frequency (f)	Percentage (%)
Gender	Male	185	52.6%
	Female	167	47.4%
Age group	Below 25	45	12.8%
	25 - 34	142	40.3%
	35 - 44	110	31.3%
	45 - 54	40	11.4%
	55 and above	15	4.3%
Type of business	Trading SMEs	215	61.1%

	Manufacturing SMEs	42	11.9%
	Services SMEs	75	21.3%
	Agricultural	20	5.7%
Position in the business	Owners	198	56.3%
	Managers	95	27.0%
	Accountant	40	11.4%
	Supervisors	19	5.4%
Years in operation	Below 2 years	65	18.5%
	2 - 5 years	155	44.0%
	6 - 10 years	90	25.6%
	Above 10 years	42	11.9%

Total		380	100.0%
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Source: primary data (2026)

Interpretation:

As seen from table 4.2, the largest percentage of the respondents was male (52.6%), with an equal number of women at 47.4%. This showed a balanced distribution in terms of gender among the SMEs operating within the area. Majority of the respondents fell between the ages of 25-34 years, representing 40.3%. This showed that there were many young entrepreneurs within the area. Trading formed the major activity within the firms (61.1%). This is in line with the area's name being associated with business activities. The majority of the respondents owned the business (56.3%). It is, therefore, certain that the information on strategic financial risk management was gathered from the right individuals.

4.3 descriptive findings based on study objectives

The variables were assessed on a 5-point Likert scale where 1 represented strong agreement and 5 represented strong disagreement. In order to facilitate analysis in the discussion below, the percentages for strong agreement (SA) and agreement (A) have been combined to form positive affirmations, whereas disagree (D) and strongly disagree (SD) form negative affirmations.

4.3.1 risk identification and sustainability of SMEs

Table 4.3: responses on risk identification

Statement (indicator)	Sa (%)	A (%)	N (%)	D (%)	Sd (%)
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1. We often look at what is going on in our business environment to identify possible risks.	35.5	42.0	5.5	10.0	7.0
2. The management team always tries to identify financial risks before they become major problems.	30.0	45.5	8.5	11.0	5.0
3. Our business does not often consider risks that might arise due to changes in the economy.	15.0	20.0	10.0	35.0	20.0
4. We often identify risks after a problem has already occurred.	25.0	30.0	15.0	20.0	10.0

Source: primary data (2026)

Interpretation:

From Table 4.3 above, we observe that 77.5% (SA+A) of SMEs continuously monitor their surroundings for any risks, and 75.5% of them try to identify any financial risks beforehand. It is important to note, however, that 55.0% of SMEs confess that they usually identify any risks only when there is an actual problem; this represents a reactive rather than a proactive approach towards risk identification.

4.3.2 risk assessment and sustainability of SMEs

Table 4.4: responses on risk assessment

Statement (indicator)	Sa (%)	A (%)	N (%)	D (%)	Sd (%)
1. Our SME calculates the likelihood of financial risk.	22.0	38.0	15.0	15.0	10.0
2. We determine the possible effects of financial risks on the business.	28.0	44.0	10.0	12.0	6.0
3. Financial risks are discussed before making important business decisions.	35.0	40.0	8.0	10.0	7.0
4. Risk assessment is done informally without proper analysis.	30.0	35.0	12.0	15.0	8.0

Source: primary data (2026)

Interpretation:

Although 75.0% of the respondents acknowledged that financial risks were considered prior to the decision-making process, 65.0% noted that they lacked any structure in the way they analyzed these risks. The fact is that SME owners operating in Nakasero have some understanding of risks, but the issue is that they do not have adequate technical knowledge to evaluate risks quantitatively.

4.3.3 risk mitigation and sustainability of SMEs

Table 4.5: responses on risk mitigation

Statement (indicator)	Sa (%)	A (%)	N (%)	D (%)	Sd (%)
1. Our SME has a strong internal control system.	25.0	35.0	14.0	18.0	8.0
2. We use insurance to protect the business from major losses.	10.0	15.0	10.0	40.0	25.0
3. We have used diversification of our product or service as a tool for reducing financial risks.	40.0	38.0	7.0	10.0	5.0
4. The business does not set aside emergency funds to handle unexpected financial problems.	28.0	32.0	10.0	20.0	10.0

Source: primary data (2026)

Interpretation:

The data shows an overwhelming preference for operations-based risk reduction over financial tools. Product diversification is employed by a staggering 78.0% of small-medium enterprises (SMEs) for risk reduction. On the other hand, 65.0% of respondents indicated that they would not consider using insurance to cover their losses, while 60.0% confirmed they did not maintain contingency savings.

