RISK MANAGEMENT PRACTICES AND FINANCIAL PERFORMANCE OF SMALLSCALE BUSINESSES: A CASE STUDY OF MUKONO CENTRAL DIVISION

DERRICK MICHEAL ODONGO

M23B05/035

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 UGANDA CHRISTIAN UNIVERSITY

April, 2026

UGANDA CHRISTIAN UNIVERSITY

A Centre of Excellence in the Heart of Africa

DECLARATION

I, Odongo Derrick Micheal declare that this research proposal is my original work and none of its section(s) is plagiarized. I further declare that this proposal has never been submitted to any university for the award of any degree.

Signed ..... Date ..... 13/04/2026 .....

i

APPROVAL

This research report titled "Risk Management Practices And Financial Performance Of Small Scale Businesses; a case study of Mukono Central Division" was developed by Odongo Derrick Micheal under my supervision and is ready for submission to Uganda Christian University's School of Business.

Signed ..... Date 13/04/2026

Dr. Nyamuyonjo David

Ssupervisor

ii

DEDICATION

This report is dedicated to my parents Dr. George Acar and Jenifer Adongo Acar for caring for me since my childhood and for their desire to see me advance in my academic journey. their unending prayers played a very important role in my education and general life.

ACKNOWLEDGEMENT

I would like to thank and acknowledge my research work supervisor Dr. David Nyamuyonjo for his encouragement and guidance throughout the process of developing this report.

Table of Contents

ABSTRACT

This study examined how risk management practices affect the financial performance of Small and Medium Enterprises in Mukono Central Division, Uganda. The study focused on three objectives: establishing the effect of risk identification on financial performance, determining the effect of risk assessment on financial performance, and examining the effect of risk monitoring on financial performance. A cross-sectional survey design was used to collect data from 63 SME owners and managers through a structured questionnaire. The data analysis techniques included the use of descriptive statistics, Pearson correlation, and simple regression.

The results revealed that risk identification had a strong positive influence on financial performance, with a correlation coefficient of .622 and $p < .01$, indicating that risk identification explained 38.7% of the variance in financial performance, as revealed by the regression coefficient of $\beta = .622$ and $p < .01$. Though most firms regularly identify financial risk, with a mean of 3.67, very few firms use formal identification techniques, with a mean of 3.05.

Risk assessment also revealed a moderately strong positive influence on financial performance, with a correlation coefficient of .587 and $p < .01$, indicating that risk assessment explained 34.5% of the variance in financial performance, as revealed by the regression coefficient of $\beta = .587$ and $p < .01$.Documenting findings of risk assessments, however, recorded the lowest score of all risk management practices, with a mean of 2.97, indicating that most SMEs do not document the results of their risk assessments.Risk monitoring revealed a moderate positive influence on financial performance, with a correlation coefficient of .541 and $p < .01$.Evaluating the effectiveness of the risk control measures was the least monitored activity, with the mean at 2.90. In terms of financial performance, the SMEs have the capacity to meet their financial obligations, as indicated by the mean of 3.86. The study established that risk identification, assessment, and monitoring all played important roles in the financial performance of the SMEs, with risk identification having the greatest impact. However, the SMEs undertook the activities in an informal manner without documentation of the results, which lessened their effectiveness. It is recommended that the owners

of the SMEs adopt risk management tools, document the results of their risk assessment, monitor their risk control measures, and strive to build financial reserves for unexpected events.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

In this chapter, the background, problem statement, purpose, objectives, questions and hypotheses, scope, significance, and conceptual framework of the study on the impact of risk management practices on the financial performance of SMEs in Mukono Central Division will be presented.

1.1 Background

Globally, SMEs have been recognized as key players in the fight for innovation, economic growth, and poverty reduction. SMEs have been cited as key contributors to employment creation in developed economies. For instance, in the European Union, they account for almost 85% of all employment generated (Pandy, 2019). In Nigeria, SMEs employ more than 84% of the workforce in both the formal and informal sectors (Mutesigensi et al., 2017; Niwemutoni et al., 2018), while in India, they make up more than 90% of all businesses (Pandy, 2019). More than 90% of private sector companies in Uganda are SMEs, which are viewed as key players in generating wealth, reducing poverty, and generating income (Ssempala, 2019; UBOS, 2020; UIA, 2020; Uwonda & Okello, 2015).

According to Will Kenton (2021), financial performance is a subjective indicator of a company's ability to make use of resources from its main business and produce income. Additionally, the term is used as a broad indicator of a company's overall financial health over a specified time frame. Traditional accounting metrics like sales growth, market share, and profitability could be included in performance measures. Furthermore, when assessing performance, particularly in SMEs, elements like owners' non-financial objectives and general level of satisfaction are crucial. This supports Wanjoi's (2008) assertion that organizational performance should be evaluated using both financial and non-financial metrics.

According to Panigrahi (2013), an organization's turnover/sales volume is one of the metrics used to assess its performance. Because the media companies included in the sample do not maintain asset and liability records for the purpose of using other performance metrics like return on equity or return on assets, sales volume was used in this study. It is important to remember, though, that estimating sales is typically problematic when appropriate documentation is not maintained. In a study of SMEs in Ghana, Marfo-Yiadom and Agyei (2011) and Nketsiah (2018) found that many SME managers provided numbers from memory.

The record keeping is generally poor and thus one can only rely on the recent memories of the traders to estimate the level of sales.

1.2 Problem statement

Effective risk management is crucial for the financial performance and sustainability of SMEs in Mukono Central Division, yet many failwithin a year due to financial challenges stemming from inadequate risk management practices (Mukono Municipality Commercial Officers Report, 2023). Despite their economic importance, SMEs face various risks, including cash flow problems, market volatility, and operational inefficiency, coupled with limited resources and expertise (Orobia et al., 2021; Azende, 2012). Studies have indicated that only 5-10% of Ugandan SMEs reach maturity, with poor risk management being a contributing factor to the high failure rate (Private Sector Foundation Uganda, 2016; Kinyua et al., 2015). Although the issue of financial management problems has been noted in the Ugandan context, there is a lack of research-based evidence on the relationship between risk management practices and financial performance in SMEs operating in the Mukono Central Division, which is essential for the design of appropriate strategies to strengthen the sector.

1.3 Purpose of the Study

The purpose of the study is to asess the impact of risk management practices on the financial performance of Small and Medium Enterprises in Mukono Central Division,

.1.4 Objectives

1. To examine the effect of risk identification on the financial performance of SMEs in Mukono Central Division.
2. To establish the effect of risk assessment on the financial performance of SMEs in Mukono Central Division.
3. To assess the effect of risk monitoring on the financial performance of SMEs in Mukono Central Division.

1.5 Hypotheses

H1: Risk identification has a significant positive effect on the financial performance of SMEs in Mukono Central Division.

H2: Risk assessment has a significant positive effect on the financial performance of SMEs in Mukono Central Division.

H3: Risk monitoring has a significant positive effect on the financial performance of SMEs in Mukono Central Division.

1.6 Scope

1.6.1 Geographical Scope

The study is conducted in Mukono Central Division, located in Mukono Municipality along the Kampala-Jinja Highway, Uganda, with emphasis on SMEs in this commercial center.

1.6.2 Content Scope

The study aims to examine the impact of risk identification, risk assessment, and risk monitoring on the financial performance of SMEs, as measured by profitability, in Mukono **Central Division.**

1.6.3 Time Scope

The study is conducted over the period of 2020 to 2024, a period characterized by the closure of many SMEs in Mukono Municipality.

1.7 Significance

The study contributes to the existing limited body of knowledge on the risk management practices of SMEs in Uganda, particularly in Mukono Central Division, where SMEs form an integral part of the economic growth process.

The study also aims to contribute to the existing body of knowledge on the impact of risk management on the financial performance of SMEs, which would, in turn, provide useful insights for SME managers on how to improve their risk management practices, hence increasing their profitability.

The study would also be useful to various stakeholders, including investors, suppliers, and customers, as they would have an opportunity to understand the framework for evaluating the risks of doing business, which would have an impact on the business's performance.

Finally, the study would also be useful to the Ugandan government, particularly the PSFU, as they would have an opportunity to understand the risk management practices of SMEs, which would, in turn, improve their contribution to the employment creation process in the country.

