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**INFLUENCE OF FINANCIAL RISK MANAGEMENT TRAINING ON THE ADOPTION OF  
ITS PRACTICES BY SMALL AND MEDIUM ENTERPRISES IN NAIROBI COUNTY**

**BY**

**DANIEL N. MWANIKI**

**ADM 125050**

**A DISSERTATION SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS  
FOR A MASTER OF BUSINESS ADMINISTRATION DEGREE AT**

**STRATHMORE UNIVERSITY**

**NAIROBI, KENYA**

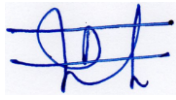
**OCTOBER 2022**

**DECLARATION**

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**STUDENT NAME:** Daniel Mwaniki **REG NO:** 125050

Sign..... 

Date .....1st August 2022....



**APPROVAL**

Dr. Mumbi Maria Wachira  
Faculty, Strathmore University Business School  
Strathmore University

Sign.....  .....

Date ...1st August 2022.....

## DEDICATION

I dedicate this research project to my family and workmates for their continued support and understanding during my MBA program and research thesis. You are great people, I would not have accomplished all this without you by my side giving me courage to continue with the journey.

I also dedicate this accomplishment to my MBA colleagues and Lecturers. You have been a great source of inspiration and strength. I deeply appreciate your insights and moral support as well as an engaging environment to achieve the best. I am forever grateful for your guidance and dedication to my success.



## ACKNOWLEDGEMENT

I thank Heavenly God for guiding me and providing all that I needed throughout this journey. I also thank my supervisor Dr. Mumbi Maria Wachira for closely helping me to produce this work through guidance and constructive criticism. I also acknowledge my examiners for guiding me on how to improve on this research paper.



## ABSTRACT

Small and medium enterprises (SMEs) are valued as the engine of economic evolution in supporting sound development across countries. The disappointing issue is that most of these enterprises have shown high failures where very few of them go beyond one year. One of the reasons this could happen might be the failure to adopt the financial risk management practices that are delivered during the entrepreneurial training to SMEs. Therefore, this study has investigated the influence of financial risk management practices training on its adoption by small and medium enterprises in Nairobi county. The specific objectives were: to establish the influence that financial risk identification and analysis training has on its adoption by SME entrepreneurs in Nairobi County, to examine the influence that financial risk monitoring training has on its adoption by SME entrepreneurs in Nairobi County, and lastly, to determine the influence that financial risk mitigation training has on its adoption by SME entrepreneurs in Nairobi County. This study employs a descriptive correlational research design where the researcher illustrates the variable relationships without necessarily the causes. This study used a stratified random sampling method with a target population of 2,591 and a sample size of 393 entrepreneurs. Purposively, the entrepreneurs sampled must have participated in a nine-month entrepreneurial training from Hand in Hand Eastern Africa between January 2017 and December 2019 and based in Nairobi region. This study used a questionnaire as the primary data collection tool, comprising a Likert-type scale of questions. Data was collected from the primary sources, cleaned, and analyzed to draw conclusive observations for inference. The results indicate that there is a positive and significant association between the independent and dependent variables. The study found that entrepreneurship training influenced the adoption of identification and analysis, financial risk monitoring, and also financial risk mitigation of SMEs. The study concludes that entrepreneurship training influenced the adoption of financial risk management practices of SMEs.

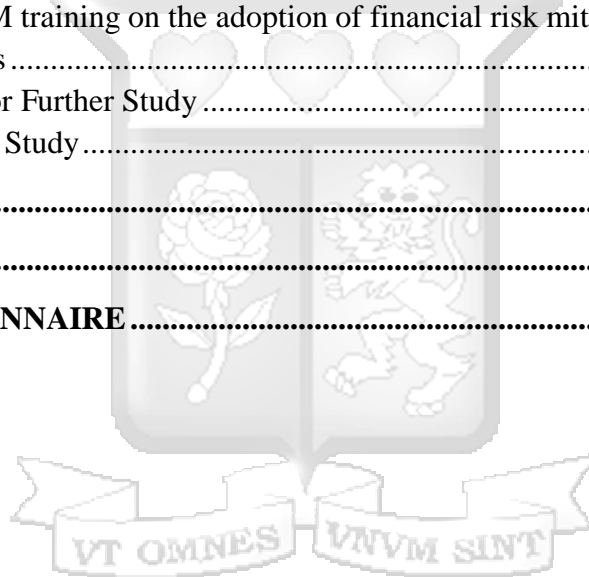
The study recommends the need for the trainers to evaluate the adequacy of their entrepreneurial training about how SMEs can benefit from transferring financial risks to 3rd parties. This could involve partnering with insurance companies in their training for ease of adoption. In addition, the study recommends the need to spend more time handholding those members who are not able to adopt the financial risk management practices.

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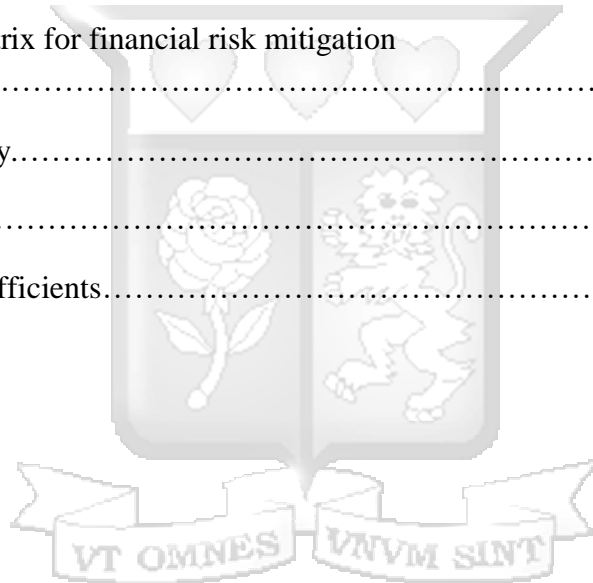
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## LIST OF ABBREVIATIONS

SME - Small and Medium-sized Enterprises

NGO - Non Governmental Organizations

SPSS - Statistical Package for Social Sciences

KNBS –Kenya National Bureau of Statistics

HIH EA – Hand in Hand Eastern Africa

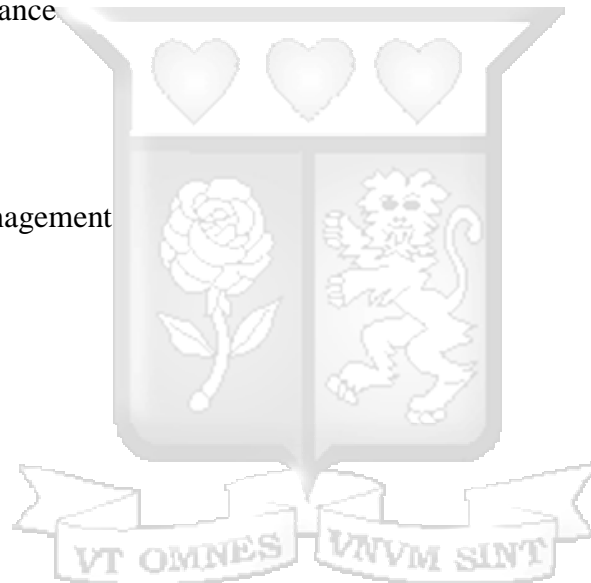
MSME - Micro, Small, and Medium Enterprises

ANOVA- Analysis of Variance

STD. –Standard deviation

SIG.. – Significance

FRM – Financial Risk Management



## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background of the Study

Small and medium enterprises (SMEs) are valued as the engine of economic evolution in supporting sound development across countries (Gherghina, Ștefan, Botezatu, Hosszu, & Simionescu, 2020). Small and medium-sized enterprises (SMEs) form a significant segment of the economy, which plays a vital role in creating additional jobs, economic growth, and innovation. These economic units are acknowledged worldwide as key actors of socio-economic development (Karadag, 2015). Panigrahi (2012) indicated that SMEs constitute over 90% of entire enterprises in most of the economies in the world and are attributed to generating high rates of employment and account for a key share of business production and exports. He argued that in India, it is predictable that in terms of value, the sector accounts for not less than 45% of the manufacturing output and 40% of the country's overall export. Ahmed & Ojong (2012) argued that the SME sub-sector plays a commanding role in transitioning traditional economies to modern ones by adopting innovation and providing opportunities for secondary production or processing, which enhances revenue generation and socio-economic development. This shows how SMEs plays a crucial role as engines of economic fruition.

The role and significance of the small and medium-sized enterprises sector to countries' economies have been acknowledged and recognized all over the world (Kagwathi, Kamau, Njau, & Maina, 2014). According to Mohanty & Dash (2020), creating employment was the most central objective of entrepreneurship development where the study concluded that in Tanzania, Small and medium-sized enterprises were identified as core in generating revenue for most urban residents with no formal paid employment. Prior studies have demonstrated the relative ease of setting up SMEs by the unemployed population in the country (Mfaume, 2013). The above studies outline how SMEs have become a source of employment for many people in various counties.

However, despite the high significance of SMEs in the economy, the survival of SMEs due to lack of knowledge on financial risk management has been a challenge, and therefore there was a need

for government policies regarding SME training on financial risk management to be enhanced (Mohanty and Dash, 2020). While SMEs in Turkey could better control much of the internal financial risks through risk management and treatment measures, they were more susceptible to external threats because the dangers were often outside their control, influence, radar, and ability to manage (Asgary, Ozdemir, & Özyürek, 2020). Consequently, the study shows that there is a need for entrepreneurial training on financial risk management which would likely influence the adoption of risk management measures in dealing with both internal and external threats.

### **1.1.1. Financial risk management Training and Financial risk Management Practices**

Entrepreneurial training is a systematic and planned set of activities to enhance knowledge, skills, and abilities to achieve desired performance (Bhatti, Aldoghan, Mat Saat, Juhari, & Alshagawi, 2021). Ladzani & van Vuuren, 2002 outlined entrepreneurship training to include motivation: The need for achievement, Reactions to success or failure, Entrepreneurial Skills: Ability to manage risks, ability to identify opportunities, Interpret successful entrepreneurial role models, and Business Skills: Financial skills, marketing skills, operational skills, management, and human resource skills. Further, Njoroge (2013) explains enterprise training as the process of enabling entrepreneurs to assimilate and improve knowledge, skills, values, and understanding, allowing far-reaching problems to be well-defined, examined, and solved.

According to Elmuti, Khoury, & Omran (2012), entrepreneurial training programs appeared to create openness, confidence, and trust among the participants. Nevertheless, the study also indicated that the type of entrepreneurship training must be coupled with content that is rich in all learning principles that enhance enterprise effectiveness. Inadequate Financial risk management training components have made SMEs face global risks with significant implications for the economy (Asgary et al., 2020).

However, Nduta (2016) identified trainee adoption of the trained practices had a significant relationship with how well the training was delivered. The study suggests improving training programs and any barriers to access training addressed. Ślusarczyk & Grondys (2019) observed that many SMEs lacked knowledge of managing financial risk making it hard for them to adopt risk management practices. The study emphasized that the identified challenges lead to the unsuccessful development and innovativeness of entrepreneurs enterprises hence recommending

the need for training to have good content and modules with knowledge and skills on managing financial risks.

Panigrahi (2012), in his research in India, stressed the need for entrepreneurial training on risk management by helping SME entrepreneurs understand that the survival of a business entity depends heavily on its capabilities to anticipate and prepare for the change rather than waiting for the change and then react to it. Belas, Smrcka, Gavurova, & Dvorsky (2018) confirmed that several factors determine a practical approach to managing the SME's financial risk. The process includes appropriate training content and training environment followed by economic factors such as a relationship with banks and financial knowledge in capital and payment discipline.

However, Nduta (2016) argued that the content of entrepreneurial education programs, the context where the facilitators operate such programs, and the approaches they use were equally important in influencing the adoption of financial risk management practices. The study emphasized the need to address all the relevant training needs and levels of understanding by SMEs by evaluating the training program's content to enable entrepreneurs to manage or mitigate all the risks, including the financial risks, which is the core aspect of this research.

According to Belas, Ključnikov, Vincúrová, & Macháček (2015), most SMEs in the Czech Republic experienced financial gaps because many of these enterprises had minimal access to external financing hence suffering from liquidity risk which is part of financial risk. The study noted that even before the economic downturn, the enterprises had trouble making necessary revenue to support their growth and innovation due to a lack of necessary knowledge to deal with prevailing risks. The study confirms that lack of financial risk management skills or inadequate adoption of trained skills had affected SMEs' financial position, leading to poor performance of their enterprises.

Entrepreneurship Education and Training on financial risk management practices is a significant determinant in the growth and survival of enterprises if the skills are adopted or put into practice (Njoroge, 2013). Okello, Mpeera, Munene, & Akol (2017) revealed a positive and significant controlling effect of financial literacy, demonstrating a relationship between financial risk

management and the growth of small enterprises in developing economies. The study also noted that financial literacy and access to finance (addressing liquidity risk) had significant and positive effects on the evolution of SMEs in developing economies.

Hand in Hand Eastern Africa (HIH EA) is one of the organizations that offer financial risk management training to SME entrepreneurs in Kenya, Tanzania, and Rwanda. Secondary data from the organization indicates that the organization which relies on donor funding began its operations in Kenya in April 2011 and currently operating in 21 field offices within 27 out of 47 Counties in Kenya. According to the Kenya National Bureau of Statistics (KNBS) MSME Basic Report (2016), Nairobi county had the highest proportion of small-sized establishments at 14.8 percent. Nairobi County is also one of the counties where the HIH EA operates. This study focused on SMEs within Nairobi County as the organization's records also indicated that the county had the highest number of SMEs still operating their businesses since the organization trained them on entrepreneurship. This presents an opportunity to understand how entrepreneurship training has influenced their adoption of financial risk practices over the years. The organization runs a nine-month training for SMEs and one of the critical modules that must be trained includes the financial management module which incorporates financial risk practices that form part of this study.

### **1.1.2. Financial Risks Management Practices**

According to Acma & Jianguo (2017), the components of the financial risk management practices are financial risk identification & analysis, financial risk monitoring, and financial risk mitigation. The study explored the financial risk management practices that were being followed and exercised by the financial institutions in Bangladesh and concluded that there was a need to devise training courses tailored to the needs of the individuals to influence the adoption of the practices.