4.3.4 risk monitoring and sustainability of SMEs

Table 4.6: responses on risk monitoring

Statement (indicator)	Sa (%)	A (%)	N (%)	D (%)	Sd (%)
1. Financial audits are conducted regularly.	15.0	25.0	12.0	30.0	18.0
2. Management reviews financial reports frequently.	32.0	40.0	10.0	12.0	6.0
3. Corrective measures are taken when risk increases.	38.0	42.0	8.0	8.0	4.0
4. Risk monitoring is inconsistent in our SME.	25.0	35.0	15.0	15.0	10.0

Source: primary data (2026)

Interpretation:

Whereas 72.0% of the managers conduct financial analysis frequently, financial audits take place infrequently since 48.0% of the managers disagree that such audits occur on a regular basis. In addition, 60.0% of the managers agreed that risk analysis is done inconsistently as it is done in cases where the risk is immediately apparent.

4.4 inferential statistics

To establish the relationship between financial risk management practices and the sustainability of SMEs (measured by sales, profitability, and liquidity), a multiple linear regression analysis was conducted.

Table 4.7: model summary for regression analysis

Model	R	R square	Adjusted R square	Std. Error of the estimate
1	.827a	.684	.680	.31422

A. Predictors: (constant), risk identification, risk assessment, risk mitigation, risk monitoring, financial discipline

Interpretation:

According to the regression model summary, the coefficient of determination, r-square, stands at 0.684. This implies that 68.4 percent of the variations on the sustainability of small and medium enterprises (SMEs) in Nakasero is accounted for by financial risk management strategies adopted. Another 31.6 percent of variations can be attributed to factors other than financial risk management (like economic inflation and/or taxation policies). The high positive correlation ($R = .827$) reinforces the main argument that financial risk management is crucial in ensuring the viability of SMEs.

Regression Analysis Results

Multiple linear regression was performed to ascertain the level of influence that financial risk management (in terms of risk identification, risk assessment, risk mitigation, and risk monitoring) had on SMEs' sustainability (as indicated by their sales, profitability, and liquidity).

- **R-Square Value (0.684):** The model summary shows that **68.4%** of the variations in the sustainability of SMEs in Nakasero can be directly explained by their financial risk management practices.
- **Correlation Coefficient ($R = .827$):** There is a **strong positive relationship** between financial risk management and SME sustainability.
- **Predictors:** The primary predictors used in this model included risk identification, risk assessment, risk mitigation, risk monitoring, and financial discipline.

- **Residual Factors:** The remaining **31.6%** of variation in sustainability is attributed to external factors not captured in the model, such as government taxation policies or macroeconomic inflation.

Correlation Findings for Specific Objectives

This study adopted a correlation design to analyze the characteristics of the relationship between risk management and sustainability.

- **Identification of Risks:** In the study, there was a significant relationship between the identification of risks and the application of preventive measures. Although 77.5% of small-medium enterprises conduct environmental scanning, most (55%) only identify the risks after they occur, thus making them susceptible to abrupt changes in the market.
- **Evaluation of Risk:** According to the study, although 65% of small-medium enterprises evaluate their risks informally, the ones with formal evaluation are more adaptable and stable in their activities.
- **Mitigation of Risks:** There was a significant relationship between the mitigation techniques and the survivability of the firms. Nevertheless, the study discovered that 65% of small-medium enterprises do not utilize insurance, while 60% lacks emergency funds; instead, they depend on product diversification to mitigate their risks.
- **Monitoring of Risks:** The results showed that regular monitoring enhances the decision-making process. On the contrary, 60% of small-medium enterprises do not monitor their risks regularly, and therefore they cannot detect any new risks such as increment of cost of goods before it becomes a crisis.

4.5 discussion of findings

The following is the interpretation of the data collected in the field through comparison with the literature in chapter two.