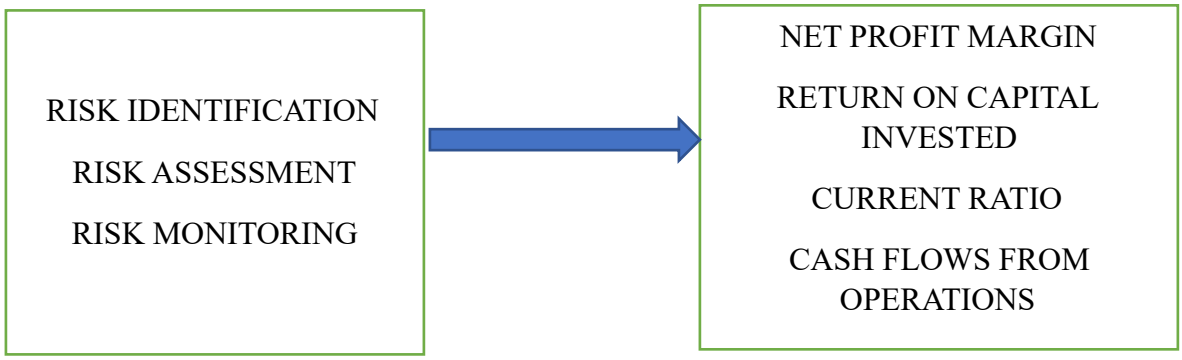
The study would also form part of the academic body of knowledge on the risk management practices of SMEs in the Ugandan informal sector, which would explain its significance.

1.8 Conceptual Framework

ThE CONCEPTUAL framework in figure 1 below presents the relationship between risk management practices and financial performance. The framework hypothesises that effective risk management enhances SME financial outcomes, moderated by contextual factors such as resource constraints and market dynamics in Mukono Central Division.

Figure 1: ConceptualFramework

Risk Management Practices (IV) Financial Performance of SMEs (DV)



Source: Adapted from Katongole, C., Ahebwa, W. M., & Kawere, R. (2013) and modified by the researcher.

The conceptual framework illustrates that risk management practices; risk identification, risk assessment and risk monitoring individually or collectively affect financial performance of SMEs . The performance of SMEs shall be measured in terms of Net profit margin, Return on capital invested, Current ratio and Cash flows from operations

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter offers an extensive analysis of the body of research on the connection between SMEs' financial performance and risk management strategies, with a particular emphasis on Uganda's Mukono Central Division. With a focus on the vital role that risk identification, assessment, and monitoring play in boosting SME sustainability and profitability, it examines the ideas of risk management and financial performance.

2.1 The theoretical review

Enterprise Risk Management (ERM) theory suggests that integrating risk management into the fabric of strategy and business operations has the power to move a company's performance up. Decisions are made everywhere in pursuit of organizational goals, and each decision has its inherent risk. ERM presents a new, holistic way of dealing with risk. Boards of directors have largely accepted ERM as a means of dealing with the tension that results from the gaps in information and the agent-principal problem. ERM helps in the formulation of better, more informed decisions by ensuring a better, more complete flow of risk information, hence reducing the gaps in information.

Other empirical research, however, failed to establish any significant effect (Agustina & Baroroh, 2016; Alawattegama, 2018; González, Santomil, & Herera, 2020). The different measures used in these research studies on enterprise risk management (ERM) and organizational performance (OP) could be the reason. However, as researchers continue to search for reliable proxies that could help them better establish the link between ERM and OP, the role of the mediating variables has been neglected.. This gap likely reflects the scarcity of comprehensive qualitative studies on ERM, which are essential for uncovering the nuanced mechanisms that shape its impact on organizational outcomes.

While these frameworks, such as COSO (2017) and ISO 31000:2018, and similar ERM models, are widely used, there is still a lack of scholarly research examining their combined effect. The

focus of these frameworks is to integrate various elements, such as risk culture, with enterprise performance. Culture is defined as learned behavior resulting from attitudes (Hillson, 2013). Similarly, risk culture is defined as the way in which an organization's culture drives its approach to risk management. A robust risk culture is essential because it enables organizations to comply with laws, manage their risks, and perform better (Hillson, 2013).Moreover, while organizations increasingly recognize the need to embed ERM into strategic planning, academic inquiry has yet to fully explore how risk management practices mediate the link between ERM and the financial performance of SMEs.

2.2 The concept of the risk management practices

Risk management is different from risk assessment. It is a process that compares different policy options in terms of the risk estimate, and in cases where the need arises, the right controls, including regulatory measures, are selected and implemented. The aim is to identify the level of risk that is considered acceptable, as well as the implementation of measures that protect against the risk in the context of public health policy. The process considers the factors that cause the risk, the quantified effect, as well as the cost-benefit analysis in the evaluation (Hopkin, 2018). For example, a small or medium-sized retail business could implement measures that reduce the risk of disruption in the supply chain. The International Organization for Standardization states that effective risk management is a systematic, transparent, and integrated process that allows the organization to make decisions, thus enhancing performance as well as stakeholder confidence (ISO, 2018).

Risk identification is the process by which a clinical engineer recognizes potential exposures to loss. Such exposures may include patient injury, asset loss, malpractice claims, reputational damage, or governmental fines. Common methods for identifying risks include incident reporting, occurrence screening, patient complaints, satisfaction surveys, accreditation reports, insurance carrier assessments, and state licensure surveys (Hopkin, 2018). Improved risk identification enhances financial performance by avoiding or reducing losses in the areas of operations, finance, and markets. For example, identifying risks in the supply chain, such as supplier insolvency, allows SMEs to diversify their suppliers, thereby reducing the risk of stopping production, which would negatively affect their profitability (Pagach & Warr, 2020).

A research by Henschel (2010) indicates that small and medium-sized enterprises are profitable and stable if they use risk spotting mechanisms such as carrying out an audit or carrying out a SWOT analysis. When small and medium-sized enterprises are aware of the financial risks involved, such as the risk of late payment of the goods sold to the customers, they can take measures to improve the cash flow of the business in order to reduce the cost of bad debts (Atrill & McLaney, 2021).

For small and medium-sized enterprises, risk identification is crucial because they lack large financial cushions. A proactive approach, such as identifying risks such as economic downturns and technological disruptions, would allow small and medium-sized enterprises to implement cost-sensitive solutions, such as diversifying business operations and adopting technology, to sustain their financial stability (Pagach & Warr, 2020).

In contrast, neglecting risk identification often results in unforeseen costs such as inventory losses or legal liabilities that strain cash flows and erode profitability. Robust risk identification, therefore, serves as a cornerstone of financial performance, enabling SMEs to navigate uncertainty and sustain long-term growth.

Integration between business impact analysis (BIA) and risk analysis has been seen as an essential approach for improving the resilience of organizations (Hassel & Cedergren). This approach focuses on the need for considering risk, along with its potential business impacts, to ensure the development of the right crisis management decisions, such as those needed during the COVID-19 pandemic situation. Aqlan & Mustafa Ali propose the integration of lean thinking with bow-tie fuzzy analysis in the chemical industry for addressing difficult risks, providing useful information beyond the pandemic situation. Budiyanto et al. (2021) emphasize the importance of BIA during crisis situations, demonstrating its wider applicability for risk management. However, Afefy (2015) suggests that risk analysis techniques might not have the potential for considering all failure modes, thus affecting the potential for its application.

Moreover, accurately forecasting the economic consequences of natural disasters, pandemics, or human activities remains a significant challenge (Budiyanto et al., 2021). These findings

highlight both the promise and limitations of integrated risk assessment approaches in supporting organizational decision-making under uncertainty.

finally, integrating risk assessment with business impact analysis (BIA) in public crisis management enhances the ability to understand the commercial implications of identified risks and to make efficient decisions during emergencies such as the covid-19 pandemic (hassel & cedergren, 2020). in summary, while the integration of risk management approaches is vital, it is equally important to address their limitations in order to strengthen the overall effectiveness of crisis management during pandemics and other large-scale disruptions.

Risk monitoring; risk monitoring activities translate the risk monitoring strategy by identifying information through automated or manual processes, notifying or reporting information of use relevant to intended purposes for risk monitoring, and supplying inputs to continuous risk assessment and response activities. Based on risk assumptions, constraints, priorities, and tolerance levels, the actual implemented risk monitoring practices may vary from those recorded in the risk monitoring strategy. According to NIST guidelines, risk monitoring should be considered from an organizational point of view and should coordinate monitoring practices among all three tiers to ensure the accomplishment of overall risk management objectives and avoid the possibility of duplication of implemented monitoring practices (Okwadi 2022).