E. Ahmed (2014) explains financial risk identification and analysis as a practice that involves various approaches. The study outlines visualization analysis or risk mapping where the enterprise can highlight the intensity of risks via risk mapping which could steer the organization away from high and low-intensity risks. It also identifies risk ranking as a method of risk identification process that includes components where these rankings are usually based on impact. According to Yolande Smit (2012) entrepreneurs in SMEs need to be conversant with financial risk identification and

analysis to manage risks from a diverse range of sources. Financial risk analysis helps to sort risks according to their importance and assists the management to develop a risk management strategy to allocate resources efficiently (Rosman, 2009).

Risk monitoring is a risk management practice that helps enterprises to discover mistakes at an early stage and establish controls at different levels (Rosman, 2009). To monitor financial risk some requirements are needed to ensure the implementation of the risk plans and the evaluation of its effectiveness in reducing risk, keeping track of identified risks, Internal controls, and risk ranking (E. Ahmed, 2014). Monitoring and review is an essential and integral step in the risk management process to ensure the changing environment does not alter risk priorities and to ensure the risk management process is effective both in design and in operation (Wanjohi, 2017).

According to Muthii Wanjohi (2017) the most important risk management practice is risk mitigation where organizations or enterprises use all their expertise and different methods to mitigate their risk exposures. Risk mitigation concentrates on reducing the probability (or frequency) of such events and/or alleviating the effects (consequences) of financial risk facing an enterprise (Ivanyos & Sándor-Kriszt, 2016). Enyinda, Mbah, & Ogbuehi (2010) ascertained risk mitigation strategies as risk reduction/control, risk avoidance, risk acceptance/retaining, and risk transfer which an entrepreneur should evaluate before making the decision on which strategy he/she should use.

Effective financial risk management requires the ability of the decision-maker to rank and prioritize a portfolio of risk factors involved (Ivanyos & Sándor-Kriszt, 2016). The research concludes that financial risk management is more than ever receiving increasing attention in both training organizations in the entrepreneurial sector because of its importance in enterprises gaining strategic competitive advantage.

### **1.1.3. Adoption of Financial Risk Management Practices among SMEs**

Adoption of financial risk management practices involves being able to identify risks, analyze, monitor, and then implementation of risk acceptance, risk reduction, risk avoidance, and risk transfer as risk mitigation measures (Rahman & Rahman, 2015). Njeri (2016) confirms that if the risks identified are not well analyzed, monitored, and mitigated over the years, they can significantly ruin SMEs' financial performance irrespective of how well the training was done. The study puts much emphasis on the adoption of risk management practices in their entirety for better performance. According to Zhao & Zeng (2014), the manager of SMEs and financial workers must have adequate skills on the importance of financial risk management for them to put them into practice. The study identifies the required skills as training on risk awareness, internal financial supervision mechanism or analysis, optimizing the capital structure, improving the financial risk monitoring, adapting to fundamental economic changes neatly to mitigate financial risk, and being the champion in market competition.

According to Belás, Dvorský, Kubálek, & Smrčka (2018), only 28% of SME entrepreneurs from the Czech Republic agreed with the affirmation that they could correctly manage financial risk in their firms while 72% of the SMEs could not do it due to lack of knowledge and skills or lack of followup to ensure the training is adopted. Belás, Ključnikov, Vojtovič, & Sobeková-Májková, (2015) found out that three-quarters of entrepreneurs in the SME segment in the Czech Republic identified the intense action of financial risk. However, their ability to fully manage financial risks was a challenge.

Noor & Abdalla (2014) argued that training programs have not fully addressed SMEs' capability to adopt risk management practices when exposed to various financial risks, including exchange rate risk, liquidity risk, credit risk, interest rate risk, and the market risk, which has a significant influence on the performance of the enterprises. N'Guilla, Basiruddin, Abdul, & Husin (2018), also added that Malaysian SMEs were significantly exposed to financial risk involving fraudulent activities where only 41 percent of the respondents were sure of mitigating the costly financial risks. The study recommended entrepreneurial training to SMEs as a way to ensure that SMEs can manage threats of financial risk through the adoption of financial risk management practices.

Kagwathi, Kamau, Njau, and Maina (2014) argued that the ability of owners of SMEs to detect potential risks to their enterprises remains one of the significant determinants of SME performance. Therefore, the primary function of risk management and mitigation is to identify measures and, more significantly, monitor the risk as a proactive action for safeguarding the future of the enterprise (Panigrahi, 2012). McGrath, MacMillan, and Scheinberg (1992) established that adoption of organizational learning and continuous investment in skills and knowledge diversity lead to fewer financial-related risks, partnership deficiencies, and corporate culture risks.

According to Chepurensko (2010), the financial crisis in 2008 in the USA changed the entrepreneurial framework conditions as most entrepreneurs were not able to adopt financial risk practices in dealing with the crisis. The study argued that the entrepreneurs either didn't have the required financial risk management skills or there were challenges in adopting them. In addition, Kagwathi et al. (2014) argued that most SMEs started in Nairobi couldn't survive even for one year due to risks they faced (financial risk being one of them) and the failure to adopt practices that could mitigate the risks. Therefore the study identified diversification, collaboration, and insurance as the practical risk interventions SMEs should have adopted to either mitigate the risk or avoid it.

#### **1.1.4. SMEs in Nairobi County**

SMEs play a central economic role in various countries. According to the Kenya National Bureau of Statistics (KNBS) MSNS Report (2016), Nairobi County had the highest proportion of small-sized establishments at 14.8 percent. The report also indicates that the micro, small, and medium-sized establishments accounted for 55.2 percent, 32.3 percent, and 12.5 percent of employment in licensed businesses, respectively. Specifically, the reports show that the highest proportion of employment in licensed SMEs was recorded in Nairobi accounting for 27.8 percent of employment. However, despite this significance, SMEs are still faced with the risk of failure, with past statistics showing that three out of five SMEs fail to succeed within the first few months of starting the business (Bowen, Morara, & Mureithi, 2009).

According to Osoro (2012), Financial assistance and entrepreneurial training in financial risk management remain the greatest need for SMEs in Nairobi county. Since not all financial institutions may provide the necessary training regarding financial risks, the study recommended

that entrepreneurs consider other ways of solving these challenges like partnering with other training entities.

Ngumbi (2020) argued that SMEs in Nairobi region should be equipped with entrepreneurial skills as well as business development competencies to help them successfully navigate industry dynamics. The study concluded that entrepreneurs should take measured risks and avoid excess risk tolerance. In addition, Kibet (2019) indicated that entrepreneurial training on financial risk management had positively influenced the repayment of youth enterprise funds (YEF) in Nairobi county and the growth of youth-owned enterprises. The study recommended that before the funds were disbursed to the youths either for individuals or groups, they should first receive financial risk management training.

Jagongo & Kinyua (2013) identified that financial risk was a hindrance to the growth of SMEs in Nairobi county and therefore recommended that the Government of Kenya offer assistance to SMEs in terms of entrepreneurial training and financial resources. The study indicates that the assistance would encourage the adoption of financial risk management practices which would help progress the SME sector.

However, Kamendi (2016) argued that other than entrepreneurial training, risk-taking had the highest effect on the growth of small and medium enterprises in Nairobi county. Therefore, the study recommended that SME owners invest in research and development to establish new products and services that would be competitive. The study also argued that SME owners should pursue new markets and apply new business processes like outsourcing to enhance business growth and hence manage operational and market risks, which are part of the financial risks that SMEs face in Nairobi County.

Gicovi, Sabina, Ndunge & Mwaura, (2019) in their study argued that there was a positive correlation between the adoption of financial risk management practices and the performance of SMEs under the Jua-kali Demonstration and Training Empowerment Programmes (JDTEP) in Nairobi County. The study concluded that the adoption of financial risk management practices

determined how the program was going to perform hence making it critical for members to undergo entrepreneurial training when implementing Jua-kali empowerment programs.

## **1.2 Statement of the Problem**

SME Entrepreneurial training which includes financial risk management is a key aspect of business growth as it creates awareness of enterprise development where entrepreneurs highly benefit from the skills trained (Nduta, 2016). The extent to which the training has influenced the adoption of financial risk management practices by the entrepreneurs is a critical aspect that needs to be established. Adoption of risk management practices requires a reporting and review structure to ensure that risks are effectively identified and assessed and that appropriate controls and responses are in place (Rosman, 2009). According to Chomba & Nyang'au, (2019) training on how to identify possible financial risks will immensely facilitate SMEs to identify, analyze, monitor, and mitigate potential risks well in advance. The study emphasized that training and adoption of risk control measures in form of risk avoidance, risk transfer, or risk acceptance are of paramount importance to the growth of SMEs.

Kiyai, Namusonge & Jagongo (2019) study showed that SMEs in Nairobi experienced various risks that hindered the growth of their enterprises. Quinn & Woodruff (2019) agreed that SMEs in low- and middle-income countries like Kenya routinely list finance risks as among the most limiting factors in their growth. The study argues that training SMEs on entrepreneurial skills which include financial risk management and the significance of adopting financial risk management practices may help resolve low business survival rates (Nurulhasanah & Rafisah, 2015).

Sieki, Wagoki & Kagio (2013) studied the effect of entrepreneurial training on the performance of SMEs in Njoro, Kenya, and established that the adoption of entrepreneurial skills improved the general performance of SMEs. Njoroge, (2013) studied the effect of entrepreneurial education and training on the development of small and medium-sized enterprises in Githunguri District, Kenya, and established that entrepreneurship training was a major determinant in the growth and survival of enterprises, especially where SMEs adopted the entrepreneurial skills trained.

However, Friedrich et al., (2006) argued that SME entrepreneurs may have training on entrepreneurship but the cognition may not be applied well in a specific situation leading to low or no adoption of the practices learned. The study argued that abstract knowledge or wishes do not directly translate into actions. Eresia-Eke & Raath (2013) studied the relationship between the entrepreneurial training of SMEs in South Africa and business growth arising from the adoption of the skills trained. The study established that there was no correlation between financial risk management training and the ability of SMEs to adopt financial risk management practices that guarantee business growth.

In addition, Kayes (2002) studied the role of experience in management learning and education. The study indicated that entrepreneurship called for a continuous process of responding to diverse personal and environmental demands that arise from the interaction between experience, concept, knowledge, and action. Contradicting findings in other geographical areas on the influence of financial risk management training on the ability of SMEs to adopt the trained skills, has necessitated the need for further research to establish the influence of FRM training on the adoption of financial risk management practices by SMEs in Nairobi County. The findings add to the body of knowledge on whether FRM training has an influence on the adoption of financial risk management practices by SMEs.

### **1.3. Research Objectives**

#### **1.3.1. General research objective:**

The study's general objective is to evaluate the influence of financial risk management training on the adoption of its practices by small and medium enterprises in Nairobi county.

#### **1.3.2. Specific research objectives**

The specific objectives of the study are to: -

- i. To establish the influence financial risk identification and analysis training has on its adoption by SMEs in Nairobi County
- ii. To examine the influence financial risk monitoring training has on its adoption by SMEs in Nairobi County
- iii. To determine the influence financial risk mitigation training has on its adoption by SMEs in Nairobi County

## **1.4 Research questions**

The research questions of this study are as follows: -

- i. What influence do financial risk identification and analysis training have on its adoption by SMEs in Nairobi County?
- ii. What influence does financial risk monitoring training has on its adoption by SMEs in Nairobi County?
- iii. What influence does financial risk mitigation training has on its adoption by SMEs in Nairobi County?

## **1.5 Scope of the Study**

The study's geographical scope is limited to a review of SMEs operating in Nairobi county. SMEs face major risks which include financial risks and there is a need for mitigating factors to be put in place (Choge, 2020). Nairobi county has the highest number of SMEs in the county hence the preferred county for this study (Kenya economic Report, 2020). The contextual scope of the research focuses on establishing the influence of FRM training on the adoption of financial risk management practices by SMEs.

## **1.6 Significance of the Study**

Various key stakeholders within the SME setting will benefit from the findings of this study. Management of the SMEs/owners will use the results of this study in the formulation of business policies and guide their business decision-making. This will also help them in areas they may require refresher training to increase their extent of adoption of financial risk management practices. Further, the study findings will inform the management on whether FRM training influences the adoption of financial risk management practices by SMEs.

The study will also benefit the policymakers including the government in designing intervention measures that would enhance the adoption of risk management practices by SMEs. Financial institutions will be able to understand the relevance of training on financial risk management and its influence on the adoption of financial management practices. Therefore, they will be able to make sound decisions on which enterprises to lend money to and determine whether the enterprises have adopted the risk management practices which would help to reduce the risk of repaying the loan.

In addition, the results of this study will be fundamental in perfecting the development of strategies by government training institutions to ensure that training on financial risk management achieves a high level of success where a high percentage of SMEs adopt financial risk management practices hence enhancing the growth of their enterprises and the economy at large.

There have been minimal studies that have focussed on the influence of FRM training on the adoption of financial risk management in Nairobi county. Therefore, the findings of the study will help in creating new knowledge on how the two concepts are connected. This study will act as a reference for other students who will be willing to research the same topic. In addition, the results will help in guiding future research work examining the FRM training and adoption of financial risk management practices.



## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 Introduction

This section presents critical literature on theoretical frameworks and empirical literature on the influence of financial risk management training on the adoption of financial risk management practices by SMEs. Section 2.2 deals with the theoretical framework where The knowledge-based theory of the firm forms the basis of this study. Section 2.3 critically analyzes existing empirical literature concerning financial risk management training and the practices they need in driving financial risk management. 2.4 summarizes the research gap identified during the critical literature review, and finally, Section 2.5 is the conceptual framework for the study.

#### 2.2 Theoretical review

This chapter shall review literature based on the influence of FRM training on the adoption of financial risk management practices by SMEs. Theories were intentionally sampled to enlighten all the components of the conceptual framework. The knowledge-based theory of the firm emphasizes the significance of knowledge in growing the productivity of SMEs and that of the economy. The human capital theory is concerned with investment in training, knowledge, and acquiring skills of which in this study would help SMEs in managing financial risk and hence enhancing the adoption of financial risk management practices.

##### 2.2.1. The Knowledge-based Theory of the Firm

This theory was first upheld by Penrose (1959). Barney (1991) and Conner (1991) later expanded the theory. The knowledge-based theory (KBT) emphasizes the significance of knowledge in growing the productivity of SMEs and that of the economy. Therefore, SMEs and economies, with highly educated and trained manpower, are more likely to be of high performance compared to those that lack these key resources (Nduta, 2016). The study indicated that the reason behind this notion is that well-educated entrepreneurs are quick at learning and applying new skills and also proactive in developing efficiency, productivity, risk-taking, and innovation.