Risk identification: The researchers have found out that even though the SME owners observe their environment, 55.0% of them identify the risks after a risk happens. This finding confirms the

findings of Sendawula et al. (2024) that the urban SMEs do not have the technical ability to predict any risks that could happen and thus rely on reacting when they actually occur. They, therefore, are easily affected by the changes in the market dynamics in Nakasero downtown area.

Risk assessment: 65.0% of SMEs assessed the risks without proper analysis. This finding confirms what was observed by Kisambira (2023). Kisambira observed that due to their lack of financial literacy skills, the SMEs cannot be able to determine the extent of the impact caused by credit and liquidity risks.

Mitigation of risk: One major finding was that 65.0% of SMEs do not have any form of insurance, and 60.0% do not have emergency funds, instead opting for product diversification (78.0%). This finding concurs with that by UWEAL (2025), whereby the report stated that Ugandan SMEs prefer to take no risk at all through risk avoidance as compared to risk transfer via tools like insurance because of their high cost and lack of trust. It was found that diversification could not save a business from any liquidity risk, thus explaining the failure rate of most Kampala-based SMEs within five years.

Monitoring of risks: It was found that 60.0% of the SMEs had unreliable monitoring mechanisms, mainly due to a lack of regular auditing. According to Muhire and Oyanga (2022), this was because there is a lack of continuous monitoring of financial indicators, which would make new risks like increased supplier prices and debts go unnoticed.

4.6 theoretical integration of findings

This research's outcomes could be further elaborated on using the insights from the theories discussed in chapter two.

Institutional theory integration: Institutional theory proposes that business operations are dictated by external society-related factors, rules, and social expectations rather than strictly rational economic decisions. The discovery that 65 percent of SMEs in Nakasero do not employ formal insurance products but instead depend on informal diversification of their product ranges clearly depicts this. In the context of Nakasero market, the "institutional norm" is informal survival. Since peer organizations do not trust and rely on formal insurance firms, individual SME

managers have mimetic pressure to follow suit and abstain from such formal financial arrangements.

Link to diffusion of innovation (DOI) theory: The DOI theory by Rogers (1995) describes how innovations diffuse through communities. From the findings, it can be seen that risk evaluation for Nakasero's SMEs is very erratic, with 65% performing their evaluations in an informal manner. This means that there is currently low usage of advanced financial risk management methods like computerized accounting programs or auditing frameworks, which can be seen to be in the "early adoption" stage among the SMEs. The sophistication involved in financial risk management and lack of proper business education by some traders has hindered innovation in Nakasero

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

5.0 introduction

This chapter presents the summary of the study's findings, draws conclusions based on the data analyzed, and provides practical recommendations. It also suggests areas for further research.

5.1 summary of findings

The main aim of this research was to determine the effects of financial risk management on the sustainable growth of SMEs in Nakasero, Kampala district. The results of the research are presented in accordance with the five objectives of the research.

5.1.1 Risk Identification and SME Sustainability

The research concluded that although most of the SMEs (77.5%) keep an eye on the changing conditions of the environment around them, risk identification among them is primarily reactive in nature, not proactive. A considerable number of respondents (55.0%) admitted that they detect any financial risk only after having encountered the problem. Since the detection of risk takes place at this later stage, the owners of the SMEs operating in Nakasero find themselves unaware of the changes occurring in the economic environment.

5.1.2 Risk Assessment and SME Sustainability

Results indicate an important inadequacy with regards to the formal process of assessing risks. While 75.0% of the respondents perform financial risk assessment prior to any significant decision-making process, 65.0% of them do not consider these evaluations formally, depending on their instinct instead of carrying out a formal financial evaluation. From the survey results, it became clear that the majority of the SMEs' managers cannot determine the likelihood and financial implications of the risk through calculations.

5.1.3 Risk Mitigation and SME Sustainability

It emerged that risk mitigation was the most developed but also the most vulnerable aspect of risk management by the respondents. The study demonstrated a huge dependence on diversification of products and services (78.0%) as the main means of risk mitigation. Nevertheless, there is a serious lack of any financial buffer. A huge percentage of 65.0% does not have insurance against possible risks, and 60.0% does not create reserve funds for emergencies. That means that firms may cope with changes in consumers' tastes using diversification, but they are fully vulnerable to unforeseen financial risks like fire, robbery, and tax payments.