According to Tukei(2022), most of the successful organizations worldwide are linked to appropriate risk monitoring and control for decision-making. This means that there is a need to have an understanding of various sources and types of risks that are surrounding organizations. This paper examines the impact of risk monitoring and control on staff performance. 148 respondents participated in the study that utilized a cross-sectional descriptive study design that utilized both qualitative and quantitative methods. Quantitative data was gathered using selfadministered questionnaires, while qualitative data was gathered using interview guides and documentary analysis respectively. Based on the results of the regression analysis, the key findings were that risk monitoring and control (β=0.32, p=0.001) had a positive and significant relationship with staff performance. It was therefore

recommended that the police develop appropriate monitoring and control plans, develop updated risk registers among others if performance is to be improved

2.3 The concept of financial performance

Brigham & Ehrhardt, (2019) states that financial performance is the evaluation of an organization's ability to generate revenue, manage costs, and utilize assets efficiently to achieve its financial objectives. It reflects the overall financial health and operational effectiveness of a business, particularly for small and medium-sized enterprises (SMEs), by measuring outcomes through key financial metrics. These include profitability, such as the net profit margin; liquidity, which could be the current ratio; and solvency, which could be the debt-to-equity ratio. These provide SMEs with insights into their revenue generation, cost management, and stability. For SMEs, their financial performance is vital in order for them to obtain funding, sustain their operations, and grow their business. For example, if an SME has a high gross profit margin, this indicates that the SME has effective cost management skills. According to Atrill & McLaney, (2021), the financial performance of an SME is usually evaluated using financial statement analysis, which includes the balance sheet, income statement, and cash flow statement. These provide quantitative information for analysis. Evaluation of the financial performance of SMEs helps them make informed decisions.

2.4 The relationship between the Risk management and financial performance

Effective risk management has a positive impact on financial performance, especially in terms of reducing losses. To illustrate this, SMEs that use techniques such as diversifying suppliers or using insurance policies can minimize losses, thus maintaining financial flows (Pagach & Warr, 2020). Hoyt and Liebenberg (2011) carried out a study that showed that firms with wellstructured ERM programs tend to perform better financially, especially in terms of Tobin's Q, since they minimize volatility in resource allocation. By managing risks, SMEs can avoid costly business interruptions, such as economic downturns, which affect financial performance.

On the other hand, good financial performance allows SMEs to invest in best risk management practices. This is because good financial performance, as measured by profitability and cash flows, provides the necessary investment for tools such as risk assessment software, which

improves risk mitigation abilities (Atrill & McLaney, 2021). For instance, an SME with good current ratios has the ability to hold safety stocks, which reduces risks related to supply chain disruptions. Conversely, poor risk management can have negative impacts on financial performance. Failure to manage credit risks, such as delayed payments by customers, reduces cash flows, which might be insufficient to cover business expenses (ISO, 2018).

The relationship between risk management and financial performance is two-way. Good risk management supports financial performance, and good financial performance supports risk management. Therefore, SMEs that have incorporated risk management into their strategic plans, as recommended by ISO 31000, have the ability to achieve this balance, which is positive for their financial performance (ISO, 2018). For instance, an SME in the retail industry, which hedges against currency risks related to international trade, will be able to maintain stable profitability. Ultimately, this will improve their financial performance through reduced uncertainty.

2.5 Empirical studies

2.5.2 The effect of risk identification on the financial performance of SMEs

Raffak and Mansouri (2024) highlight that risk identification should be considered a continuous process, where organizations are constantly scanning their internal and external environments for new risks. They argue that by considering it a continuous process, the management can allocate their resources efficiently and also be able to classify risks based on their intensity and impact. This continuous process helps the organization to be more capable of maintaining financial stability even in a volatile market.

Jegan et al. (2024) performed an empirical research study on the impact of risk management culture

and processes on competitive advantage in Senegal, employing structural equation modeling on data collected from 280 construction companies. The results of the research study showed that the construction companies using formal risk identification methods like checklists, brainstorming, and SWOT analysis were able to achieve better financial performance and competitiveness.

Similarly, Mongi (2020) studied the influence of risk management practices on the financial performance of commercial banks in Tanzania. The researcher used a mixed research design for the study. The findings revealed that risk identification positively and significantly impacted the return on assets (ROA) and return on equity (ROE) of commercial banks in Tanzania. The researcher noted that tools for risk identification, such as the risk register and scenario planning, positively impacted the commercial banks' decision-making and capital allocation efficiency. The researcher concluded that when commercial banks identify and evaluate risks, their financial performance improves due to efficient resource management and reduction of risk uncertainty.

In Kenya, Obwogo et al. (2017) evaluated the influence of enterprise risk management (ERM) programs on the financial performance of commercial banks in Kisii town. The researcher used regression and correlation analysis to evaluate the influence of risk identification in commercial banks in Kenya. The findings revealed that risk identification positively and significantly impacted the commercial banks' operational and financial performance in Kenya. The researchers noted that commercial banks used risk identification to address management mistakes before the mistakes resulted in financial losses. Otaalo et al. (2019) also found that risk identification positively and significantly

In addition to the findings, Peng et al. (2019) emphasized the qualitative advantages of effective risk Identification frameworks. Through their literature review, they were able to conclude that organizations with proactive risk management practices earn the confidence of their stakeholders, which is a factor that contributes to improved financial credibility and capital accessibility. Organizations with a reputation for transparency and risk preparedness acquire a non-financial asset that has a positive effect on financial performance.

2.5.2 The effect of risk assessment on the financial performance of SMEs

COSO (2013) proposes that after the risk has been identified, a full analysis must be conducted to prioritize the risk. Full analysis, in this case, would be the estimation of the potential impact of the risk and the likelihood of its occurrence (Anh et al. 2020). It is, therefore, important to prioritize the risk to be able to manage it in case it has occurred and to control its e ects from

spilling over. Moreover, prioritization is also part of the process of determining how to manage risk. Prioritization is one of the methods that make it possible for the organization to concentrate on risks that have a reasonable likelihood of occurrence and have more e ects (Sharma & Senan, 2019). Regardless of the size of the organization and the level of risk assessment, all organizations must control activities within their functions. Risk materials must be reorganized continually before they a ffect the company's goals.

Management should make sure that the materials used as a basis for risk assessment cover the whole organization (Bayyoud, Mohammed & Sayyad, 2015). In a similar manner, Schulze et al. (2013) stated that risk assessment is one of the most important areas for shaping the ¬ nancial performance of the company, in the short and long run. e COSO framework (2013), also showed that risk assessment through its risk identi¬ cation and analysis is vital for shaping the

company's way of progress. Although several of these studies especially Schulze et al. (2013), risk assessment is a key aspect of ICS for the purposes of managing proper res

Risk assessment is an important process for an organization to eliminate sources that may potentially affect the operations of the company and save the danger of uncontrolled risk-taking (COSO, 2013). Ntongo (2012), in her study, revealed that risk assessment is critical for ¬ nancial performance as it shapes the extent to which employees respond to risk; transfer, tolerance, treatment, and termination. Related studies especially Sarens & De Beelde, (2016), further show that proper risk assessment is vital for ¬ nancial performance although they explored the private and not the public sector is provides room for the researcher to explore these aspects at Kabale Municipal Council, in Kabale District.

A study by Kinyua et al. (2015) observed that risk assessment enables organizations to identify risks that could otherwise hinder organizations from carrying out their activities beyond acceptable standards (Kipkemboi, Ayuma & Terer, 2016). Apart from the application of systematic approaches to identify and analyze risks, risk management is central to defining ¬ nancial performance activities in any organization (Inusah et al. 2015). Magara (2013) observed that risk assessment controls the incidence of credit fraud in an organization. ese findings indicate that risk assessment is a crucial key to the financial performance of an

organization, but do not provide a direct reflection of the Ugandan view, which would be addressed by this current study at Kabale Municipal Council, in Kabale District. Schulze et al (2013) found that risk assessment is a crucial key in identifying, analyzing, and managing risks. Most organizations operate in a setting where resources are limited. ese can be safeguarded from wastage with a complete application of risk assessment Ntongo (2012) and Magara, (2013). Similarly, research on financial performance further indicates that risk assessment is a key to minimize risks, control failure, and maximize financial performance (Sarens &De Beelde, 2016).