The theory advises that people use their capacity to create value in mainly two directions; by transferring and converting knowledge externally and internally to the organization (Nickerson & Zenger, 2004). It then focuses its attention on the resources and organizational capabilities as the critical sources of sustainable competitive advantage and the foundation for strategy formulation. The value grows each time a knowledge transfer or conversion of the same is realized. The choice of the words “transfer” and “conversion” may suggest one-directional movements of knowledge but the fact is that the theory appreciates that knowledge transfer between two individuals is a bi-directional process (Nelson & Winter, 1982). The process tends to improve the competence of the individuals and the teamwork tends to be a co-creation of knowledge involving the whole team. Therefore, the transfer of competence depends on the conversion of knowledge from tacit to explicit and back to tacit again in an endless spiral.

Training of the SMEs on entrepreneurship encompasses the transfer of knowledge between two individuals and requires an understanding of the risks and challenges that SMEs face and prescribing mitigating factors to be adopted. Knowledge-based theory of the firm can be valuable for strategy formulation where knowledge grows when used and depreciates when not used (Nickerson & Zenger, 2004). Building up competence in a language or a sport requires huge investments in training and managerial competence takes a long time on-the-job to learn. If one stops speaking the language it gradually dissipates. In the same breath, training done to the SMEs will be very valuable if converted to tangible outcomes that help mitigate the financial risks experienced by the entrepreneurs.

The manager’s fundamental knowledge-based objective is to sustain high profits by continually discovering new knowledge or new solutions that form, from unique combinations of existing and new knowledge (Nelson & Winter, 1982). The state of SME knowledge can be advanced by either absorbing existing external knowledge from the firm or by developing new knowledge by first identifying a problem and then discovering a valuable new solution. Therefore, if an SME is to develop unique knowledge or a unique new capability through any manner other than luck, it must identify a valuable problem and conduct an efficient solution search (Nickerson & Zenger, 2004). Managers of SMEs choose problems while identifying knowledge sets or existing

technology either within or outside the firm that are potentially useful in searching for solutions to that problem (Nelson & Winter, 1982). Therefore, valuable knowledge for SMEs on available financial risk solutions delivers value to the business in deciding whether to mitigate risk through risk acceptance, risk avoidance, risk limitation, or risk transfer.

The problem of identification and analysis reflects an assessment of the expected value of potential solutions and an assessment of the firm's capacity to profitably reach high-value solutions. A firm's reservoir of knowledge sets through training and prior experience inform this choice.

In contrast to earlier literature, knowledge is viewed as residing within the individual, and the primary role of the organization is knowledge application rather than knowledge creation (Grant, 1996). The theory indicates that SMEs in essence should choose a set of potential solutions once a problem is identified, analyzed, monitored, and mitigated. This is what leads to financial risk management where credit risk and liquidity risk are managed therefore maximizing the probability of discovering a high-value solution.

Complex problems require a solution search that involves extensive knowledge transfer, which is discouraged by knowledge-exchange hazards. Efficiency thus dictates the selection of governance forms, which support the appropriate level of knowledge transfer. At the same time, efficiency dictates the maintenance of high-powered incentives that encourage actors to actively seek knowledge through solution search (Nickerson & Zenger, 2004). The theory argues that knowledge Transfers/conversions from External to Internal Structure are concerned with what knowledge the SMEs can gain from the external world and how the new knowledge can be converted into action. The answer to the strategic question is how the knowledge from the trainers can influence the improvement of SMEs' systems, tools & processes, that would help them manage their financial risks.

However, according to Kaplan, Schenkel, Krogh, & Weber (2001), the knowledge-based theory of the firm in strategic management is still a contested and unmapped terrain. The study indicates that there are many partial contributions each building on its own set of assumptions be it methodological individualism or social-psychological identity theory where the concepts and their relationships vary considerably with no unified predictions made. Hakanson (2010) argues

that the cost of governing knowledge processes depends as much on the cognitive background of the exchange partners as on the tacitness of the knowledge which may vary from how the theory was first upheld by Penrose. Therefore, he proposed a new perspective on the knowledge-based view of the firm and sketches the outline of a new research agenda based on a social-constructivist conceptualization of knowledge as residing in groups of practitioners.

## **2.3 Empirical review**

This section reviews literature related to the Influence of FRM training on the adoption of financial risk management practices by SMEs. It examines studies done globally, including studies done in Kenya that are within the scope of the study. As per the research objectives, the section focuses on Risk Management, the influence of FRM training on financial risk identification and analysis, the influence of FRM training on financial risk monitoring, and the influence of FRM training on financial risk mitigation of SMEs.

### **2.3.1. Adoption of Risk Management Practices**

Adoption of risk management practices may help SME managers to identify significant risks that could jeopardize the success or existence of the company in time to efficiently cope with them (Miller, 1992). According to Van, Bowen, and Akintoye (2008), the structured approach to risk management can be divided into risk management practices of risk identification, risk analysis, risk monitoring, and Risk Mitigation. Lagat & Tenai (2017) explain that risk identification is the first stage of the risk management process, ensuring effective management of the risks. The research indicates that when managers don't identify all potential risks facing the enterprise, these non-identified risks will become non-manageable. Githinji (2016) confirms that financial risk management involves setting objectives and risk identification as one of the stages involved in the management of financial risk.

Beranek (2011) agrees that the risk analysis method benefits SMEs by fast-tracking risk analysis and lowering its cost. The study indicated that the analysis and evaluation process could be done by classifying the various financial risks according to the level of damage they probably cause or may cause. Classification allows the management to determine risks that threaten the enterprise's existence from those which can merely cause slight damage (Ahmed, Mukhongo, & Datche 2019).

The risk management process involves risk analysis, which enables the company to identify different types of risk, recognize risk factors and evaluate the potential consequences of risk by measuring risk exposure (Peng, Wang, Kou, & Shi, 2011).

Kavassalis et al. (2018) identified risk monitoring as a significant feature of an effective response to potentially dangerous events in the financial system. Gachuru (2020) emphasizes that risk monitoring is a continuous process of tracing uncertainties to avoid an undesirable impact on the performance of an enterprise. The study included monitoring high growth sections to assess potential risks arising from entering unfamiliar markets and venturing into new inventiveness, leading to higher risks. Risk monitoring can be used to ensure that risk management practices are properly implemented to enable businesses to discover the mistakes done at an early stage for corrective measures to be adopted (Muriithi, 2016). The above studies indicated that a lack of risk monitoring activities could negatively impact performance.

Zhao & Zeng (2014) agrees that mitigating financial risks is not only something about a few individuals, but all members of the enterprise should have a level of concern. The study points out that risk mitigation is coming up with options and actions to improve the opportunities that help reduce threats to business objectives. Rawat, Gupta, & Rao (2021) emphasize the need for risk mitigation which encompasses executing identified mitigation actions to reduce anticipated risk. The results indicated that risk acceptance acknowledges the existence of a particular risk and makes a careful decision to accept it without engaging in extraordinary efforts to control it.

According to Oren (2001), risk avoidance involves adjusting program requirements or limitations to eliminate or reduce the risk. Risk limitation or control would encompass implementing actions that would minimize the impact or possibility of the risk happening while transferring risk involves reassigning business accountability, responsibility, and authority to the 3<sup>rd</sup> party like insurance to carry the risk ( Katende, Ann, & David 2017).

However, there is a general tendency in academic culture to believe that training solves problems of implementation/adoption which in most cases it may not be the case as cultural considerations inhibit proper implementation of risk management ( Liu, Li, Lin, & Nguyen 2007). The study indicates that training alone may not influence the adoption of financial risk management practices. According to Muthuveeran, Tahir, Ibrahim, & Noor (2020), training doesn't influence the adoption of financial risk management practices as in most cases entrepreneurs lack a positive

attitude and mostly work with unsupportive partners in the sector. The research indicates that adopting risk management practices is an expensive exercise and therefore the knowledge gained may not eventually achieve the intended results.

### **2.3.2. FRM training and financial risk identification and analysis adoption**

There is a need for Small and Medium-size entrepreneurs to understand financial risks that come from financial factors that create the possibility of losses due to financial failure (Woods & Dowd, 2008). Financial factors have been identified to include high-interest rates, refusal of credit allowances from the financial institution, uncertainties of profit, access to finance, liquidity, and foreign exchange fluctuations (Lumpkin & Dess, 1996). Risk management may help SME managers to identify significant risks that could jeopardize the success or existence of the company in time to efficiently cope with them (Miller, 1992).

Belás et al. (2015) indicated that financial risks are complex since they include several interconnected partial risks, making it hard for SME entrepreneurs to identify the formal risk management frameworks that can be adopted in their businesses. The study identified a lack of experience, awareness, and analysis capabilities of SME owners or managers as the source of the challenge. Munyuki & Jonah (2021) study confirmed that training in financial literacy knowledge despite its complexity helps one to make adequate financial risk analysis and interpretations during the different phases of the business lifecycle. Enterprises are required to identify and incorporate financial risk management strategies to reduce the level of exposure to such risks (Wanyama, 2016). There is a need for SMEs to be trained on how to identify market risk and come up with better and more effective pricing methods that would help them maintain adequate liquidity, and achieve operational efficiency and market leadership (Munyuki & Jonah, 2021).

In addition, once a risk is identified on a high level, further internal data can be analyzed to figure out where the source of the risk is and appropriate measures can be chosen following the specific needs of the SME (Napp, 2011). Training on the process of risk identification is critical and when adopted it improves the performance of a company by reducing the cost relating to the volatility of cash flows (Wanjohi, 2017). In a study done on banks, it was concluded that risk identification

and management enable a company to reduce the level of risk exposure and improve its competitive advantage (Wanjohi, 2017).

However, Isaga (2017) argued that training alone didn't guarantee the adoption of the trained strategies because specific personality traits and certain cognitive characteristics are crucial to SME entrepreneurs taking the initiative to identify and analyze various risks facing the enterprise. The study recommended that owner-managers traits influence their cognitive behaviors, influencing enterprise adoption of the trained practices. According to Friedrich et al., (2006), there were no significant differences between the trained groups and control groups as personal initiative played a great role in bridging the gap between what was trained and what was adopted. Training would not guarantee that the entrepreneurs would effectively manage financial risks since personality traits are determinants of the entrepreneurs' understanding of financial risk management practices (Isaga, 2017).

### **2.3.3. FRM training and financial risk monitoring**

To monitor and control risk some requirements are needed to ensure the implementation of the risk plans and the evaluation of their effectiveness in reducing risk, to keep track of identified risks, internal controls, and risk ranking (Kiprop & Yegon, 2017). Armstrong (2007) indicates that determining entrepreneurship effectiveness needs to address training activities, evaluation activities, and training effectiveness which eventually determines how well the risks will be monitored. The time and awareness of training needs assessment and the effect are answered through an evaluation and monitoring process (Nyachome, 2012). Monitoring is an important procedure to ensure that risk management is practiced by SMEs effectively. Training on financial risk monitoring plays a critical role in ensuring that enterprises maintain a risk management review process, appropriate limits on risk-taking, adequate systems of risk measurement, a comprehensive reporting system, and effective internal controls (Wanjohi, 2017).

Risk indicators as well as control indicators, which represent an objective measure for changes to the risk and control situation are helpful instruments for defining and monitoring risk and control levels (Kinyua, Ogollah, & Mburu, 2015). Kiprop & Yegon (2017) indicated that risk management

practices (monitoring) had a positive relationship with the performance of SMEs and risk evaluation management practices highly predicted the performance of the enterprises. Napp (2011) identifies risk monitoring as one of the critical processes in financial risk management especially for SMEs as it has become part of the daily business until the process is started again from the beginning when new risks are identified. The evaluation model and the training program need to ensure that there is effective and efficient training on risk monitoring, thus increasing the prospect that risk management outcomes reveal positive value-added outcomes. Risk monitoring practices can be used to ensure that risk management practices are in line and that it also helps the financial institution's management to uncover mistakes at early stages (Kiprop & Yegon, 2017).

However, in influencing SMEs to adopt the training on risk monitoring, some factors have been singled out as predictors of training outcomes for individual characteristics, including self-efficacy, goal orientation, motivation to learn and work environment properties, which encompasses the training environment (Tziner, Fisher, Senior, & Weisberg, 2007). The training method by which training is delivered, which generally varies based on the needs of the SMEs, the trainee, and the task at hand, is a critical factor in determining the influence a training program has on the adoption of the trained practices (Nyachome, 2012). The study argues that training alone may not influence the adoption of the training practices on monitoring the financial risk unless the training suits the trainees, the content required is sufficient, and the business environment being experienced is acceptable for the learning objectives.

#### **2.3.4. FRM training and financial risk mitigation**

Financial risk management is imperative for small and medium-sized enterprises, where entrepreneurs must understand how to mitigate various risks by investing in entrepreneurial training (Asgary et al., 2020). The study was in agreement with Jobo & Phyllis (2020), which confirmed that various financial risks have negative impacts on business performance. The study indicates that this could lead to economic losses or business failures, and training on how to mitigate the risk is necessary. Managing financial risk involves having the skills and knowledge in setting an appropriate risk environment, identifying and measuring the enterprise risk exposure, mitigating risk exposure, monitoring risk, and constructing controls for protecting the enterprise from financial risk (Wanjohi, 2017).

Christoffersen (2012) explains that risk should be mitigated and ideally eliminated in any firm or SME because the exposure to it offers very little return. Financial performance is highly dependent on risk measurement practices and risk mitigation practices (Wanjohi, 2017). Risk is typically very difficult to hedge in asset markets, although certain specialized products such as weather derivatives and catastrophe bonds might offer somewhat of a hedge in certain situations which requires extensive training (Christoffersen, 2012). Successful risk management increases the level of profit while failure to mitigate risk leads to high costs and low profitability (Lelgo & Obwogi, 2018). Financial risk and operational risks are typically managed using self-insurance or third-party insurance an adopted practice normally called risk transfer (Christoffersen, 2012). The qualitative study by Cioccio & Michael (2007) of eleven small businesses in Australia showed that most of the respondents' indicated that insurance was the primary tool for risk mitigation. The study emphasizes that to minimize the negative impact of the risks was to have extensive FRM training that incorporates the risk mitigation component where individuals trained not only understand but also followed up to adopt the correct financial risk management practices.