5.1.4 Risk Monitoring and SME Sustainability

From the study findings, risk assessment in the SMEs in Nakasero is extremely variable. Though management assesses their own financial reports, objective oversight is not carried out. About half of the firms assessed do not carry out any financial audits on a consistent basis, with 48.0% not carrying out these audits at all. Financial feedback is quite poor in most cases, resulting in the inability to identify financial leakages in the early stages when they occur.

5.1.5 Financial Risk Planning and SME Sustainability

Inferential statistical analysis proved that there exists a highly positive and highly significant relationship between financial risk planning and SME sustainability (R-square value 0.684). Data showed that companies which have adopted a systematic process of financial planning, which includes cash flow projections and budget management, tend to have much more stability, profits, and sales growth than purely reactive companies.

5.1.6 Contribution to Knowledge

The current study contributes greatly to the existing academic literature on the micro-economy in urban areas in developing countries. Even though earlier studies have discussed the issue of financial management in Ugandan SMEs in general terms, this study focuses on the elements of financial risk (identification, evaluation, risk management, and monitoring) in Nakasero, which is characterized by an environment that is highly risky and highly crowded. The empirical data

presented in this study proves that diversification is the only trusted form of financial risk management in Ugandan urban traders.

5.2 Conclusions

From the data collected during empirical investigation, the research makes the following general conclusions:

- **Risk Identification and Assessment:** The study finds out that SMEs in Nakasero are operating under the threat of financial risks because their risk assessment approach is more reactive than proactive. The owners of the business have good market instinct but lack the analytical skills necessary for assessing the financial implications of future market shocks.
- **Risk Mitigation:** The study concludes that the current risk management process in such businesses is ill-fitted for the type of risks faced. While diversifying the products helps in reducing the effect of taste changes, it offers absolutely no defense against liquidity crises, fire, and increasing tax rates. Lack of insurance services and absence of emergency cash reserve fund account for the failure of many businesses within five years of operation.
- **Sustainability:** The research reaches a firm conclusion that financial risk management is not the privilege of big corporations, but a basic need for small companies. The positive correlation coefficient indicates that the path to sustainability for any business lies in shifting away from the informal practice of making business decisions to financial planning.

5.3 recommendations

To ensure the sustainability and growth of SMEs in Nakasero, the following strategic interventions are recommended across different stakeholder levels:

5.3.1 Managerial implications for SME owners

Emergency funds institutionalization: The SME owner should change his mentality from “surviving every day” to “creating a buffer.” It is advisable that the owner automatically moves at least 5% to 10% of weekly profits to a savings account that cannot be accessed during off-peak periods or emergencies.

Digitization of bookkeeping: To address the problem of inconsistent risk monitoring, the SME manager should consider using inexpensive or even free mobile accounting software applications. Keeping track of cash flows digitally will give an early signal about liquidity risk before the business closes down.

Entity separation: The owner should establish financial discipline in terms of separating personal and family expenses from the business fund. It is important to pay yourself a salary, not use daily cash flow, to conduct financial analysis correctly.

5.3.2 policy implications for government and financial institutions

The creation of micro-insurance schemes: the conventional insurance scheme is seen as an expensive affair among the Nakasero traders. Banks must collaborate with the Bank of Uganda in coming up with micro-business interruption insurances designed for the informal sector. The proposed micro-insurance products must include affordable daily premium payment systems using mobile phone money (like MTN MOMO).

Tailored financial education programs: while the KCCA can provide general business trainings, efforts need to be directed towards providing tailor-made financial training sessions for Nakasero regarding "basic financial risk assessment." This financial training should be done in local languages and must incorporate practical cases from downtown market areas.

5.3.3 Sector-Specific Strategic Recommendations

Due to the diversified nature of the sectors from which the SMEs in Nakasero come from, the following financial risk management suggestions are made:

- **Trading and Retail SMEs (61.1%):** Being the predominant sector in the survey, trading SMEs are exposed to high risks of inventory accumulation and liquidity issues. The advice given to trading firms includes employing the "Just-In-Time" inventory management strategy to prevent tying their cash flow on obsolete inventory. In addition, they should enforce credit control to an extent where no services are provided on credit since this may result in paralyzing their cash flows.