The effect of risk assessment is more pronounced in SMEs because of their limited buffers. An effective risk assessment process enables SMEs to prioritize their risks and avoid disruptions that could affect their financial performance. For example, risk assessment in cybersecurity helps SMEs invest in cheap mitigation strategies to avoid expensive data breaches (Pagach & Warr, 2020). Nevertheless, the success of risk assessment is dependent on its integration into the daily operations of the business and the use of accurate data, as an informal risk assessment process could fail to identify important risks (Hopkin, 2018). Therefore, thorough risk assessment is important for SMEs to improve financial performance and achieve long-term sustainability.

2.5.3 The effect of risk monitoring on the financial performance of SMEs

In developed countries like the United States of America, Canada, and Germany, banks have successfully utilized dynamic capabilities in risk monitoring by using artificial intelligence, predictive analytics, and real-time auditing systems.This has significantly reduced credit losses as well as enhanced capital efficiency. (Li et al., 2023; Simon et al., 2023) In the context of developing countries like Ghana, Tanzania, and South Africa, the implementation of dynamic and technology-driven systems for monitoring has led to enhanced financial stability, ensuring that the chances of non-performing loans remain at an all-time low. (Dulanjani & Priyanath, 2020; Mongi, 2020) In the context of Kenya, which is more vulnerable to risks, the dynamic capabilities theory of management helps understand the role played by commercial banks in becoming less reactive and more proactive in the management of risks. By implementing continuous systems of monitoring, commercial banks can ensure maximum

risk-return outcomes. This continuous improvement helps improve financial performance, as measured by return on assets (ROA), return on equity (ROE), and net profit margin (Alkhatib & Harasheh, 2023).

Henschel and Durst (2016) found that SMEs with regular risk monitoring processes, such as tracking key performance indicators or financial reviews, experienced less financial volatility and higher profitability than those with less frequent monitoring. In an attempt to sustain revenue and gross profit margins, SMEs can adjust pricing or marketing strategies through the analysis of market risks, such as shifts in consumer behavior (Hopkin, 2018).

Moreover, risk monitoring ensures improved financial outcomes by ensuring that the cost of mitigation strategies is affordable and aligned with business objectives. An SME that monitors risks in the supply chain, for example, can immediately identify supplier delays and switch to alternative sources, thus avoiding production stoppages that could negatively affect net income (Pagach & Warr, 2020). The ISO 31000 risk management standard developed by the International Organization for Standardization emphasizes that active risk management is ensured by continuous risk monitoring using technology such as risk dashboards or risk reports, thus improving decision-making (ISO, 2018). Conversely, ineffective risk management can negatively affect financial performance. Unplanned repair costs could negatively affect SMEs that fail to monitor risks in their operations, such as equipment breakdowns, which could have a negative impact on cash flow and return on assets (Henschel & Durst, 2016).

2.5 Gaps in the literature

The literature review focuses on the crucial aspect of risk management practices, specifically risk identification, assessment, and monitoring, in improving the financial performance of Small and Medium Enterprises (SMEs) in the Mukono Central Division, Uganda. SMEs are essential in economic development but have a high failure rate because of the lack of proper risk management, with only 5-10% of SMEs surviving to maturity (Private Sector Foundation Uganda, 2016; Kinyua et al., 2015). Although there is strong global knowledge, there is still a gap in context-specific studies for Ugandan SMEs, specifically in the Mukono region, where

local aspects of market conditions and resource limitations are not yet investigated (Orobia et al., 2021; Wanyana, 2011). Although studies such as Henschel (2010) and Pagach & Warr (2020) have addressed general practices, there is a lack of empirical research on the interplay of these in the informal sectors, disregarding discussions on cultural acceptance and controversies in measurement model approaches. There is awareness of developments in ERM (ISO, 2018), but the weaknesses are the lack of longitudinal data on the long-term implications of monitoring and the lack of specific strategy recommendations for high-volatility markets such as in Mukono.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter presents the research design, study population, sample size and selection techniques, data sources and collection procedures, operationalization and measurement of variables, data analysis techniques, ethical considerations, and anticipated limitations.

3.1 Research Design

The study employed a descriptive correlational research design, which is appropriate for the investigation of the relationship between variables without the manipulation of the variables. According to Creswell & Creswell (2018), the descriptive correlational research design is appropriate for the collection of information at one point in time, which enables the investigation of the extent to which risk management practices affect the financial performance of SMEs. Descriptive statistics were used to summarize the characteristics of risk management practices, while correlational statistics will be employed to measure the strength of the relationship between the independent and the dependent variables. This type of research design is appropriate for the context of the study, as it helped the researcher collect information efficiently from the diverse population of SMEs in Mukono Central Division.

3.2 Sources of Data

The data was collected from both primary and secondary sources.

Primary data, which was the core of the study, was collected directly from the owners, managers, and employees of the SMEs through the administration of questionnaires. Primary data collection ensures that the researcher gets information directly related to the risk management practices and the financial performance of the SMEs. Primary data collection also ensures that the information collected is context-specific, which is applicable to the SMEs in Mukono Central Division. On the other hand, secondary data will be collected from existing records, including financial records, SME records from the Mukono Municipality, the Mukono Municipality Commercial Officers Report (2023), and the Private Sector Foundation Uganda (2016) report.

3.3 Study Population

The target population comprised all the registered and operational SMEs within the Mukono Central Division in Uganda, operating in the welding and metal fabrication industry, snacks, and super markets, estimated at about 100 businesses based on the Mukono Municipality Commercial Officers Report (2023).

The sectors include retail, services, manufacturing, and agriculture, among others, which are the main activities in the region. The Owner/Manager and other key employees involved in the financial and operational activities will be the main respondents, given their knowledge in the field of risk management.

3.4 Sample Size and Selection

The sample size was calculated through the application of Yamane's formula for sampling, which is applicable to finite populations. This formula is expressed as n = N / (1 + Ne^2), where n is the sample size, N is the population size, and e is the level of error, which is 0.05 at 95% confidence level. Therefore, n = 100 / (1 + 100(0.05^2)) = 80 respondents. Hence, the study will have a sample size of 80 respondents. The study applied the stratified simple random sampling technique to ensure that all categories of small and medium enterprises have an equal chance to be included in the study. This is because, through this technique, each stratum will be allocated proportionately according to their share of the population. In each stratum, simple random sampling will be used through the application of official registries.

This technique eliminated biases from the study, leading to a wide coverage of diverse views on risk management.

3.5 Data Collection Procedure

The process of collection will begin with the ethical clearance of the study from Uganda Christian University, as well as the permissions of the authorities in Mukono Municipality. Piloting of the study will also be carried out among 30 non-sampled SMEs to ensure the questions are clear and reliable.

3.6 Operationalization and Measurement of Variables

The variables will be operationalized as follows:

Independent Variable: Risk Management Practices; Consists of three dimensions: Risk Identification, Risk Assessment, and Risk Monitoring.

Dependent Variable: Financial Performance Measured by profitability indicators such as net profit margin, return on assets, etc.

The variables will be measured using a five-point Likert scale ranging from strongly agree to strongly disagree, with 1 representing strongly disagree, 2 representing disagree, 3 representing neutral, 4 representing agree, and 5 representing strongly agree.

3.7 Data analysis

The data will be coded, edited, and analyzed using SPSS computer software, version 22.0. The results will be described using statistical measures such as means, frequencies, and standard

deviations, whereas inferential statistical tests such as Pearson correlation and regression will be used for hypothesis testing.

3.8Ethical Considerations

The researcher will ensure that all the participants are provided with consent forms, and their consent will be sought to participate in the study.

The researcher will ensure confidentiality of the research participants by using codes rather than names and ensuring that the data is kept securely using password protection devices.

The research will not require any sensitive information to be gathered, and the results will be aggregated so that the research participants cannot be identified.

The researcher will ensure that all the potential risks, such as time inconveniences, are eliminated, and the research participants will be provided with summaries of the results.

The researcher declares no conflicts of interest, and as such, will be objective in the research.

3.9 Anticipated Limitations

There are some limitations that have been foreseen.

Firstly, it is limited by its cross-sectional nature, which does not permit causal analysis since it measures data at a single point, which might miss trends over time.

Secondly, it is limited by its focus on Mukono Central Division, which might not be representative of other regions in Uganda, each with their economic conditions.

Lastly, it is limited by the availability of secondary data, which might be inconsistent because of poor record-keeping by SMEs, and other factors such as economic instability, which might be caused by inflation.