Furthermore, SME managers with deeper knowledge perceived risky situations more critically, took more informed decisions, and could be regarded overall as more risk-averse (Kiprop & Yegon, 2017). As Kim & Vonortas (2014) indicated, higher SME owner entrepreneurial training was positively related to the extent of adopting risk mitigation strategies, such as networking, and strategic actions to mitigate technological, financial, and operational risks. SME owners who have not received training on entrepreneurship view growth as a risk rather than an opportunity and therefore training on the mitigating role of proactive risk mitigation holds (Falkner & Hiebl, 2015). Risk-mitigation strategies include avoiding, reducing, accepting, and transferring (sharing) risk (Enyinda et al., 2010).

Nonetheless, Kim & Vonortas (2014) expectations about the extent of contribution of alliances to risk mitigation should be moderated by the fact that the risk here refers primarily to the internal organization and management of own operations. Further, based on a survey of 311 Austrian SMEs, Brustbauer (2016) reported that those with a proactive (rather than passive) approach to risk management show a higher propensity to expand to new markets and invest in new production

processes technologies. This however suggests that proactive risk management may mitigate SME owners' aversion to growth risks and FRM training may not be the primary requirement.

However, the knowing-doing gap managers face is a special case of a more general gap between cognitions and actions (Frese & Zapf, 1994). Abstract cognitions in the sense of declarative knowledge have to be translated into operational knowledge that guides actions such that risk mitigation training can yield the required results (Friedrich et al., 2006). An entrepreneur may want to adopt the risk mitigation strategies as trained (this is a "wish"); however, he or she may not be able to translate this general wish into effective actions meaning that training may not influence the adoption of the trained practices (Heckhausen & Kuhl, 1985).

#### **2.4. Summary of Research Gaps**

The review of the literature has revealed that entrepreneurship training is essential for the growth of enterprises. Lack of knowledge on risk management was identified as one of the leading causes of poor enterprise performance, which could be improved if one had the proper training. As the literature review highlights the importance of training and its general influence on how entrepreneurs have dealt with various risks, there is still a gap in establishing to what extent the financial risk management training influenced the adoption of risk management practices of risk identification, risk analysis, risk monitoring, and risk transfer in the management of financial risks.

Additionally, various literature reviews generally examined the SME training behavior and barriers entrepreneurs experienced to understand how they influenced the application of the skills and knowledge learned. The findings didn't specifically confirm whether increased FRM training influenced the adoption of financial risk management practices of SMEs.

#### **2.5. Conceptual Framework**

The conceptual framework presents the relationship between the independent variables and dependent variables. In this study, the independent variables are financial risk management training on financial risk management which involves risk identification, financial risk analysis, financial risk monitoring, and financial risk Mitigation. The dependent variable is the adoption of

financial risk Management practices by SMEs where financial risks have been identified, analyzed, monitored, and mitigated.

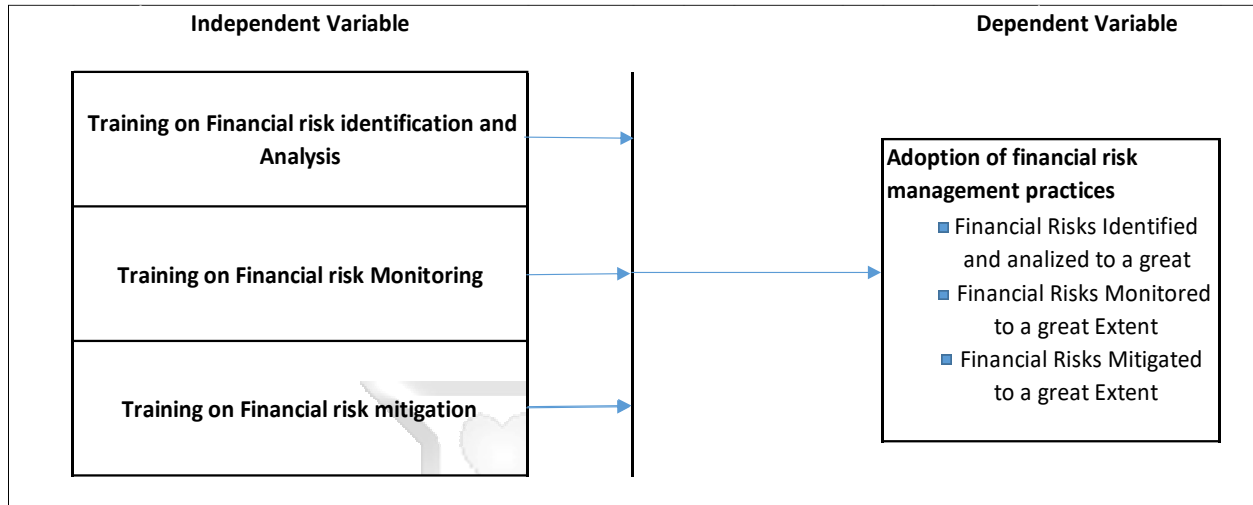


Figure 2.1: Conceptual Framework

## 2.6. Operationalization of Variables

Typically, SME training on risk management practices allows one to actively manage risk within a defined area of the enterprise. That’s good, and necessary, and needs to be appreciated. However, this kind of risk management doesn’t tell the influence the entrepreneurship training has in determining how well the enterprise is at identifying and managing risk overall unless it is well measured. This will help in flag up areas where people managing risk might be struggling, and also identify where risk management processes might need a little work. Therefore, the independent variable is financial risk management training on financial risk identification and analysis, financial risk monitoring, and financial risk mitigation, while the dependent variable is the adoption of financial risk management practices by being able to identify and analyze risks monitor and finally mitigate them. Table 2.1 presents the measures of each of the independent variables and the dependent variable in the study.

Table 2.1: Operationalization of Variables

<b>Variables</b>	<b>Measures</b>	<b>Likert scale</b>	<b>Author</b>
Financial Risk identification & Analysis	<ul style="list-style-type: none"> <li>• Ability to recognize new Financial risk exposures</li> <li>• Ability to measure how often a financial risk occurs on average during a unit of time</li> <li>• Ability to determine the severity of the financial risks</li> <li>• Ability to categorize the identified financial risks from high occurrence and high consequences to the low occurrence.</li> <li>• Capability to analyze financial risks and make decisions that will mitigate the risks</li> <li>• Ability to analyze and trace back the origin of the risk</li> </ul>	5-point Likert scale	Ahmed, & Ojong, M. (2012), Musyoka, (2010)
Financial risk monitoring	<ul style="list-style-type: none"> <li>• Ability to map internal controls to the financial risks to ensure there are no gaps between risks and controls.</li> <li>• Ability to track any financial risk that has been identified for any changes in probability or severity.</li> <li>• Ability to derive a most-to-least-critical rank-order of identified financial risks to form a basis for allocating resources.</li> </ul>	5-point Likert scale	Ahmed, & Ojong, M. (2012), Musyoka, (2010)
Financial risk mitigation	<ul style="list-style-type: none"> <li>• Competency in knowing when to avoid any exposure to financial risk that poses a potential loss.</li> <li>• Ability to limit exposure to financial risks by taking some action or series of actions</li> <li>• The ability to know when to accept financial risk where potential loss from risk is not great enough to warrant spending money to avoid it.</li> <li>• Competency in understanding when to transfer financial risk to third parties contracted to mitigate or cover the risk.</li> </ul>	5-point Likert scale	Ahmed, & Ojong, M. (2012), Musyoka, (2010)
Adoption of Financial risk Management practices	<ul style="list-style-type: none"> <li>• The extent to which financial risks are identified</li> <li>• The extent to which financial risks identified were assessed for their likelihood and impact</li> <li>• The extent to which risks were ranked from low/negligible risks to major/critical risks.</li> <li>• The extent to which a risk register/matrix was developed and maintained incorporating</li> </ul>	5-point Likert scale	Ahmed, & Ojong, M. (2012), Agyapong (2020)

	<p>internal controls on how the risks identified are monitored.</p> <ul style="list-style-type: none"> <li>• The extent to which the financial risk register/matrix is continuously reviewed and monitored.</li> <li>• The extent to which the actual Severity of the financial risks had a lower impact compared to the Predicted risk Severity level of impact due to risk limitation,</li> <li>• The extent to which a high cost of mitigating the financial risks was incurred compared to the cost of accepting the risk.</li> <li>• The extent to which financial risks were closed (avoided) compared to financial risks identified</li> <li>• The extent to which financial risk was transferred to third parties e.g Insurance policy or contractual agreements</li> </ul>		
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## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.1 Introduction

This chapter outlines the overall methodology that was used to carry out this research study. The chapter outlines the research philosophy, research design, target population, sample and sampling procedure, data collection procedures, data analysis techniques, description of research instruments, and description of validity and reliability of instruments that the researcher employed in carrying out this study.

#### 3.2 Research Philosophy

This research took up a positivist approach. Although positivism may have different meanings, it is not difficult to identify research paradigms that would be acknowledged as positivist by friends and foes of positivism alike (Schrag, 1992). According to Hjørland (2005), positivists accept that reality is stable and can be witnessed objectively without interfering with the occurrences being studied. This process comprises various manipulation in only a single independent variable to establish regularities and form relationships.

The approach used in this research is quantitative (positivism), because the data obtained was in the form of numbers which were then analyzed using statistics to answer research questions. The results were used to explain the position of the variables studied, and also predict the relationship of financial risk management training with the adoption of financial risk management practices.

#### 3.3 Research Design

Research design is a structure of research that is the glue that holds all the elements in a research project together (Akhtar, 2016). According to Zikmund Babin, Carr, and Griffin (2010), a research design is an outline plan used to generate responses to Research problems. The descriptive correlational study design was adopted to allow for the researcher to address relationships between predictor variables and the dependent variables, but as well among and between predictor variables. This design is for the purpose to accurately represent persons, events, or situations (Saunders, Lewis, & Thorn hill, 2003). This study used quantitative data collection techniques and analytical procedures in the research project. Descriptive research was ideal for the study because

it allowed statistical computation of percentages and frequencies of financial risk management training on financial risk management as the independent variable and the adoption of financial risk management practices as the dependent variable. This was used in reporting the study's findings.

### **3.4 Population and Sampling**

A population is a well-outlined set of services, people and events, things grouped, or households undergoing an investigation (Zikmund et al., 2010). A population is also defined by Lewis & Thornhill (2009) as an entire group of individuals, events, or objects having common observable characteristics. The population targeted should exhibit some observed behavior that the researcher seeks to make inferences from the study results.

The study's target population was 22,091 small and medium-sized entrepreneurs who are the managers of their enterprises. The target population was downloaded from the Hand in Hand Eastern Africa Management information system. Purposively, the sample participated in a nine-month financial risk management training between January 2017 and December 2019, and they were based in Nairobi County. The period between the years 2017 and 2019 data is preferred as entrepreneurs had enough time to implement the knowledge and skills learned, and they are more likely to remember what they learned. According to the Kenya National Bureau of statistics, MSME Basic Report, 2016, Nairobi county had the highest proportion of small-sized establishments at 14.8 percent. The report also indicates that wholesale and retail trade accounted for more than half of the total persons working in MSMEs as shown while manufacturing, accommodation, and food service activities accounted for 11.8 percent and 11.1 percent of all persons engaged in MSMEs, respectively.

KNBS MSME report (2016) has guided the classification of SMEs industry to ensure that the sample is representative of major industrial enterprises operating in Nairobi County. The study adopted a stratified random sampling method to develop the target population using Slovin's formula indicated below. The sample population was therefore 393 SMEs, as shown in Table 3.1 below.

Table 3.1: Population and Sampling

<b>Industry</b>	<b>No. trained (N) Population</b>	<b>Formula</b> [1+(Ne <sup>2</sup> )]	<b>Sample Size (n)</b> $n = \frac{N}{1+Ne^2}$
Wholesale and Retail enterprises	9,509	56.2275	169
Transportation & Storage	5,102	56.2275	91
Agriculture, Forestry & Fishing	3,479	56.2275	62
Manufacturing	3,131	56.2275	56
Accommodation and food service activities	870	56.2275	15
<b>Totals</b>	<b>22,091</b>		<b>393</b>

**Source: HIH EA MIS Listing**

Slovins's formula has been used to calculate an appropriate sample size from the population.

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

Where

n= required sample size

N=size of the population

e=0.05 at 95% confidence interval

$$n = 22,091 / [1 + (22,091 \times 0.05^2)] = 393$$

### 3.5 Data Collection

Field research involves collecting primary data using different research tools, such as the use of interviews and questionnaires to solve the existing research problems.

This study used a questionnaire as the primary data collection tool. The questionnaire comprised structured questions, open-ended, and a Likert-type scale of questions administered to the 336 selected entrepreneurs who were sampled to participate in this study. The questionnaire is

organized into themes; the first theme deals with demographic statistics such as education level and age, while three objectives guide the other sections under this study. The questionnaire was administered in English and Kiswahili, and extensive notes were taken during the fieldwork.

To increase the response rate, the questionnaires were administered by the research assistants face-to-face to the entrepreneurs and used a phone call to reach members who were not found at their enterprises. Data collection took two weeks. The study conducted a pilot test in Nairobi County among entrepreneurs who didn't form part of the study sample.

### **3.6 Data Analysis**

According to Zikmund et al. (2010), data analysis refers to applying reasoning to understand the data gathered to determine consistent patterns and summarize the relevant details revealed in the investigation. To determine the patterns shown in the data collected, data analysis was guided by the objectives of the study and the measurement of the data collected.

Data was collected from the primary sources, cleaned, and triangulated to draw conclusive observations for inference. The data collected were analyzed using the Statistical Package for Social Sciences (SPSS), which shows measures of central tendency (mean mode, median frequency, standard deviation, and percentages) of the responses received. The analysis includes presentation through graphs and tables to enhance the simplicity of understanding the content. Correlation analysis was established to check the linear relationship between independent and dependent variables. The linear regression model, as shown below, was used to establish whether the independent variable predicted the dependent variable.

$Y = \alpha + \beta_1 + \beta_2 + \beta_3 + \epsilon$ . where  $\alpha$  is the y-intercept (the value of Y where X = 0),  $\beta_1$ ,  $\beta_2$  and  $\beta_3$  are regression weights attached to the exogenous variable (independent variable), and  $\epsilon$  is a random error term. y the dependent variable (adoption of financial risk practices), is a linear function of x (financial risk management training) as the independent variable. This means y depends on x.

Pearson correlation is used to measure the association between variables. It indicates that as one variable changes in value, other variables also change in different directions. A correlation coefficient quantitatively measures the direction and strength of the association. Pearson's coefficient values are interpreted based on the strength and direction. On the basis of strength, the

values range from -1 to +1. The higher the value the stronger the correlation. The sign of the correlation coefficient represents the direction of relationship. In interpreting the strength of the correlation, a coefficient of zero represents no linear relationship. A correlation between 0.00 to 0.19 is regarded as very weak, 0.2-0.39 is regarded as weak, 0.40-0.59 is moderate, 0.6-0.79 is strong, and 0.8-1.0 is very strong (Abdi & Salkind, 2007).