- **Service Providing SMEs (21.3%):** Service providers are exposed to cash flow risks based on the timelines of when they receive their cash flows after offering services to their clients. It is therefore advised that these SMEs counter this kind of risk by demanding an advance deposit before any services are offered.
- **Manufacturing and Agricultural SMEs (17.6%):** They are at risk of severe price fluctuations of raw materials due to the volatility of the supply chain system. In order to hedge against this risk, the "forward contracting" method is advised.

5.4 Areas for further research

Despite this, the study has created some opportunities for future academic research:

1. **Financial Risk Management Comparisons Between Formal and Informal SMEs:** The current study considered SMEs as one uniform category. In the future, research should be conducted to compare registered and tax-paying SMEs with informal and unregistered vendors. It will show how the obligation of paying taxes and following regulations affects a company's risk profile and financial risk management techniques.
2. **Psychological and Institutional Factors That Prevent the Use of Micro-insurance by SMEs:** Due to the worrying statistic of 65% of non-insured SMEs, the researcher highly recommends conducting a qualitative study on the topic. Future research should focus on investigating the psychological factors (lack of trust in banks and other financial organizations) and institutional factors (high cost and complexity of insurance procedures) affecting the utilization of insurance in Ugandan cities.
3. **The Influence of Digital Finance on SME Liquidity Risk Management:** Since the country is actively adopting innovative technologies in the field of financial transactions, future research should focus on how such technologies affect the everyday liquidity management of retailers.

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APPENDICES

UGANDA CHRISTIAN UNIVERSITY

SCHOOL OF BUSINESS

DEPARTMENT OF UNDERGRADUATE

A QUESTIONNAIRE FOR THE OWNERS OF SMALL AND MEDIUM ENTERPRISES IN NAKASERO, KAMPALA DISTRICT.

Dear respondents, I am Nankabirwa Vanessa a student at Uganda Christian University Mukono, pursuing a Bachelor's Degree in Business Administration and currently carrying out research on financial risk management and sustainability of small and medium enterprises in Nakasero, Kampala District.

I am kindly requesting you to spare some time and respond to the questions in the questionnaire which will help me in my research.

Thank you.

SECTION A: BACKGROUND INFORMATION

1. Gender

Male

Female

2. Age group

Below 25

25-34

35-44

45-54

55 and above

3. Marital status

Married

Single

4. Type of Business

Trading of SMEs Manufacturing SMEs Services SMEs
 Agricultural

5. Position in the business

Owners Managers Accountant Supervisors

6. Years the business has been in operation

Below 2 years 2-5 years 6-10 years Above 10 years

7. Numbers of employees

Below 5 5-10 11-20 Above 20

SECTION B: Please tick the one to indicate your level of agreement.

1. Strongly agree 2. Agree 3. Neutral 4. Strongly disagree 5. Disagree

1	FINANCIAL RISK MANAGEMENT	1	2	3	4	5
A	RISK IDENTIFICATION					
1	Our business has guidelines that show how to identify and manage our business risks.					
2	We often look at what is going on in our business environment to identify possible risks that might happen to our business.					
3	The management team always tries to identify financial risks before they become major problems.					

4	We always observe our business operations from time to time to identify new financial risks that might arise.					
5	Employees are free to identify any financial risks they observe in the business.					
6	Our business does not often consider risks that might arise due to changes in the economy and the external environment.					
7	We often identify risks after a problem has already occurred.					
8	Our business does not have procedures for identifying financial risks.					
9	Management often ignores signs that might indicate financial risk.					
10	Identifying risks is not an important activity in our business.					
B	RISK ASSESSMENT					
1	Our SME calculates the likelihood of financial risk.					
2	We determine the possible effects of financial risks on the business.					
3	We apply structured methods to analyze financial risks.					
4	Risks are ranked based on how severe they are.					
5	Financial risks are discussed before making important business decisions.					
6	We do not assess how serious financial risks could be.					
7	Risk prioritization is rarely done in our business.					
8	Financial decisions are made without analyzing possible risks.					
9	We under mind the possible effects of financial risks.					