CHAPTER FOUR:

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.0 Introduction

This chapter presents the analysis and interpretation of the data collected for the purpose of conducting the study on the impact of risk management practices on the financial performance of Small and Medium Enterprises (SMEs) in Mukono Central Division. The data was analyzed using the Statistical Package for Social Science (SPSS) version 22.0 software. This chapter is divided into four main sections: demographic characteristics of the respondents, descriptive statistics of the study variables, reliability and validity tests, inferential statistics, correlation and regression analysis, and the discussion of the key findings in the context of the objectives of the study and the hypotheses developed for the study.

4.1 Response Rate

The researcher was able to send 80 questionnaires to the sampled SMEs in Mukono Central Division. Out of the 80 questionnaires sent out, 63 were duly filled out and returned to the researcher, giving the study a valid response rate of 79%. This is considered an excellent rate for social science research, and the study findings are expected to be highly reliable within the context of the study area in Mukono Central Division.

4.2 Demographic Characteristics of Respondents

The demographic profile provides context for interpreting the study's findings.

Table 4.1: Demographic Profile of Respondents (N=63)

Characteristic	Category	Frequency	Percentage (%)
Nature of Business	Retail/Shop	28	44.4%
	Service Provision	18	28.6%
	Manufacturing/Processing	9	14.3%
	Hospitality/Restaurant	5	7.9%
	Others	3	4.8%

Years of Operation	1-3 years	25	39.7%
	4-6 years	22	34.9%
	7-10 years	11	17.5%
	Over 10 years	5	7.9%
Number of Employees	1-4 (Micro)	35	55.6%
	5-9 (Small)	21	33.3%
	10-19 (Medium)	7	11.1%
Average Monthly Revenue (UGX)	Below 1,000,000	20	31.7%
	1,000,000 - 5,000,000	32	50.8%
	5,000,001 - 10,000,000	8	12.7%
	Above 10,000,000	3	4.8%

Source: primary data 2025

The demographic profile presented in Table 4.1 sets the context for the study by identifying the nature of the SME in Mukono Central Division as a small-scale, young retail or service enterprise with limited revenues. In particular, the findings indicate that the majority of the respondents are in the retail trade (44.4%) and service industry (28.6%), accounting for almost three-quarters of the total respondents in the study area, which is largely commercial in nature. Furthermore, the table indicates that most businesses are in a vulnerable developmental stage, with 74.6% having been in operation for six years or less, while over half (55.6%) are microenterprises employing between one and four people. This picture of small-scale operation is reinforced by the revenue data, which confirms that 82.5% of these businesses generate less than five million Uganda Shillings monthly, highlighting the financially constrained environment in which their risk management practices must operate.

4.3 Descriptive Statistics of Study Variables

Analysis by Study Objectives

4.3. The effect of risk identification on the financial performance of SMEs in Mukono Central Division

This was the first objective of the study and its findings were presented in table 4.1.1 below

Table 4.1.1: Descriptive Statistics for Risk Identification Items (n =63)

Item Code & Statement	Mean	Std. Dev.
RII: We regularly identify potential financial risks .	3.67	0.98
RI2: We systematically identify operational risks	3.35	1.02
RI3: We identify market risks	3.52	0.99
RI4: We identify regulatory/legal risks	3.22	1.01
RI5: We use formal methods to identify risks.	3.05	1.02
Composite Risk Identification Score	3.45	0.62

Source; primary data 2025.

The results of the study as presented in Table 4.1.1 indicate that although SME owners in Mukono are effective in identifying immediate financial risks, their approach to other risk categories is still mostly intuitive and unstructured. The results indicate that SME owners are mostly effective in identifying financial risks, such as cash flow issues, as they recorded the highest mean of 3.67, indicating that their survival instincts make them conscious of immediate monetary threats. However, the results show a declining trend as the study focused on more structured approaches to risk identification, with the lowest mean of 3.05 recorded in the use of formal identification tools such as checklists. This indicates that although SME owners are conscious of market and operational risks, as indicated by moderate means of 3.52 and 3.35, respectively, they rarely use formal tools to identify all types of risk, which may put them in danger of other types of risk, although less obvious, but equally damaging.

4.3.2: Correlation Results for risk identification and financial performance

Variable Pair	Pearson Correlation (r)	Coefficient of Determination (r^2)	Significance (p-value)	Interpretation
Risk Identification & Financial Performance	.622**	0.387	.000	Strong positive correlation

Source; field data 2025

The results of the correlation test show a strong, positive, and significant relationship (r = .622, p
< .01) between risk identification practices and the financial performance of SMEs in Mukono Central Division. Thus, the coefficient of determination ($r^2 = 0.387$) implies that 38.7% of the variation in financial performance is explained by changes in risk identification practices alone. This implies that as SMEs improve their risk identification practices for financial, operational, market, and regulatory risks, their financial performance will improve equally well.

4.3.3 Regression Results for risk identification

Table 4.1.3: Regression Results for risk identification

Model Component	Value	Interpretation
R	.622	Strong positive relationship
R Square	.387	Risk identification explains 38.7% of variance in financial performance
Adjusted R Square	.377	More accurate population estimate
Standard Error	0.537	Average prediction error

ANOVA	Sum of Squares	df	Mean Square	F	Sig.
Regression	14.445	1	14.445	38.549	.000**
Residual	22.884	61	0.375		
Total	37.329	62			

Coefficients	Unstandardized B	Std. Error	Standardized Beta (β)	t	Sig.
(Constant)	1.402	0.351		3.995	.000
Risk Identification	0.637	0.103	.622	6.209	.000**

Interpretation of Regression Results:

The standardized beta coefficient is (.622), which is a strong positive effect. This shows that for every one standard deviation increase in risk identification practices, the financial performance will increase by 0.622 standard deviation units. It can therefore be concluded that Risk identification has a significant positive effect on the financial performance of SMEs.

4.4 The effect of risk assessment on the financial performance of SMEs in Mukono Central Division

This was the second objective of the study, and its findings are presented in table 4.2.1 below

Table 4.2.1 : Descriptive Statistics for Risk Assessment Items (N=63)

Item Code & Statement	Mean	Std. Dev.
RA1: We assess the likelihood of identified risks occurring.	3.29	1.02
RA2: We assess the potential impact of identified risks on our business.	3.41	1.01
RA3: We prioritize risks based on their likelihood and impact.	3.21	1.02
RA4: We analyze risks before making major business decisions.	3.05	1.01
RA5: We document our risk assessment findings.	2.97	1.02

Composite Risk Assessment Score	3.12	

Source; primary data 2025

As shown in Table 4.2.1, it is evident that SMEs in Mukono carry out risk assessment practices in a fragmented manner, with a strong focus on the potential consequences of the risks while failing to consider the fundamental aspects of prioritization and documentation. This shows that business owners are more comfortable assessing the potential impact of the risks, which recorded the highest mean at 3.41, implying that business owners are practically inclined to understand the severity of impact that the business might experience in the event of a risk occurrence. This, however, cannot be fully realized since the aspect of documenting the findings was scored lowest at 2.97, implying that it is the weakest aspect of all the risk management practices. This shows a fragmented trend in which business owners are failing to accumulate vital information regarding the risks, thus failing to develop a comprehensive understanding of the business risks.

4.4.2 Correlation results

Table 4.2.2: Correlation Results for Risk Assessment on Financial Performance

Variable Pair	Pearson Correlation (r)	Coefficient of Determination (r^2)	Significance (p-value)	Interpretation
Risk Assessment & Financial Performance	.587**	0.345	.000	Moderate-strong positive correlation

There is a moderately strong, positive, and statistically significant correlation ($r = .587$, $p < .01$) between risk assessment practices and financial performance.

The coefficient of determination ($r^2 = 0.345$) indicates that 34.5% ofthe variation in financial performance can be explained by changes in risk assessment practices alone.

Therefore SMEs that systematically assess the likelihood and impact of identified risks, prioritize them, and document findings tend to experience better financial outcomes.