The researcher has used these presentation methods to give the user of the report a better and clear understanding of the study. The tools were also easy to use and widely understood by either literate or semi-illiterate populations that will use the study findings.

### 3.7 Research Quality

Reliability and validity indicate and communicate the consistency of research procedures and the dependability of research findings. If research is to be helpful, then it should not mislead those who use it (Roberts & Priest, 2006)

#### 3.7.1. Reliability

Reliability defines how far a test, procedure, or tool, such as a questionnaire, will yield similar results in diverse circumstances if used by different researchers and at other times (Roberts & Priest, 2006). The reliability of the study was addressed through the computation of Cronbach's Alpha for scales to ensure that the questionnaire met the required conditions.

**Table 3.2: Reliability Test**

Variable	Cronbach alpha	No. of items	Comment
FRM training on financial risk identification and analysis	0.983	6	Excellent
FRM training on financial risk monitoring	0.958	3	Excellent
FRM training on financial risk mitigation	0.949	4	Excellent
Adoption of risk identification and analysis practices	0.748	4	Good

Adoption of risk monitoring practices	0.974	2	Excellent
Adoption of risk mitigation practices	0.742	4	Good

A reliability test using Cronbach’s Alpha was determined between the variables as shown above. Values between  $\alpha \geq 0.9$  represents excellence reliability;  $0.7 > \alpha < 0.9$  represents good reliability;  $0.6 \leq \alpha > 0.7$  represents acceptable reliability, and values between  $0.5 \leq \alpha < 0.6$  are considered poor reliability, and any value below 0.5 is not acceptable.

The findings show that the values for all the variables in the instrument were above the recommended threshold of 0.7, notably: financial risk management training on financial risk identification and analysis,  $\alpha = 0.983$ ; financial risk management training on financial risk monitoring,  $\alpha = 0.958$ ; financial risk management training on financial risk mitigation,  $\alpha = 0.949$ ; Adoption of risk identification and analysis,  $\alpha = 0.748$ ; Adoption of risk monitoring practices,  $\alpha = 0.974$ ; and Adoption of risk mitigation practices,  $\alpha = 0.742$ .

### 3.7.2. Validity

Validity determines the extent to which an instrument accurately measures what it intended to measure. The data collected must accurately mirror what the participant said or did. It is about the closeness of what we believe we measure to what we envisioned (Roberts & Priest, 2006). The questionnaires were verified to ensure that it gives an accurate reflection of what the participants indicated.

External validity points out how the study's findings can be generalized to other persons under the same circumstances. External validity discusses whether results are generalizable to the public other than the population in the original study (Dekkers, Elm. von, Algra, Romijn, & Vandenbroucke 2010).

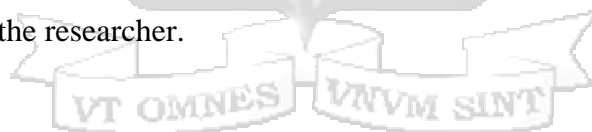
The internal validity of study results refers to whether the results suffer from systematic error (Dekkers et al., 2010). Internal validity was ascertained by ensuring that the questionnaire was

founded on the research questions and the conceptual framework, whereas the literature review informed the process. This process helped to reduce unexpected reasons for varied outcomes than those anticipated. Participants were informed that their answers were anonymous and did not impact the services they receive. The information was to reduce response bias. Moreover, participants were given a chance to be explained, any issue that was not clear.

### **3.8 Ethical Issues in Research**

Oates, Kwiatkowski & Coulthard (2010) define ethical issues as principles and guidelines that explain the conditions under which a study is conducted. Ethical approval and an introductory letter were obtained from the Strathmore University Institutional Review Board to collect data from the target institution and individuals. The researcher was also clarified to the participants the purpose of the study before starting to fill out the questionnaire. Participants were issued a consent form before participating in the research. They were also advised that their participation was voluntary.

The researcher sort permission from the management of Hand in Hand Eastern Africa to conduct the study and reiterated that participant information confidentiality and privacy were guaranteed. Any identifiable data was removed before data analysis to ensure anonymity was maintained. Consequently, a soft copy of the data in excel was saved in a password-protected worksheet which was only accessible by the researcher.



## CHAPTER FOUR

### PRESENTATION AND ANALYSIS OF RESEARCH FINDINGS

#### 4.1. Introduction

This section presents the results and interpretations of the study. The section presents the descriptive and inferential statistics on the influence of FRM training on the adoption of financial risk management practices by SMEs in Nairobi County. The section presents the demographic characteristics of the study sample, level of education, duration of running the enterprise, the industry of the enterprise, and the legal status of the enterprise. In addition, the data provides a presentation of the research findings in light of the study objectives.

#### 4.2 Respondents Profile

This section presents the findings on the overall response rate and the descriptive statistics for the demographic profiles of all the respondents.

##### 4.2.1. Response Rate

The researcher administered questionnaires to the selected sample of 381 respondents for the study and all the respondents completed the questionnaires and returned them for analysis. This represents a response rate of 100% which is satisfactory for the study.

**Table 4.1: Response Rate**

Industry	Target Population	Sample Size	Response	Response Rate
Wholesale and Retail enterprises	1,108	177	164	93%
Transportation & Storage	108	17	15	88%
Agriculture, Forestry & Fishing	396	63	60	95%
Manufacturing	376	60	54	90%

Accommodation and food service activities	603	96	88	92%
<b>Total</b>	<b>2,591</b>	<b>413</b>	<b>381</b>	<b>92%</b>

**Source: Primary data (2021)**

#### 4.2.2. Gender

The results reported in Table 4.2 showed that most of those surveyed were female, constituting 78.7%, compared to the 21.3% male. The population comprised 80% and 20% of women and men who had undergone the financial risk management training, and therefore, the results reveal that there was no gender discrimination determining the sample.

**Table: 4.2 Gender**

<b>Gender</b>	<b>Frequency</b>	<b>Percentage</b>
Female	300	78.7%
Male	81	21.3%
<b>Total</b>	<b>381</b>	<b>100%</b>

**Source: Primary data (2022)**

#### 4.2.3. Age

The study also sought to establish the age distribution among respondents. A majority of those surveyed were aged over 36 years and accounted for 67.72% of the respondents. A significant number of respondents aged between 31 and 35 years accounted for 23.62%. A comparatively smaller percentage of respondents, 6.82%, were aged between 26 and 30 years, while those less than 20 years was 1.05%. There was an insignificant percentage of 0.79% for those between 21 and 25 years who participated in this study.

**Table: 4.3 Age**

	<b>Frequency</b>	<b>Percentage</b>
Over 36 years	258	67.72%
31-35 years	90	23.62%
26-30 years	26	6.82%
21- 25 years	3	0.79%
Less than 20 years	4	1.05%
<b>Total</b>	<b>381</b>	<b>100%</b>

**Source: Primary data (2022)**

#### 4.2.4. Level of Education

These findings in Table 4.4 indicate that majority of the respondents had reached Secondary school as the minimum level of qualification. More than half of the respondents, 51.71%, had secondary school certificates, with 31.76% having Primary school certificates. A relatively smaller number of 13.91% of the respondents had tertiary certificates as the minimum level of qualification. Only 2.62% of the respondents had a university degree. The results reveal that based on their level of education, the respondents were capable of adopting the financial risk management practices after the training.

**Table: 4.4 Level of education**

	<b>Frequency</b>	<b>Percentage</b>
University	10	2.62%
Tertiary	53	13.91%
Secondary	197	51.71%
Primary	121	31.76%
<b>Total</b>	<b>381</b>	<b>100%</b>

Source: Primary data (2022)

#### Enterprise Profile

This section presents the findings on the duration of the enterprise, the industry of the enterprise, and the legal status of the enterprise.

#### 4.2.5. Duration of Running an Enterprise

The respondents had spent a variable number of years running their enterprises. The duration of running an enterprise could indicate their experience in identifying financial risk, analyzing the risks, and monitoring and mitigating them. Results showed that 46.98% of the respondents ran the enterprises for 1-5 years, 23.62% for 6-10 years, 18.9% for 11-15 years, and only 10.5% had run the enterprise for 16 years and above. The results reveal that based on the duration of running the enterprises, the respondents had reasonable time to adopt the financial risk management practices after the training.

**Table: 4.5 Duration of running the Enterprise**

	<b>Frequency</b>	<b>Percentage</b>
1-5 years	179	46.98%
6-10 years	90	23.62%
11-15 years	72	18.9%
16 years and above	40	10.5%
<b>Total</b>	<b>381</b>	<b>100%</b>

Source: Primary data (2022)

#### 4.2.6. Enterprise industry

In line with the target respondents of the study, a majority of the respondents were in wholesale and retail enterprises, constituting 43.04% of the responses. Accommodation and food service activities had 15.75% of the responses, Agriculture, Forestry & Fishing 15.75%, while 14.17% of the respondents ran manufacturing enterprises. Only 3.94% of the respondents were running transportation & Storage enterprises. As shown in the figure below, only a small number of the respondents, 3.94%, were running transportation & Storage enterprises. The results reveal that based on the enterprise industry, there was a likelihood of their businesses being affected by financial risks hence the need for training to influence the adoption of financial risk management practices to a great extent.

**Table: 4.6 Enterprise Industry**

	<b>Frequency</b>	<b>Percentage</b>
Wholesale and Retail enterprises	164	43.04%
Accommodation and food service activities	88	23.62%
Agriculture, Forestry & Fishing	60	15.75%
Manufacturing	54	14.17%
Transportation & Storage	15	3.94%
<b>Total</b>	<b>381</b>	<b>100%</b>

Source: Primary data (2022)

#### 4.2.7. The legal status of the enterprise

The findings show that more than half, 94.23%, of the respondents were running sole proprietorship enterprises, while 5.25% were running enterprises with partnerships as the legal status. A small number of enterprises, 0.52%, were running limited companies. The results reveal that based on the legal status of the enterprises, the respondents had the required legal status to run enterprises in Nairobi county. This would allow them to adopt the financial risk management practices with ease and work well with other partners who may be strict on the legal status before any contractual agreement.

**Table: 4.7 The legal status of the enterprise**

	<b>Frequency</b>	<b>Percentage</b>
Sole proprietorship	359	94.23%
Partnership	20	5.25%
Limited Company	2	0.52%
<b>Total</b>	<b>381</b>	<b>100%</b>

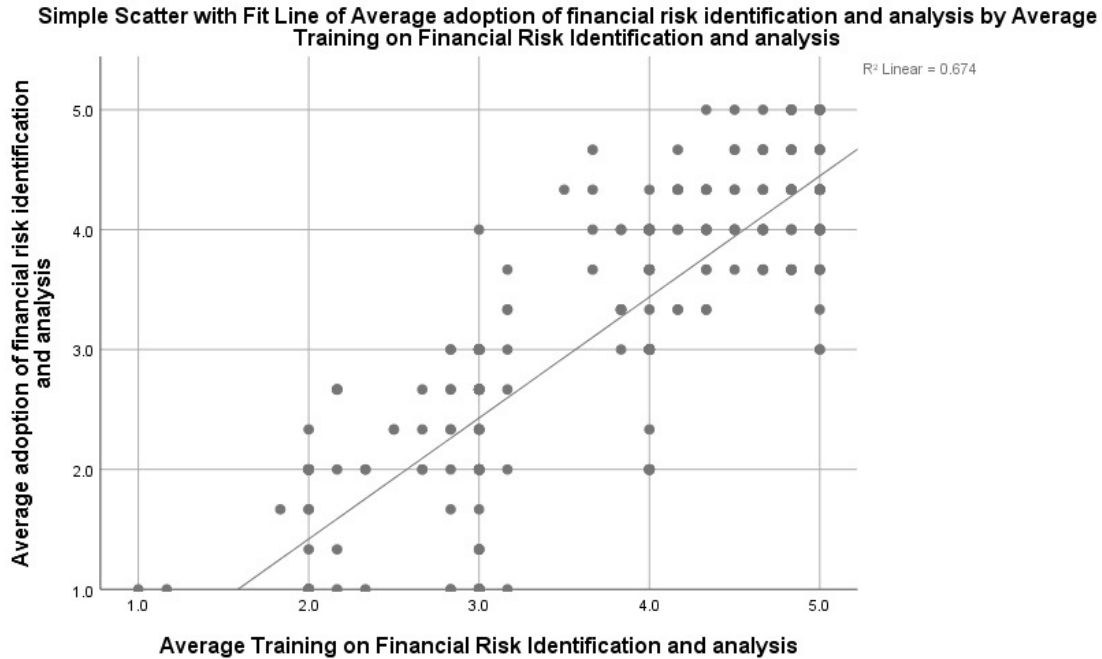
**Source: Primary data (2022)**

### 4.3 Regression Diagnostic Tests

Before the regression analysis, the study conducted diagnostic tests to establish whether or not there were observations with a large, undue influence on the analysis. During the process, the following model assumptions were tested.

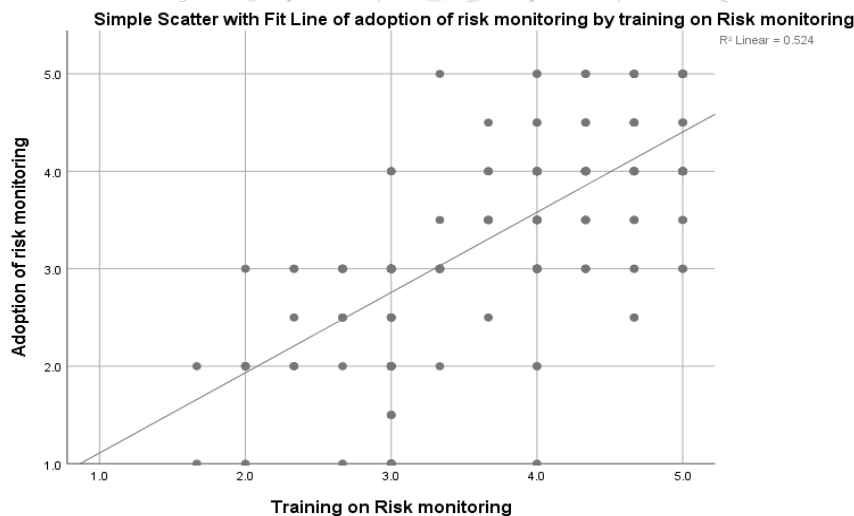
#### 4.3.1. Linearity test

The first assumption was the linearity test whereby a scatter plot was used to check for a linear relationship between the predictor variable and the response variable. The results depicted a positive linear relationship between training on financial risk management and the adoption of financial risk management practices. As depicted below in figures 4.1, 4.2, and 4.3 respectively, the linearity assumption rule to be met before conducting regression analysis was upheld by the results. The scatter plot in figure 4.1 depicts a positive linear relationship between training on financial risk identification and analysis and level of adoption of associated practices.