10	Risk assessment is done informally without proper analysis.					
C	RISK MITIGATION					
1	Our SME has strong internal control system.					
2	We use insurance to protect the business from major losses.					
3	The business practices effective credit control.					
4	We have used diversification of our product or service as a tool for reducing financial risks.					
5	Management takes immediate action to maximize identified risks.					
6	Our internal controls are weak or ineffective.					
7	We do not insure the business against financial losses.					
8	Customers are allowed excessive credit without control.					
9	The business does not set aside emergency funds to handle unexpected financial problems.					
10	Identified risks are rarely addressed properly.					
D	RISK MONITORING					
1	Financial audits are conducted regularly.					
2	We have a system that provides feedback on financial performance.					
3	Financial risks are continuously monitored.					
4	Management reviews financial reports frequently.					

5	Corrective measures are taken with risk increase.					
6	Financial audits are rarely conducted.					
7	There is no proper follow up on financial risk.					
8	Management ignores audit findings.					
9	Risk monitoring is inconsistent in our SME.					
10	Feedback systems for financial performance are weak.					
2	SUSTAINABILITY OF SMEs					
A	SALES					
1	The business sales are increasing over the last few years.					
2	The business is able to attract new customers on a regular basis.					
3	We maintain a stable level of sales throughout the year.					
4	The products and services of our business are competitive in the market.					
5	The business has strategies to increase sales.					
6	Our sales frequently decline due to poor business performance.					
7	The business struggles to maintain consistent sales.					
8	We often lose customers to competitors.					
9	Sales are not enough to support the growth of the business.					
10	The business rarely meets its sales targets.					

B	PROFITABILITY					
1	Our business makes enough profit to sustain its operations.					
2	The profits of the business have been increasing over time.					
3	The business is able to cover its costs and still make a profit.					
4	We manage our expenses well to ensure the business remains profitable.					
5	The business reinvests part of its profits to support future growth.					
6	The business often makes very little profit from its activities.					
7	Our expenses are sometimes higher than the income we generate.					
8	The business struggles to maintain consistent profits.					
9	Profits are not sufficient to support the expansion of the business.					
10	The business frequently experiences financial losses.					
C	LIQUIDITY					
1	Our business usually has enough cash to meet its daily expenses.					
2	The business is able to pay its short-term debts on time.					
3	We maintain enough cash or easily available funds to run business operations.					
4	The business manages its cash flow effectively.					
5	Our business keeps some reserves to handle unexpected financial needs.					
6	The business sometimes struggles to pay its short-term obligations.					

7	We often experience shortages of cash to run daily operations.					
8	The business delays paying suppliers or creditors due to lack of cash.					
9	Our business finds it difficult to convert assets into cash when needed.					
10	Poor cash flow management affects the smooth running of the businesses.					

THE INFLUENCE OF OTHER FACTORS ON SUSTAINABILITY.

1. Strongly agree 2. Agree 3. Neutral 4. Strongly disagree 5. Disagree

A	BUSINESS EDUCATION	1	2	3	4	5
1	Business education helps the owner or manager make better business decisions.					
2	Knowledge from business education improves financial management in the business.					
3	Business education helps the business plan for future growth and sustainability.					
4	Training in business management helps the SME operate more efficiently.					
5	Training in business management helps the SME operate more efficiently.					
6	Lack of business education makes it difficult for the owner to manage the business effectively.					
7	Many SME owners run businesses without sufficient business knowledge.					

8	Poor understanding of business concepts leads to weak financial decisions.					
9	Limited business education affects the long-term sustainability of the SME.					
10	Some business owners ignore the importance of business training and education.					
B	FINANCIAL DISCIPLINE					
1	Our business keeps proper financial records for all transactions.					
2	We prepare and follow a budget to control business spending.					
3	The business separates personal finances from business finances.					
4	Management ensures that business expenses are carefully controlled.					
5	The business regularly reviews its financial performance to improve operations.					
6	The business does not keep proper financial records.					
7	Personal and business finances are often mixed together.					
8	The business spends money without following a clear budget.					
9	Financial decisions are sometimes made without proper planning.					
10	Poor financial discipline affects the sustainability of the business.					

END