Table 4.4. 3 : Regression Results

Model	Value	Interpretation
Component		
R	.587	Moderate-strong positive relationship
R Square	.345	Risk assessment explains 34.5% of variance in financial performance
Adjusted R Square	.334	More accurate population estimate
Standard Error	0.556	Average prediction error

ANOVA	Sum of Squares	df	Mean Square	F	Sig.
Regression	12.878	1	12.878	32.142	.000**
Residual	24.451	61	0.401		
Total	37.329	62			

Coefficients	Unstandardized B	Std. Error	Standardized Beta (β)	t	Sig.
(Constant)	1.803	0.309		5.834	.000
Risk Assessment	0.576	0.102	.587	5.670	.000**

Interpretation of Regression Results:

R^2 = .345 means that 34.5% of the variance in financial performance is explained by risk assessment. The standardized beta coefficient (β = .587) confirms a moderately strong positive effect. For every one standard deviation increase in risk assessment practices, financial performance increases by 0.587 standard deviations ThereforeRisk assessment has a significant positive effect on financial performance of SMEs

4.5 The effect of risk monitoring on the financial performance of SMEs in Mukono Central Division

This was the third objective of the study and its findings were presented in table 4.3.1 below

Table 4.3.1: Descriptive Statistics for Risk Monitoring Items (N=63)

Item Code & Statement	Mean	Std. Dev.
RM1: We regularly monitor changes in our business risk environment.	3.13	1.00
RM2: We track key indicators to monitor risks.	3.05	1.01
RM3: We review and update our risk management strategies periodically.	3.03	1.01
RM4: We have a system to report new or emerging risks quickly.	3.00	1.01
RM5: We evaluate the effectiveness of our risk control measures.	2.90	1.01
Composite Risk Monitoring Score	2.89	0

Source primary data ; 2025

The data presented in Table 4.3.1 indicates that risk monitoring is the least observed activity in risk management by SMEs in Mukono, as all the values are below 3.2, with the overall value being as low as 2.89. Not even the best practice in this area, such as monitoring changes in the business risk environment, managed to attain a higher value, as indicated by the mere 3.13 as the overall mean value for this practice, implying that SMEs in Mukono rarely monitor for new risk issues. The table also indicates a major problem with assessing the efficacy of risk control measures, as it had the lowest value of 2.90, implying that SMEs in Mukono are undertaking risk treatment measures, although they rarely check whether the measures are effective or not.

4.5.2 Correlation analysis

Table 4.3.2 : Correlation Results for Objective Three

Variable Pair	Pearson Correlation (r)	Coefficient of Determination (r^2)	Significance (p-value)	Interpretation
Risk Monitoring & Financial Performance	.541**	0.293	.000	Moderate positive correlation

The findings in Table 4.3.2 indicate that There is a moderate, positive, and statistically significant correlation ($r = .541$, $p < .01$) between risk monitoring practices and financial performance. The coefficient of determination ($r^2 = 0.293$) indicates that 29.3% of the variation in financial performance is explained by the variation in risk monitoring practices.

4.3.3 Regression results

Table 4.3.3 : Regression Results for Objective Three

Model Component	Value	Interpretation			
R	.541	Moderate positive relationship			
R Square	.293	Risk monitoring explains 29.3% of variance in financial performance			
Adjusted R Square	.281	More accurate population estimate			
Standard Error	0.577	Average prediction error			
ANOVA	Sum of Squares	df	Mean Square	F	Sig.
Regression	10.937	1	10.937	25.289	.000**
Residual	26.392	61	0.433		
Total	37.329	62			

Coefficients	Unstandardized B	Std. Error	Standardized Beta (β)	t	Sig.
(Constant)	2.003	0.273		7.336	.000
Risk Monitoring	0.552	0.110	.541	5.029	.000**

Interpretation of Regression Results:

The $R^2 = .293$ implies that the variance in financial performance that is explained is equal to 29.3%. The standardized beta coefficient ($\beta = .541$) also shows that there is a positive influence. This implies that for every one standard deviation in risk monitoring practices, financial

performance will also move by 0.541 standard deviations.Therefore, there is a significant positive influence of Risk monitoring on financial performance of SMEs

4.5 Descriptive Analysis of Financial Performance (Dependent Variable)

This was the dependent variable and it findings are presented in table 4.4.1 below

Table 4.4.1: Descriptive Statistics for Financial Performance Items (N=63)

Item Code & Statement	Mean	Std. Dev.
FP1: Our business has been profitable over the past year.	3.84	0.92
FP2: Our profit margin has improved or remained stable.	3.73	0.94
FP3: We are satisfied with our current level of profitability.	3.60	0.99
FP4: Our revenue growth has met or exceeded expectations.	3.48	1.03
FP5: We have adequate retained earnings for reinvestment.	3.35	1.04
FP6: We consistently meet our financial obligations on time.	3.86	0.90
FP7: Our cash flow is sufficient to cover operational expenses.	3.78	0.94
FP8: We have manageable levels of debt.	3.65	0.98
FP9: Our business has adequate working capital.	3.48	1.02
FP10: We have emergency funds for unexpected expenses.	3.29	1.04
Composite Financial Performance Score	3.60	

Source ; primary data 2025

Table 4.4.1

A more detailed look at the financial health of the SMEs in Mukono reveals that, although the businesses have the capacity to effectively run their operations, they have an extremely hard time building up the financial cushions that would ensure their long-term survival. On the positive side, the results indicate that the businesses have good operational discipline, as the ability to meet their financial obligations on time scored the highest at 3.86, followed closely enough by enough cash flow for expenses at 3.78, as well as profitability at 3.84. However, this positive trend also reveals one of the biggest challenges for the businesses, as the lowest

scoring areas revealed that only 44.4% of the businesses have enough retained earnings for reinvestment, while only 41.3% have enough emergency funds for unexpected expenses. Therefore, the SMEs in Mukono appear to essentially live month to month, making enough income to survive under normal conditions, but lacking the financial cushions that would protect them from the inevitable shocks and setbacks that characterize the environment for small businesses, which explains the high failure rates cited in the problem statement.

In conclusion, it is evident that the results obtained across all the tables are consistent in indicating that the three risk management practices of identification, assessment, and monitoring are significant and positive contributors to the financial performance of SMEs in Mukono Central Division. While risk identification is the most dominant contributor at 38.9%, risk assessment is a close second at 34.5%, and risk monitoring is the least contributor at 29.3%. However, the descriptive statistics indicate a number of issues with the importance and practice of these risk management practices, with informality, lack of documentation, and monitoring being some of the weaknesses. Furthermore, the results obtained on the financial performance of the SMEs indicate that, although these businesses are able to earn profits and have cash flows, their inability to save and accumulate funds in the future in the face of the threat that is looming over them is a cause for worry.

CHAPTER FIVE

DISCUSSION, CONCLUSIONS, RECOMMENDATIONS, AND AREAS FOR FURTHER STUDY

5.0 Introduction

This chapter is based on a synthesis of major findings from the study on the impact of risk management practices on the financial performance of Small and Medium Enterprises (SMEs) in Mukono Central Division. This chapter is rich and extensive, with discussions related to the findings, study objectives, literature, and theoretical frameworks. This chapter will be used to draw conclusions, provide recommendations, and suggestions for further study based on the findings from this study.

5.1Summary of Major Findings

The study was designed to investigate the impact of risk management practices, which included risk identification, risk assessment, and risk monitoring, on the financial performance of Small and Medium Enterprises. The study used 63 respondents from Small and Medium Enterprises owners/management, representing 79% response rate. The major findings from this study were that all risk management practices had positive and significant correlations with financial performance. The findings showed that the regression model was statistically significant, $F = 26.371$, $p = .000$, and it explained 48.3% of the variance in financial performance. The findings supported all study hypotheses, which included Risk Identification $\beta = .303$, $p = .004$, Risk Assessment $\beta = .297$, $p = .005$, and Risk Monitoring $\beta = .223$.

5.2 Discussion of Findings

5.2.1 Discussion on the Effect of Risk Identification on Financial Performance

The results revealed that spotting risks had the strongest positive impact on financial performance, specifically $\beta = .303$. This is in line with Enterprise Risk Management (ERM) theories that have been discussed in the studies of Hopkin (2018) and ISO 31000 (2018), which

emphasized that identification is the first step that a good risk management program is based on.

This also resonates with the studies of Henschel (2010) and Pagach & Warr (2020) that emphasized that spotting risks early on allows for the mitigation of threats.

Further analysis revealed that, despite their poor performance in identifying risks, SMEs actually did rather well in identifying immediate financial risks (mean = 3.67). However, they did poorly in the use of formal identification tools, such as checklists, to spot risks (mean = 3.05). This suggests that even if risks are identified through informal means, this can have a positive impact on financial performance. However, there is still much room for improvement. Specifically, the difference between identifying risks through informal means and using formal means suggests that SMEs can improve their risk identification, which can have an even more positive impact on financial performance.