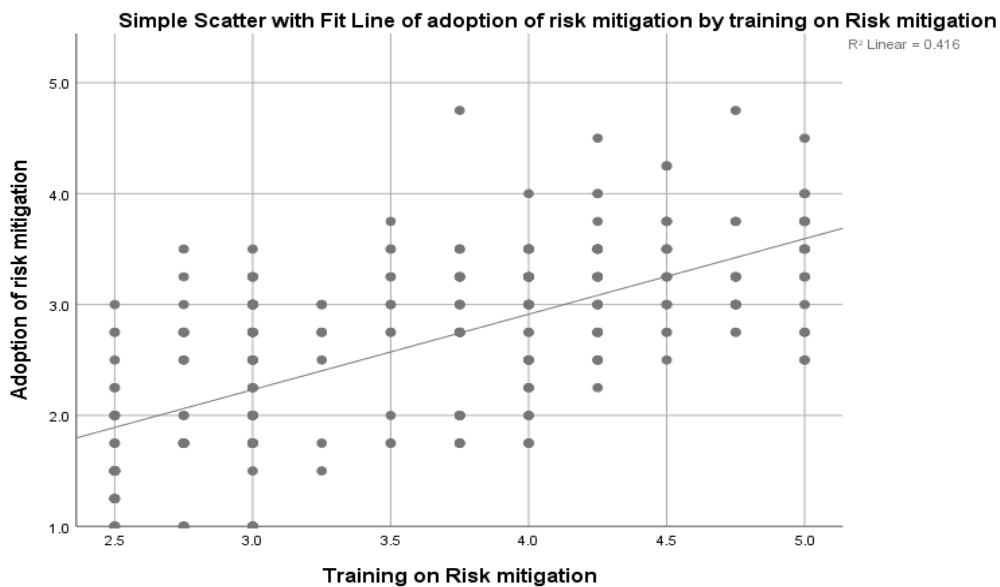
**Figure 4.1: Scatter Plot depicting the relationship between risk identification and Analysis training and adoption of risk identification and analysis practices.**

Similarly, in figure 4.2 below, the scatter plot depicts a positive linear relationship between the predictor variable (training on financial risk monitoring) and the response variable (adoption of risk monitoring practices) in enterprises. Looking at the pattern of data distribution around the Fit line, on both horizontal and vertical axis, the linearity assumption required to conduct linear regression was upheld by the results.



**Figure 4.2: Scatter Plot depicting the relationship between training on risk monitoring and adoption of financial risk monitoring practices**

Further, figure 4.3 below indicates a scatter plot depicting a positive linear relationship between training on financial risk mitigation (predictor variable) and adoption of financial risk mitigation practices (response variable). Since the data seem to follow a pattern along the Fit line, with data concentration points on both horizontal and vertical axes, the linearity assumption rule to be met before conducting regression analysis was upheld by the results.



**Figure 2.3: Scatter Plot depicting the relationship between training on risk mitigation and adoption of financial risk mitigation practices**

#### 4.3.2. Multi-collinearity Test

The test was done to establish if Multicollinearity (independent variables are related) does not exist for the assumption of independence to be met. The independent variables were subjected to the multi-collinearity test, to test the linear dependence between the IVs. The VIF figures of the independent variables must be greater than 1 but less than 10 and the tolerance figures must be more than 0.1 (Pallant, 2007). The model test suggested the following as indicated below;

The test has indicated the predictor variable on Financial risk management training on financial risk identification and analysis.

**Table: 4.8 Multi-collinearity test**

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.971 <sup>a</sup>	.943	.942	1.89416

- a. Predictors: (Constant),
- b. FRM training on financial risk mitigation
- c. FRM training on financial risk monitoring,
- d. FRM training on financial risk identification and analysis

**Table: 4.9 Multi-collinearity test-Coefficients**

Coefficients <sup>a</sup>								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.632	.385		4.240	.000		
	FRM training on financial risk identification and analysis	.127	.033	.092	3.870	.000	.271	3.693
	FRM training on financial risk monitoring	1.855	.058	.739	31.998	.000	.284	3.516
	FRM training on financial risk mitigation	.362	.059	.182	6.124	.000	.172	5.799

a. Dependent Variable: Adoption of Financial Risk Management Practices

The predictor variable: FRM training on financial risk mitigation could have been dropped as a measure to reduce inflating the R Square value; as it is above the score of 5 indicating a potential severe multi-collinearity. However, all the 3 variables posted tolerance values greater than 0.1 (FRM training on financial risk identification and analysis = 0.271; FRM training on financial risk monitoring = 0.284; FRM training on financial risk mitigation = 0.172) and VIF values were greater than 1 and less than 10 (FRM training on financial risk identification and analysis = 3.693; FRM training on financial risk monitoring = 3.516; FRM training on financial risk mitigation = 5.799). Even though FRM training on financial risk mitigation posted VIF values that were considerably greater than 5 which could denote the presence of correlation between the variables as posited by (Ringle, Wende, & Becker, 2015). It must be noted that their tolerance values were greater than 0.1. Additionally, variables that have considerably high VIF values mean that they represent categorical variables with more than 3 categories (Allison, 2012). Moreover, VIF figures that are only greater than 10 indicate a serious concern of strong correlation that might lead to the dropping of the variables (Stephanie, 2015).

In this case, the VIF figures were less than 10 meaning that the variables were not seriously dependent on each other. Consequently, this meant that all the independent variables were sovereign from each and no serious case of Multicollinearity existed. Therefore, the independence assumption was fulfilled as a requirement for regression analysis.

### **The context Summary**

Considering that scores below 0.10 of  $R^2$  are considered low, between 0.1 and 0.25 are considered moderate and any other value above 0.26 are considered high. Therefore, the R square values provided in this case are high but the population respondents are heterogeneous because of several intervening variables, including attitude, knowledge, motivation, background, etc. pose them to act differently in responding to different core areas of inquiry. Therefore, the context provides for a rather deeper evaluation of the theory and slope rather than just R squared.

### **4.4 Descriptive Statistical Findings**

The subsection describes the descriptive findings for each of the variables under study and is presented in terms of percentages, means, and standard deviations.

#### **4.4.1. FRM training on financial risk identification and analysis**

The training on financial risk identification and analysis and the implementation of the practices is one of the central objectives of this study. The study sought to establish the influence financial risk management training has on the adoption of financial risk identification and analysis by SMEs in Nairobi County. The focus was on the extent to which the financial risk management training had enhanced the ability to identify and analyze financial risks.

The findings indicate that most respondents were trained and can recognize new financial risk exposure ( $M=3.74$ ,  $SD=1.014$ ). The respondents also significantly agreed that they were trained and able to determine the severity of the financial risks ( $M=3.67$ ,  $SD=0.997$ ). Similarly, the respondents agreed to a great extent that they were trained and able to measure how often a financial risk occurs on average over some time ( $M=3.66$ ,  $SD=1.045$ ).

The respondents were also to a great extent in agreement with the statement that they were trained and able to analyze financial risks and make decisions that would mitigate the financial risks

(M=3.62, SD =.945), and Trained and able to categorize the identified financial risks from high occurrence and high consequences to the low occurrence and low consequences was at (M=3.61, SD =1.016). In the same vein, the respondents to a great extent agreed that they were trained and could analyze and trace back the origin of the financial risk (M=3.56, SD =.920).

In essence, all the respondents agreed that they were trained in financial risk management training in relation to financial risk identification and analysis, and they are capable of implementing the trained practices to a great extent.

**Table: 4.10 FRM training on financial risk identification and analysis**

Item	Mean	Std. Deviation
Trained and able to recognize new financial risk exposure	3.74	1.014
Trained and able to measure how often a financial risk occurs on average	3.66	1.045
Trained and able to determine the severity of the financial risks	3.67	.997
Trained and able to categorize the identified financial risks from high occurrence and high consequences to the low occurrence and low consequences	3.61	1.016
Trained and able to analyze financial risks and make decisions that will mitigate the risks	3.62	.945
Trained and able to analyze and trace back the origin of the risk	3.56	.920

*Source: Primary data (2022)*

#### **4.4.2. FRM training on financial risk monitoring**

Financial risk management training in relation to financial risk monitoring is a core element that may influence the adoption of risk management practices. The results indicate that to a great extent respondents were trained and can track any financial risk that has been identified for any changes in probability or severity (M=3.57, SD=1.050).

A similar trend was observed where respondents to a great extent agreed that they were trained and able to derive a most-to-least-critical rank-order of identified financial risks to form a basis for allocating resources of managing it (M=3.42, SD=.988).

However, the study reported moderate levels of agreement that they were trained and able to map internal controls to the financial risks to ensure there are no gaps between risks and controls (M=3.37, SD=1.032).

**Table: 4.11 FRM training on financial risk monitoring**

Item	Mean	Std. Deviation
Trained and able to track any financial risk that has been identified for any changes in probability or severity	3.57	1.050
Trained and able to derive a most-to-least-critical rank-order of identified financial risks to form a basis for allocating resources of managing it.	3.42	.988
Trained and able to map internal controls to the financial risks and ensure there are no gaps between risks and controls	3.37	1.032

Source: Primary data (2022)

#### 4.4.3. FRM training on financial risk mitigation

The study computed the level of agreement with a set of questions on financial risk management training on financial risk mitigation. The respondents agreed to a great extent that they were trained and are competent in knowing when to avoid any exposure to financial risk that poses a potential loss. (M=3.48, SD= 1.053). In the same breath, the respondents agreed to a great extent that they were trained and can limit exposure of financial risks by taking some action or series of actions i.e. Acceptance, avoidance, and limiting of transfer of the risk (M= 3.42, SD=0. .966).

However, there was a moderate agreement that the respondents were trained and able to understand when to accept financial risk where potential loss from risk is not great enough to warrant spending money to avoid it (M=3.31, SD=0.972). In the same vein, the respondents moderately agreed that

they were trained and are competent in understanding when to transfer financial risk to third parties to mitigate or cover the risk (M=2.86, SD=1.239).

**Table: 4.12 FRM training on financial risk mitigation**

Item	Mean	Std. Deviation
Trained and competent in knowing when to avoid any exposure to financial risk that poses a potential loss.	3.48	1.053
Trained and able to limit exposure of financial risks by taking some action or series of actions i.e. Acceptance, avoidance, the limit of transfer of the risk.	3.42	.966
Trained and able to understand when to accept financial risk where potential loss from risk is not great enough to warrant spending money to avoid it.	3.31	.972
Trained and competent in understanding when to transfer financial risk to third parties contracted to mitigate or cover the risk.	2.86	1.239

Source: Primary data (2022)

#### 4.4.4. Adoption of Financial Risk Management Practices.

##### 4.5.4.1 Financial Risk Identification and Analysis

The findings show that to a moderate extent respondents carried out a financial risk identification process to identify internal and external risks (M=3.21, SD=1.251). The mean value of 3.10 and standard deviation of 1.1185 indicate that 6 out of 10 respondents agreed to a moderate extent that for all the risks identified, the likelihood and impact of the risks were assessed. The same trend was observed where all financial risks were ranked from low/negligible risks to major/critical risks and the respondents agreed to a moderate extent that this was being adopted (M=2.93, SD=1.187).

**Table: 4.13 Adoption of Financial Risk Identification and Analysis Practices**

Item	Mean	Std. Deviation
The financial risk identification process is carried out to identify internal and external risks	3.21	1.251
For all the risks identified, the likelihood and impact of the risks were assessed.	3.10	1.185
All financial risks were ranked from low/negligible risks to major/critical risks.	2.93	1.187

Source: Primary data (2022)

#### 4.5.4.2 Financial Risk Monitoring Practices

The results showed that to a moderate extent, the respondents agreed that they had risk registers/matrix, which were developed and maintained, and it incorporated internal controls on how the financial risks identified were monitored (M=3.04, SD=1.199). In addition, 6 out of 10 respondents agreed that the financial risk registers/matrix was continuously updated, reviewed, and monitored (M=2.92, SD=1.165).

**Table: 4.14 Adoption of Financial Risk Monitoring Practices**

Item	Mean	Std. Deviation
Risk register/matrix was developed and maintained, incorporating internal controls on how the financial risks identified are monitored	3.04	1.199
The financial risk register/matrix is continuously updated, reviewed and monitored.	2.92	1.165

Source: Primary data (2022)

#### 4.5.4.3 Financial Risk Mitigation Practices

There was a moderate level of agreement with the statement that the respondents had experienced a lower actual severity of the impact of the financial risk compared to the predicted risk severity

level of impact due to risk limitation practices they had adopted. (M=2.77, SD =1.145). In the same vein, the respondents moderately agreed that many financial risks were closed or avoided compared to those initially identified (M=2.72, SD =0.960).

However, with a mean of 2.50 and a standard deviation of 1.160 only 5 out of 10 respondents agreed that a high cost of mitigating the financial risks was incurred compared to the cost of accepting the risk. To the extreme end, only 3 out of 10 respondents agreed that financial risks had been transferred to third parties e.g. Insurance policies or contractual agreements (M =1.64, SD=0.820).

**Table: 4.15 Adoption of Financial Risk Mitigation Practices**

Item	Mean	Std. Deviation
The actual Severity of the financial risks had a lower impact compared to the Predicted risk Severity level of impact due to risk limitation.	2.77	1.334
A high cost of mitigating the financial risks was incurred compared to the cost of accepting the risk.	2.50	1.160
A high number of financial risks were closed (avoided) compared to financial risks initially identified.	2.72	.960
Financial risks have been transferred to third parties e.g. Insurance policy or contractual agreements.	1.64	.820

Source: Primary data (2022)

#### 4.5 Inferential Statistics

The study sought to establish the influence of financial risk management training on the adoption of financial risk management practices by SMEs in Nairobi county. The inferential statistics were Pearson correlation and multiple regressions. Pearson correlation was used to establish the association between all the variables and regression was performed to establish the relationship between financial risk management training and the adoption of financial risk management practices.