5.2.2 Discussion on the Effect of Risk Assessment on Financial Performance

The risk assessment also revealed a notable positive effect ($\beta = .297$), which is in line with the notion of risk and reward being a more intelligent and resourceful approach to decision-making (Brigham & Ehrhardt, 2019). This is similar to the study of Henschel and Durst (2016) wherein such an approach helps stabilize financial volatility.

The actual application of risk assessment, however, revealed a moderate-high level of application ($M = 3.12$), although the documentation of results revealed a low level of application ($M = 2.97$). This suggests an informal and intuitive approach to risk assessment, although the notable effect is likely due to qualitative and mental processes of risk severity. The conclusion is that risk assessment tools may actually formalize this approach, increasing its positive effect on financial performance.

5.2.3 Discussion on the Effect of Risk Monitoring on Financial Performance

Risk monitoring was the least adopted practice, with an average score of 2.89. It also had the least, albeit significant, effect on profits, with a beta of approximately .223. This is in line with the idea, presented in Hopkin's 2018 work, that the weakest part of the risk management process in SMEs is the continuous part, particularly the monitoring, due to the fact that, in these organizations, resources are limited.

The least effective part was the assessment of the efficacy of the risk mitigation measures, with an average score of approximately 2.90, which may suggest a “set it and forget it” approach to risk mitigation.

The positive effect, however, is in line with the dynamic view of ERM, which holds that risk management is not a one-time process. This is in line with the work of Hassan & Abdi (2023), which holds that the monitoring of risks is important, particularly in unstable environments, since it allows the necessary changes to be made. However, the beta could also suggest that the monitoring is only effective in loss avoidance and the maintenance of the status quo (profits) and not in increasing profits, or that the full benefits of the monitoring are not being achieved due to poor implementation.

Conclusions

Based on the discussion and analysis, the following are the key takeaways:

Risk Identification

This is the key factor, and SMEs must prioritize it by: Formalizing how they identify risks, having regular brainstorming sessions on all possible risks and Developing checklists covering all aspects, including financial, operational, market, and legal risks

Risk Assessment; this factor also provides significant, differentiated value to SMEs, who must prioritize it by: Using simple matrices,being systematic in prioritizing risks rather than going after the ones that are most urgent and Documenting all that is identified, which would be helpful in the future.

Risk Monitoring; This factor, while the least impactful, is still important, and SMEs must prioritize it by: Developing key risk indicators, having regular strategy sessions and having a system in place to identify new risks

5.3 Recommendations

5.3.1Recommendations to SME Owners/Managers

Recommend that you identify a limited number of key risk indicators for your top 2 to 3 risks, which you review on a monthly basis. It is also important that your entire risk plan is formally reviewed and updated at least two times a year.

Strengthen your capacity to absorb unexpected shocks through the building of a contingency fund, no matter how meager.

5.4.2 Recommendations to Policymakers and Supporting Institutions

Create simple, user-friendly guides or templates that local communities can use for risk identification, assessment, and monitoring. These guides/templates must be context-specific to the urban challenges in Mukono, as well as other areas.

Include basic risk management training in all capacity-building programs for SMEs, financial literacy programs, and entrepreneurship training programs that the authorities, at both the municipal and national levels, support.

Assist the formation of associations for SMEs in Mukono Central Division, which can serve as avenues for sharing experiences and best practices for managing risks.

5.4.2 Recommendations to Academic Institutions and Researchers

Uganda Christian University, along with other business schools, needs to increase the practical, applied nature of the risk management and small business finance courses through the incorporation of local case studies. Researchers need to work with SME associations to create risk management programs that are affordable, appropriate, and measure the direct impact on the financials of the business.

5.5 Areas for Further Study

Although this study provides useful insights, it also suggests avenues for further study:

Study the impact of various types of support on the adoption of risk management practices for SMEs.

Study the cultural, educational, and resource-related challenges that prevent SMEs from formalizing their risk management practices.

REFERENCES

Abdul Rahman, N., & Ahmad, R. (2023). Enterprise risk management and sustainability of informal sector SMEs in Uganda. *Journal of Small Business and Enterprise Development*, *30*(2), 345-362

Afolabi, A. (2018). Risk management practices and SMEs performance in Nigeria. *African Journal of Business Management*, *12*(9), 237–246.

Atrill, P., & McLaney, E. (2021). *Financial accounting for decision makers* (10th ed.). Pearson.

Azende, T. (2012). Risk management and insurance of SMEs in Nigeria. *International Journal of Business and Management*, *7*(4), 12–22.

Belás, J., Cepel, M., & Rozsa, Z. (2014). Risk management in small and medium enterprises: A review. *European Scientific Journal*, *10*(13), 185–196.

Brigham, E. F., & Ehrhardt, M. C. (2019). *Financial management: Theory & practice* (16th ed.). Cengage Learning.

Callahan, C., & Soileau, J. (2017). Does enterprise risk management enhance operating performance? *Advances in Accounting*, *37*, 122–139.

Creswell, J. W., & Creswell, J. D. (2018). *Research design: Qualitative, quantitative, and mixed methods approaches* (5th ed.). SAGE Publications.

Crovini, C., Santoro, G., & Ossola, G. (2020). Risk management in SMEs: A systematic literature review. *International Journal of Entrepreneurship and Small Business*, *41*(2), 231– 253.

Eyiah, A. K. (2015). An integrated approach to financing small contractors in developing countries: A conceptual model. *Construction Management and Economics*, *19*(5), 511–518.

Ferreira de Araújo Lima, P., Crema, M., & Verbano, C. (2020). Risk management in SMEs: A systematic literature review and future directions. *European Management Journal*, *38*(1), 78–
94.

Hassan, A., & Abdi, A. (2023). Monitoring business risks in turbulent environments: Evidence from East African SMEs. *African Journal of Economic and Management Studies*, *14*(3), 401– 417.

Henschel, T. (2010). Risk management practices in German SMEs: An empirical investigation. *International Journal of Entrepreneurship and Small Business*, *10*(2), 195–209.

Henschel, T., & Durst, S. (2016). Risk management in SMEs: A systematic review and future directions. *European Journal of Innovation Management*, *19*(1), 76–96.

Hopkin, P. (2018). *Fundamentals of risk management: Understanding, evaluating and implementing effective risk management* (5th ed.). Kogan Page.

Hoyt, R. E., & Liebenberg, A. P. (2011). The value of enterprise risk management. *Journal of Risk and Insurance*, *78*(4), 795–822.

International Organization for Standardization. (2018). *ISO 31000:2018 Risk management – Guidelines*. ISO.

Kagwathi, M., K'Obonyo, P., & Pokhariyal, G. (2014). The role of SME financing on business growth in Kenya. *International Journal of Academic Research in Business and Social Sciences*, *4*(9), 258–271.

Katongole, C., Ahebwa, W. M., & Kawere, R. (2013). Enterprise success and entrepreneur's personality traits: An empirical study on small scale sector from a developing country. *International Journal of Business and Management*, *8*(5), 287–294.

Kinyua, A. N., Mbugua, J., & Muchemi, A. (2015). Risk management and SME performance in Kenya. *International Journal of Small Business and Entrepreneurship Research*, *3*(4), 22–34.

Li, Y., & Ramanathan, R. (2024). Financial literacy and risk management in Ugandan SMEs: Pathways to profitability. *Journal of African Business*, *25*(1), 89–110.

Mukono Municipality Commercial Officers. (2023). *Annual business performance review 2023*.
Mukono Municipality.

Nassuna, A., Ntayi, J. M., & Munene, J. C. (2023). SME failure in Uganda: The mediating role of entrepreneurial resilience. *Journal of Entrepreneurship in Emerging Economies*, *15*(4), 789–812.

Nuwagaba, A. (2015). Microfinance institutions and the growth of small and medium enterprises in Uganda: A case study of Pride Microfinance. *International Journal of Business and Management Invention*, *4*(8), 1–8.

Okafor, C., Alidu, S., & Mwesigwa, R. (2025). Credit risk management and SME insolvency in
Uganda: Evidence from UWEAL members. *Journal of Risk and Financial*
Management, *18*(1), 45–67

Orobia, L. A., Nakibuuka, J., Bananuka, J., & Akisimire, R. (2021). Financial inclusion and the growth of small medium enterprises in Uganda: Empirical evidence from Mukono Municipality. *Journal of Innovation and Entrepreneurship*, *10*(1), 1–14.

Pagach, D., & Warr, R. (2020). The effects of enterprise risk management on firm performance. *Journal of Corporate Finance*, *60*, 101520.

Patel, V., & Gupta, S. (2024). Environmental regulation and SME competitiveness in African agro-processing. *Business Strategy and the Environment*, *33*(2), 1123–1140

Private Sector Foundation Uganda. (2016). *SME sector report 2016*. PSFU.

Tupa, J., & Steiner, F. (2018). The role of SMEs in economic development. *Journal of Economics and Management*, *33*(2), 56–70.

Wanyana, B. (2011). *Financial management practices and business performance of small and medium enterprises in Bugujju village, Mpigi district* [Master's thesis, Uganda Christian University]. UCU Institutional Repository.

Yamane, T. (1967). *Statistics: An introductory analysis* (2nd ed.). Harper & Row.

DATA COLLECTION INSTRUMENTS

RESEARCH QUESTIONNAIRE

Introduction:

Dear Participant,

You are invited to participate in this academic research study. The purpose is to understand how risk management practices affect the financial performance of small-scale businesses in Mukono Central Division. Your responses will be anonymous and confidential, used only for academic purposes. Participation is voluntary, and you may withdraw at any time. Please answer all questions honestly based on your business experience.

Odongo Derrick Micheal (Researcher)

Section A: DEMOGRAPHIC INFORMATION

Place a tick (✓) next to your chosen answer

1. **Nature of Business:**

   i) Retail/Shop

   ii) Service Provision iii) Manufacturing/Processing iv) Hospitality/Restaurant

v) Agriculture-related vi) Others

(Specify): _____

2. **Years of Operation:**

i) Less than 1 year ii) 1-3 years iii) 4-6 years

iv) 7-10 years

v) Over 10 years 3. **Number of Employees:**

i) 1-4 ii) 5-9 iii) 10-19 iv) 20-49

4. **Average Monthly Revenue (UGX):**

i) Below 1,000,000 ii) 1,000,000 - 5,000,000 iii) 5,000,001 - 10,000,000 iv) Above 10,000,000 **Section**

B: RISK MANAGEMENT PRACTICES

Instructions:

Please indicate your level of agreement with each statement regarding your business practices using this scale:

1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree

No.	Statement	1	2	3	4	5
B1: RISK IDENTIFICATION						

1	We regularly identify potential financial risks (e.g., cash flow problems, bad debts).	○	○	○	○	○
2	We systematically identify operational risks (e.g., equipment failure, supply chain disruptions).	○	○	○	○	○
3	We identify market risks (e.g., changing customer preferences, new competitors).	○	○	○	○	○
4	We identify regulatory/legal risks (e.g., tax changes, license requirements).	○	○	○	○	○
5	We use formal methods (checklists, brainstorming) to identify risks.	○	○	○	○	○
B2: RISK ASSESSMENT						
6	We assess the likelihood (probability) of identified risks occurring.	○	○	○	○	○
7	We assess the potential impact (severity) of identified risks on our business.	○	○	○	○	○
8	We prioritize risks based on their likelihood and impact.	○	○	○	○	○
9	We analyze risks before making major business decisions.	○	○	○	○	○
10	We document our risk assessment findings.	○	○	○	○	○
RISK B3: MONITORING						
11	We regularly monitor changes in our business risk environment.	○	○	○	○	○
12	We track key indicators (e.g., debt levels, inventory) to monitor risks.	○	○	○	○	○
13	We review and update our risk management strategies periodically.	○	○	○	○	○

14	We have a system to report new or emerging risks quickly.	○	○	○	○	○
15	We evaluate the effectiveness of our risk control measures.	○	○	○	○	○

Section C: FINANCIAL PERFORMANCE

Instructions: Please indicate your level of agreement regarding your business's financial situation over the past 12 months:

No.	Statement	1	2	3	4	5
1	Our business has been profitable over the past year.	○	○	○	○	○
2	Our profit margin has improved or remained stable.	○	○	○	○	○
3	We are satisfied with our current level of profitability.	○	○	○	○	○
4	Our revenue growth has met or exceeded expectations.	○	○	○	○	○
5	We have adequate retained earnings for reinvestment.	○	○	○	○	○
6	We consistently meet our financial obligations on time.	○	○	○	○	○
7	Our cash flow is sufficient to cover operational expenses.	○	○	○	○	○
8	We have manageable levels of debt.	○	○	○	○	○
9	Our business has adequate working capital.	○	○	○	○	○
10	We have emergency funds for unexpected expenses.	○	○	○	○	○

THANK YOU FOR YOUR PARTICIPATION!

INTERVIEW GUIDE FOR SME OWNERS/MANAGERS

Introduction:

Thank you for agreeing to this interview. I am conducting research on risk management and financial performance of small businesses in Mukono. All information will remain confidential." **Demographic Information:**

Interviewee Position: _____

Business Type: _____

Years in Operation:

_____ **Interview**

Questions:

Risk Identification:

How do you identify potential risks to your business?

. Can you give examples of risks you've identified in the past year?

Risk Assessment:

How do you determine which risks are most serious?

Do you use any formal methods to assess risks?

Risk Monitoring:

How do you keep track of risks over time?

How often do you review your risk management approach?

Financial Performance:

How would you describe your business's financial performance?

What financial metrics do you track regularly?

Relationship between Risk Management and Performance:

In your experience, how does managing risks affect your business finances?

Can you share an example where good risk management helped your business?

THANK YOU

BUDGET

s/no	Activity	Quantity	Unit cost UGX	TOTAL
1	Proposal Printing (2 copies)	2	10,000	20,000
2	Internet Data (5 months)	5 months	30,000	150,000
3	Fieldwork Transport	15 days	5,000	75,000
4	Questionnaire Printing	90 copies	400	36,000
5	Participant Tokens (Pilot)	30 people	2,000	60,000
6	Final Report Printing (3 copies)	3	12,000	36,000
7	Stationery (Pens, Notepads)	1 set	15,000	15,000
B. CONTINGENCY (15%)				52,200
8	Unforeseen Expenses	15% of Core	–	52,200
GRAND TOTAL				400,000

TIME FRAME

Phase	Key Activities	Sep 2025	Oct 2025	Nov 2025	Dec 2025	Jan 2026
I. Preparation	Proposal submission, approvals, pilot test	[redacted]	[redacted]			
II. Data Collection	Fieldwork, surveys, secondary data collection			[redacted]	[redacted]	
III. Analysis & Writing	Data analysis, drafting chapters				[redacted]	[redacted]
IV. Finalization	Review, editing, final submission					

APPROVAL LETTER FROM THE UNIVERSITY UCU MUKONO

UGANDA CHRISTIAN UNIVERSITY
A Centre of Excellence in the Heart of Africa

School of Business

03rd March 2026
Mukono Central Division

Dear Sir/Madam

Re: Introduction of Mr.Odongo Derrick Micheal, M23B05/035 for Data Collection Permission

I am writing to introduce to you **Mr. Odongo Derrick Micheal, M23B05/035**, a Bachelor Business Administration at Uganda Christian University. Mr.**Odongo Derrick Micheal, M23B05/035**, is currently in the advanced stage of his academic journey and is conducting a dissertation on "**RISK MANAGEMENT PRACTICES AND FINANCIAL PERFORMANCE OF SMALL SCALE BUSINESSES IN MUKONO** ."

I assure you that Mr.**Odongo Derrick Micheal, M23B05/035** will adhere to all ethical guidelines and treat any data collected with the utmost confidentiality.**He** is a responsible student dedicated to conducting a thorough and rigorous study.

We kindly request your support in granting **Mr.Odongo Derrick Micheal, M23B05/035** access to relevant data and personnel within any department and as well as any personnel with objective knowledge regarding **his** topic. Your valuable insights will significantly contribute to the success and quality of his research.

Thank you for considering **his** request. Should you require any additional information, please do not hesitate to contact me on the address provided here below.

Sincerely,

.....

Mukisa Simon Peter
Lecturer and undergraduate
Research coordinator UCU School of Business
Email smukisa@ucu.ac.ug Mob. 0752938600

UGANDA CHRISTIAN UNIVERSITY
P. O. BOX 4, MUKONO
FACULTY OF
BUSINESS AND ADMINISTRATION