#### 4.5.1. Correlation Analysis

The study sought to determine the association between the variables. Pearson correlation was run to establish the relationship between financial risk management training on financial risk identification and analysis and Adoption of Financial Risk Management Practices. There was a very strong positive correlation, which was statistically significant ( $r = .795$ ,  $p = .000$ , at 0.01 significance level), showing a positive relationship of 0.795. In the same vein, the results also show a very strong positive correlation between financial risk management training on financial risk monitoring and the adoption of financial risk management Practices. The correlation was statistically significant ( $r = .960$ ,  $p = .000$ , at 0.01 significance), with a positive strong relationship of 0.96. The correlation between financial risk management training on financial risk mitigation and Adoption of Financial Risk Management Practices was positive, and statistically significant ( $r = .884$ ,  $p = .000$  at 0.01 significance level), with a positive strong relationship of 0.884.

**Table: 4.16 Correlations Analysis**

<b>Correlations</b>		
		<b>Adoption of Financial Risk Management Practices</b>
FRM training in financial risk identification and analysis	Pearson Correlation	.795**
	Sig. (2-tailed)	.000
	N	381
FRM training on financial risk monitoring	Pearson Correlation	.960**
	Sig. (2-tailed)	.000
	N	381
FRM training on financial risk mitigation	Pearson Correlation	.884**
	Sig. (2-tailed)	.000
	N	381
**. Correlation is significant at the 0.01 level (2-tailed).		

#### 4.5.2. Factor Analysis and presentation

The study conducted a factor analysis to determine the factors which are most significant to be retained for multiple regression analysis. The factor analysis has been applied for a variable reduction since it was a questionnaire being used for data collection. Findings have been presented and interpreted in the sections below.

#### 4.4.2.1 Derivation of training on financial risk identification and analysis variable

Factor analysis to derive financial risk identification and analysis was preceded by the Kaiser-Meyer-Olkin (KMO) test of sampling adequacy and Bartlett's Test of sphericity to establish if the dataset was applicable for factor analysis. Factor analysis is only suitable for a specific dataset given that the figure of the KMO test is greater than 0.5 and Bartlett's test of sphericity is significant when the p-value is less than 0.05 (Williams, Onsman & Brown, 2010). As indicated in table 4.18 below, analysis established that the KMO test was 0.93 which was greater than 0.5, and Bartlett's Test of Sphericity was significant (p-value<0.05) meaning that the financial risk identification and analysis variables were applicable and sufficient for factor analysis.

**Table 4.17: KMO and Bartlett's Test results for the statements linked to Financial Risk Identification and Analysis**

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.930
Bartlett's Test of Sphericity	Approx. Chi-Square	2759.731
	df	15
	Sig.	.000

The study then proceeded to undertake the principal component analysis starting with the factors/components that accounted for significant variability in the data set so that they could be extracted and constitute the variables to be studied. As indicated in Table 4.19 below, only one factor was extracted as it accounted for significant variance in the dataset posting an Eigen Value of 5.335 and accounting for 88.91% of the total variance. Therefore, only one component under financial risk identification and analysis was preserved for further analysis while the rest were discarded.

**Table 4.18: Total Variance explained by Financial Risk Identification and Analysis Factors**

Component	Total Variance Explained					
	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1 (financial risk identification and analysis)	5.335	88.910	88.910	5.335	88.910	88.910
2	.287	4.777	93.687			
3	.141	2.348	96.036			
4	.104	1.735	97.770			
5	.076	1.263	99.033			
6	.058	.967	100.000			

**Extraction Method: Principal Component Analysis.**

Principal component matrix analysis was conducted to establish the controls assessing the construct of financial risk identification and analysis component. The factor loadings of the given statements were checked and if they were greater than 0.5, were preserved for further analysis. As provided in Table 4.20 below, the research results established that all 6 financial risk identification and analysis variables had factor loadings of greater than 0.5 and they adequately assessed component 1 (financial risk identification and analysis). Thus, Component 1 in this case became the derived variable for financial risk identification and analysis that would be used in the regression analysis. This, therefore, provided sufficient justification to use the average as an aggregate measure for determining the financial risk identification and analysis variable.

**Table 4.19: Component matrix for financial identification and analysis factor**

Component Matrix <sup>a</sup>	
	Component 1 (Risk Identification and Analysis)
1. Trained and able to recognise new financial risk exposure	.970
2. Trained and able to measure how often a financial risk occurs on average	.969
3. Trained and able to determine the severity of the financial risks	.973

- |  |      |
|--|------|
| 4. Trained and able to categorize the identified financial risks from high occurrence and high consequences to low occurrence and low consequences | .967 |
| 5. Trained and able to analyze financial risks and make decisions that will mitigate the risks   | .965 |
| 6. Trained and able to analyze and trace back the origin of the risk   | .922 |

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**Extraction Method: Principal Component Analysis.**

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**a. 1 component extracted.**

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**4.4.2.2 Derivation of risk monitoring Variable**

Factor analysis to derive financial risk monitoring was also preceded by the Kaiser-Meyer-Olkin (KMO) test of sampling adequacy and Bartlett's Test of sphericity to establish if the dataset was applicable for factor analysis. As outlined in table 4.21 below, the analysis established that the KMO test was 0.76 which was greater than 0.5 and Bartlett's Test of Sphericity was significant (p-value<0.05) meaning that the risk monitoring variables were applicable and sufficient for factor analysis.

**Table 4.20: KMO and Bartlett's Test results for the statements linked to Financial Risk Monitoring**

<b>KMO and Bartlett's Test</b>		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.760
Bartlett's Test of Sphericity	Approx. Chi-Square	821.533
	df	3
	Sig.	.000

Consequently, the study undertook the principal component analysis to assess the factors/components that accounted for significant variability in the data set so that they could be extracted and constitute the variables to be studied. As indicated in Table 4.22 below, only one factor accounted for significant variance in the dataset posting an Eigen Value of 2.77 and accounting for 92.32% of the total variance. As such, only one component under financial risk monitoring was preserved for further analysis while the rest were discarded.

**Table 4.21: Total Variance explained by Financial Risk Monitoring Factors**

Component	Total Variance Explained					
	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1 (risk monitoring)	2.770	92.320	92.320	2.770	92.320	92.320
2	.140	4.678	96.997			
3	.090	3.003	100.000			

**Extraction Method: Principal Component Analysis.**

Principal component matrix analysis was also conducted to establish the controls assessing the construct of the financial risk monitoring component. The factor loadings of the given statements were checked and if they were greater than 0.5, were preserved for further analysis. As provided in Table 4.23, the research results indicated that all the 3 financial risk monitoring variables had factor loadings of greater than 0.5 and they adequately assessed component 1 (financial risk monitoring). Thus, Component 1 in this case became the derived variable for financial risk monitoring that would be used in the regression analysis. It was thus justified to use the average as an aggregate measure for determining the financial risk monitoring variable.

**Table 4.22: Component matrix for financial risk monitoring factor**

Component Matrix <sup>a</sup>	
	Component 1 (risk monitoring)
1. Trained and able to track any financial risk that has been identified for any changes in probability or severity	.960
2. Trained and able to derive a most-to-least-critical rank-order of identified financial risks to form a basis for allocating resources of managing it.	.969
3. Trained and able to map internal controls to the financial risks and ensure there are no gaps between risks and controls	.953

Extraction Method: Principal Component Analysis.

a. 1 components extracted.

#### 4.4.2.3 Derivation of Financial Risk Mitigation Variable

Before factor analysis to derive financial risk mitigation variable, the study conducted the Kaiser-Meyer-Olkin (KMO) test of sampling adequacy and Bartlett's Test of sphericity to establish if the dataset was applicable for factor analysis. As outlined in table 4.24 below, the analysis established that the KMO test was 0.841 which was greater than 0.5, and Bartlett's Test of Sphericity was significant ( $p$ -value $<0.05$ ) meaning that the risk mitigation variables were applicable and sufficient for factor analysis.

**Table 4.23: KMO and Bartlett's Test results for the statements linked to Financial Risk Mitigation**

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.841
Bartlett's Test of Sphericity	Approx. Chi-Square	1125.691
	df	6
	Sig.	.000

The study also undertook the principal component analysis starting with the factors/components that accounted for significant variability in the data set so that they could be extracted and constitute the variables to be studied. As indicated in Table 4.25 below, only one factor was extracted as it accounted for significant variance in the dataset posting an Eigen Value of 3.527 and accounting for 88.18% of the total variance. As such, only one component under financial risk mitigation was preserved for further analysis while the rest were discarded.

**Table 4.24: Total Variance explained by Financial Risk Monitoring Factors**

Component	Total Variance Explained					
	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.527	88.180	88.180	3.527	88.180	88.180
2	.261	6.537	94.718			
3	.132	3.305	98.022			
4	.079	1.978	100.000			

Extraction Method: Principal Component Analysis.

A principal component matrix analysis was then conducted to establish the controls assessing the construct of the financial risk mitigation component. The factor loadings of the given statements were checked and if they were greater than 0.5, were preserved for further analysis. As provided in Table 4.26 below, the research results established that all 6 financial risk mitigation variables had factor loadings of greater than 0.5 and they adequately assessed component 1 (financial risk mitigation). Thus, Component 1 in this case became the derived variable for financial risk mitigation that would be used in the regression analysis. This, therefore, provided sufficient justification to use the average as an aggregate measure for determining the financial risk mitigation variable.

**Table 4.25: Component matrix for financial risk mitigation factor**

<b>Component Matrix<sup>a</sup></b>	
	Component
	1 (risk mitigation)
1. Trained and competent in knowing when to avoid any exposure to financial risk that poses a potential loss.	.953
2. Trained and able to limit exposure of financial risks by taking some action or series of actions i.e. Acceptance, avoidance, the limit of transfer of the risk.	.956
3. Trained and able to understand when to accept financial risk where potential loss from risk is not great enough to warrant spending money to avoid it.	.951
4. Trained and competent in understanding when to transfer financial risk to third parties contracted to mitigate or cover the risk.	.895

Extraction Method: Principal Component Analysis.

a. 1 component extracted.

### 4.5.3. Regressions

The study sought to conduct a multiple regression analysis to test the relationship among variables (independent) on the adoption of financial risk management practices (dependent variable). The model summary reveals that financial risk management training on financial risk identification and

analysis, financial risk management training on financial risk monitoring, and financial risk management training on financial risk mitigation suggests a strong positive association between the independent variables above and the adoption of financial risk management practices, as shown by the positive Pearson correlation R-value of 0.971 and R Square value of 0.943.

The R Square value means that financial risk management training on financial risks is responsible for a 94.3% change in the adoption of financial risk management practices.

**Table 4.26: Model Summary**

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.971 <sup>a</sup>	.943	.942	1.89416	.943	2072.473	3	377	.000
a. Predictors: (Constant), FRM training on financial risk mitigation, FRM training on financial risk monitoring, FRM training on financial risk identification and analysis									

The study also performed the Analysis of Variance (ANOVA) tests to determine whether the regression model significantly predicts the dependent variable. The findings presented in Table 4.16 shows that financial risk management training on financial risk has a statistically significant influence on the adoption of financial risk management practices as shown below.

**Table: 4.27 ANOVA**

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	22,307.135	3	7,435.712	2,072.473	.000 <sup>b</sup>
	Residual	1,352.618	377	3.588		
	Total	23,659.753	380			
a. Dependent Variable: Adoption of Financial Risk Management Practices						
b. Predictors: (Constant), FRM training on financial risk mitigation, FRM training on financial risk monitoring, FRM training on financial risk identification and analysis						

The analysis of variance carried out on the variables indicated FRM training in financial risk identification and analysis, FRM training in financial risk identification and analysis, and FRM training in financial risk monitoring with {F=2072.473, p < .05}. The result showed the independent variables reliably predict the dependent variable.

**Table 4.28: Regression Coefficients**

Model		Coefficients				T	Sig.
		Unstandardized Coefficients		Standardized Coefficients	Beta		
		B	Std. Error				
1	(Constant)	1.632	.385		4.240	.000	
	FRM training financial risk identification and analysis	.127	.033	.092	3.870	.000	
	FRM training on financial risk monitoring	1.855	.058	.739	31.998	.000	
	FRM training on financial risk mitigation	.362	.059	.182	6.124	.000	

a. Dependent Variable: Adoption of Financial Risk Management Practices

The coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (adoption) that is explained by all the independent variables. The study sort to conduct a multiple regression analysis to determine the relationship between the adoption of financial risk management against the independent variables

The findings analyzed at a 5% level of significance and 95% confidence level also showed that taking all other independent variables at zero, a unit increase in financial risk management training on financial risk identification and analysis will lead to a 0.127 increase in adoption of financial risks management practices. Also, a unit increase in financial risk management training on financial risk monitoring will lead to a 1.855 increase in financial risk management practices adoption. A unit increase in financial risk management training on financial risk mitigation will lead to a 0.362 increase in the adoption of financial risk management practices. Results infer that financial risk management training on financial risk identification and analysis and financial risk

management training on financial risk monitoring contributes more to adopting financial risk management practices than other considered variables.

$$Y = \alpha + \beta_1 + \beta_2 + \beta_3 + \epsilon.$$

$$Y = 1.632 + \beta_1 1.27 + \beta_2 1.855 + \beta_3 0.362 + 0.385$$

where  $\alpha$  is the y-intercept (the value of Y where X = 0),  $\beta_1$ ,  $\beta_2$  and  $\beta_3$  are regression weights attached to the exogenous variable (independent variable), and  $\epsilon$  is a random error term. y the dependent variable (adoption of financial risk practices), is a linear function of x (financial risk management training) as the independent variable. This means y depends on x.

#### 4.6 Chapter Summary

This chapter sought to present data analysis, presentation and interpretation. Regarding the first objective, it was apparent that financial risk management training influenced SMEs' adoption of financial risk identification and analysis to a moderate extent. Similarly, on the second objective, financial risk management training influenced the adoption of financial risk monitoring to a moderate extent. Finally, on the third objective, financial risk management training influenced the adoption of financial risk mitigation to a moderate extent on average. However, entrepreneurs were to a low extent transferring financial risks to third parties e.g. Insurance policy or contractual agreements. The findings are as per the firm's Knowledge-based theory, which can be valuable for strategy formulation where knowledge grows when used and depreciates when not used. The theory (KBT) emphasizes the significance of knowledge in growing the productivity of SMEs and that of the economy, especially where SMEs are struggling with financial risks.

The results also show a very strong positive correlation, between financial risk management training and the Adoption of Financial Risk Management practices relating to financial risk identification, analysis, and financial risk monitoring. In addition, a strong positive correlation was established between financial risk management training and the adoption of financial risk management practices relating to financial risk mitigation. This is in agreement with Human capital theory, which argues on the value added to trainees who acquire entrepreneurship skills on this case and are able to improve on identification and analysis of the enterprise financial risk challenges. The theory also argues that the skills would equip them on how to mitigate the effects of such financial risk.

The regression analysis coefficient of determination  $R^2$  shows potentially high predictability of the dependent variable. The independent variables are also highly correlated and the residuals reflect a smaller margin from the regression line. The value of 0.93 shows a 93% predictability of factors that affect financial risk management.



## **CHAPTER FIVE**

### **DISCUSSIONS, CONCLUSIONS, AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter presents the final section of the study, including a summary of the findings, discussion, conclusions, and recommendations. The summary of the findings presents a short presentation of the main findings. The discussion covers a detailed explanation of the field findings in relevance to the literature presented in this study. The conclusion will highlight the main lessons derived from the study and finally close with recommendations based on the main findings.

#### **5.2 Discussions**

The main purpose of this study was to evaluate the influence of financial risk management training on the adoption of financial risk management practices by SMEs in Nairobi County. The study sought to accomplish this by analyzing financial risk management training and adoption of three financial risk management practices notably; financial risk identification and analysis, financial risk monitoring, and financial risk mitigation. The study intended to answer the following questions: What influence does financial risk management training have on the adoption of financial risk identification and analysis by SMEs in Nairobi County? What influence does financial risk management training have on the adoption of financial risk monitoring by SMEs in Nairobi County? And finally, what influence does financial risk management training have on the adoption of financial risk mitigation by SMEs in Nairobi County? The study relied on a descriptive research design where the researcher crafted a structured questionnaire that research assistants administered on an online platform (kobo toolbox) to the study participants who comprised SME enterprise owners.

General information revealed that more than a third of the entrepreneur's level of education was a primary school certification. The study establishes that this could significantly affect the members' level of understanding and ability to adopt financial risk management practices going by the complexity of some of the practices as highlighted by Belás et al. (2015). This could explain the

reason why some of the entrepreneurs were not able to adopt the financial risk management practices.

This section provides the discussions of the findings for each of the research objectives. The study also established the demographic characteristics of the respondents. The results of the respondents were in line with the population of the entrepreneurs who underwent training on entrepreneurial training (20% Men, 80% Women). This reveals that there is no gender discrimination in arriving at the sample.

In the same vein, a majority of the employees were above the 35 age group (67.5%), with fewer younger people having been trained on entrepreneurship. This is expected as younger people are still in school and or undecided whether to major in entrepreneurship. Running an enterprise may not always require a high level of qualifications and therefore the study indicated that more than half of the respondents had secondary school qualifications with only 2.6% having a university degree.

However, 47% of respondents had been running the enterprise for less than 5 years and only 29.4% had run the enterprise for over 10 years. This result is attributed to the fact that most respondents started new enterprises after undergoing entrepreneurial training. Respondents were also spread in different sectors such as agriculture forestry & fishing, Wholesale and Retail enterprises, Manufacturing, Accommodation and food service activities, and Transportation & Storage. The study indicates that 43% of the respondents were in wholesale and retail enterprises while only 3.9% of the respondents were in transport and storage. This is closely in line with KNBS 2016 MSME Basic Report which indicates that 62.7% of the SMEs in Kenya are in the wholesale and retail sector while only 3% of the SMEs are in the transport and storage sector. Concerning the legal status of the enterprises, the study indicated that for every 10 enterprises 9 were registered as sole proprietorships. This is also in line with KNBS 2016 MSME Basic Report KNBS (2019) which indicates that sole proprietors owned most of the establishments across all the categories of SMEs overall. The succeeding section links the findings of the study with prior studies on the influence of financial risk management training on the adoption of financial risk management practices by SMEs.

### **5.2.1. Influence of FRM training and the adoption of financial risk identification and analysis**

The study found out that the respondents had adopted financial risk identification and analysis to a moderate extent.. The descriptive statistics indicated that the respondents carried out a financial risk identification and analysis process in identifying internal and external risks that could face the enterprises. The inferential statistics established that financial risk management training positively affected the adoption of financial risk identification and analysis, and the effect was statistically significant.

Various studies agree with the findings on the influence of financial risk management training on financial risk identification and analysis adoption. According to Offiong et al., (2019) being trained on addressing identified risk exposure that most enterprises are exposed to is not important as the knowledge must guide the entrepreneurs to adopt the risk management practices that would lead to combating the potential effect of the various financial risks that SMEs are exposed to.

This is in line with Njeri (2014) study which outlined the need for entrepreneurial training as it enabled the entrepreneurs to embrace risk identification and analysis. The findings above provided an answer to the first question on the influence financial risk management training has on the adoption of financial risk identification and analysis by SMEs. The finds indicated that entrepreneurial training influenced the adoption of financial risk identification and analysis. The findings are in line with Lagat & Tenai (2017) study which indicated a positive relationship between training on risk identification, and the performance of financial institutions, especially where the entrepreneurs adopted the risk management practice of risk identification and analysis. Belás et al. (2015) indicated that financial risks are complex since they include several interconnected partial risks, which made it hard for SMEs entrepreneurs to identify the formal risk management frameworks that can be adopted in their enterprises. However, the findings have shown that financial risk management training helps deal with the complexity making it easier for entrepreneurs to identify and analyze financial risk.

The findings are in agreement with the knowledge based theory of the firm where the state of SMEs knowledge can be advanced by either absorbing existing external knowledge to the firm or

by developing new knowledge. The theory argues that this can only be done by first identifying a problem and then discovering a valuable new solution. Training on financial risk management increases knowledge for the entrepreneurs to identify and analyze financial risk and come up with valuable new solutions.

### **5.2.2. Influence of FRM training on the adoption of financial risk monitoring**

The entrepreneurs were to a moderate extent trained on financial risk monitoring and they could moderately be able to monitor the financial risk within their enterprises as observed in the responses. Specifically, the respondents to a great extent agreed that they were trained and able to track any financial risk that had been identified for any changes in probability or severity. This is in line with Belás et al., (2015) study which found that training/knowledge on appropriate monthly risk tracking influenced how the SMEs managed their financial risks. The study indicated that the biggest concern of entrepreneurs as they go into business is their venture failing, and failing spectacularly. Financial risk monitoring would remove the fear among the entrepreneurs especially those who fear that their enterprises may not even make it past one year due to financial risks challenges. The influence of entrepreneurial training is in line with Wang, Mylopoulos, & Liao, (2002) study which emphasized that the rising tide of financial fraud and the unmonitored undertaking of financial risks required reinforcement of training on financial risk monitoring and the supervision of financial transactions. The study highlighted that enterprises are enforcing stricter rules to ensure the monitoring and supervision of financial transactions that aim to curb financial activities that will pose a significant danger to the enterprise.

Adopting risk monitoring practice involves having risk registers or having a matrix which is critical in tracking any financial risk that has been identified. Tracking enables monitoring for any changes in probability or severity as a financial risk management practice. Katende et al., (2017) study outlined the need for financial risk management training as an influencer to the adoption of risk monitoring, arguing that as part of an iterative process, the adoption of risk tracking tool helps record the results of risk prioritization making it easier for risk mitigation.

On the other hand, part of the financial risk monitoring is maintaining a financial risk register/matrix. The respondents indicated to a moderate extent that they were trained and adopted

the same by continuously updating, reviewing, and maintaining the risk register. The study by Morrison, Ramsey, & Bond, (2017), held the same conclusion that there was evidence that training/enhanced skills in risk monitoring helped in the adoption of continuous risk monitoring as part of financial risk management.

The findings are in agreement with the knowledge-based theory of the firm where the fundamental knowledge-based objective is to sustain high profits by continually monitoring and discovering new knowledge or new solutions that form, from unique combinations of existing and new knowledge. Just like knowledge-based theory the financial risk monitoring training enables the SMEs to monitor the dynamism of the financial risks and hence able to make the right decisions and finally sustain high profits.

### **5.2.3. Influence of FRM training on the adoption of financial risk mitigation**

One of the areas that the study found to a moderate extent is that financial risk management training influenced the adoption of financial risk mitigations by ensuring that the actual Severity of the financial risks had a lower impact compared to the Predicted risk Severity level of impact. This was due to risk limitations adopted by the entrepreneurs. This also involved entrepreneurs practicing risk avoidance which ensured that a high number of financial risks were closed (avoided) compared to financial risks initially identified. In the same vein, respondents agreed to a low extent that they incurred a high cost of mitigating the financial risks compared to the cost of accepting the risk. This means they were able to know when to accept the financial risks instead of incurring a high of mitigating them thus going into losses. The results agree with Gitae, Maganjo, & Kavinda, (2013) study, which indicated that financial risk management training equipped the owners with the knowledge to know when they need more finances and secure appropriate sources of finance to ensure uncertainty avoidance. They were equally enthusiastic that the training was of much help in enterprise risk mitigation.

However, entrepreneurs had a challenge in adopting the risk transfer despite moderately agreeing that they were trained and competent in understanding when to transfer financial risk to third parties contracted to mitigate or cover the risk. The results showed that to a low extent, entrepreneurs agreed that financial risks had been transferred to third parties, e.g., insurance policies or contractual agreements. The study reveals that Small and medium enterprises (SMEs)

face many small and large internal and external risks. Asgary et al., (2020) however indicate that while SMEs could better mitigate much of the internal risks through risk management and treatment measures, they were more vulnerable to external risks because these risks are often beyond their control, influence, sensor, and capacity to manage hence the need to transfer the risks to 3<sup>rd</sup> parties.

The findings are in line with the knowledge-based theory which argues that knowledge Transfers/conversions from External to Internal Structure are concerned with what knowledge the SMEs can gain from the training and how the new knowledge can be converted into action. Adoption of the financial risk management practices involves converting the training/knowledge gained to practical actions. Knowledge-based theory of the firm can be valuable for strategy formulation where knowledge grows when used and depreciates when not used.

Overall, the study answered the question that financial risk management training has an influence on the adoption of financial risk mitigation going by a positive relationship between financial risk management training and the adoption of financial risk mitigation practices which was statistically significant. This is in line with Njeri (2014) where the study indicated that financial risk management training enhanced the adoption of risk mitigation practices.

### **5.3 Conclusions**

This section presents the conclusions drawn from the research findings for each of the research objectives.

#### **5.3.1. Influence of FRM training on the adoption of financial risk identification and analysis practices**

This study concludes that financial risk management training influences the adoption of SMEs' financial risk identification and analysis. These included recognizing new financial risk exposure, measuring how often a financial risk occurs on average, determining the severity of the financial risks, categorizing the identified financial risks from high occurrence and high consequences to the low occurrence, and analyzing financial risks where they make decisions that would mitigate the risks and finally analyzing and tracing back the origin of the risk.

There was an agreement with the position that entrepreneurs adopted financial risk practices to the extent that the financial risk identification process was being carried out to identify internal and external risks. Additionally, for all the identified risks, the likelihood and impact were assessed and then ranked from low/negligible risks to major/critical risks. Overall, the study concludes that financial risk management training has a positive and significant influence on the adoption of financial risk identification and analysis by SMEs.

### **5.3.2. Influence of FRM training on the adoption of financial risk monitoring**

Entrepreneurs were trained on financial risk monitoring and the study showed that they actually adopted and implemented the trained financial risk management practices. These included tracking/monitoring any financial risk that had been identified for any changes in probability or severity, deriving a most-to-least-critical rank-order of identified financial risks to form a basis for allocating resources of managing it. They would finally map internal controls to the financial risks and ensure no gaps between risks and controls.

The entrepreneurs agreed that they developed and maintained a risk register/matrix that incorporated internal controls on how the financial risks identified were being monitored. In the same breath, the entrepreneurs were continuously updating, reviewing, and monitoring the financial risk register/matrix. Overall, the study concludes that financial risk management training has a significant influence on the adoption of financial risk monitoring by SMEs.

### **5.3.3. Influence of FRM training on the adoption of financial risk mitigation**

Financial risk management training has influenced the adoption of financial risk management practices and in this case financial risk mitigation. These practices included knowing when to avoid any exposure to financial risk that poses a potential loss, limiting exposure of financial risks by taking some action or series of actions such as acceptance, avoidance, or limiting financial risks through the transfer of the risk to 3<sup>rd</sup> parties. In addition, entrepreneurs knew when to accept financial risk where potential loss from risk was not great enough to warrant spending money to avoid it, and also they were competent enough in understanding when to transfer financial risk to third parties contracted to mitigate or cover the risk.

Even if entrepreneurs agreed that their actual Severity of the financial risks had a lower impact than the Predicted risk Severity level of impact due to risk limitation, they were however not transferring the financial risks to third parties. This involved having an insurance policy with insurance companies or signing a contractual agreement on how 3<sup>rd</sup> parties/suppliers would absorb specific risk. In the latter case, financial risk management training had a low influence on the adoption of the financial management practice specifically on transferring risks to 3<sup>rd</sup> parties. Despite that conclusion, entrepreneurs disagreed with the statement that a high cost of mitigating the financial risks was incurred compared to the cost of accepting the risk meaning that they were able to analyze the risk and identify which ones to mitigate and which ones would have a negative financial result. In addition, entrepreneurs agreed that a high number of financial risks were closed (avoided) compared to financial risks initially identified due to risk mitigation. Overall, the study concludes that financial risk management training has a positive and significant influence on the adoption of financial risk mitigation by SMEs.

#### **5.4 Recommendations**

The study illustrated how financial risk management training has a positive and significant influence on the adoption of financial risk management practices by SMEs; However, the findings show that most of the entrepreneurs were not transferring their risk to third parties, especially to the insurance companies, or designing contracts that would help them mitigate financial risks. This puts their enterprises at risk of closure when faced with financial risks that cannot be mitigated through other means other than through the insurance companies. The study recommends the need for the trainers to evaluate the adequacy of their financial risk management training about how SMEs can benefit from transferring financial risks to 3<sup>rd</sup> parties. This could involve partnering with insurance companies in their training for ease of adoption. According to Kithae, (2013), to make the training more meaningful to beneficiaries, the trainees must be closely monitored after the training to ensure that they are properly making use of all the learned skills and this will also reveal gray areas in the training program and rectify them in time.

In addition, despite that the majority of the respondents agreed that financial risk management training had a significant influence on the adoption of financial risk management practices, the

study recommends the need to spend more time handholding those members who cannot adopt the financial risk management practices. Critical areas for handholding would be ensuring the actual severity of the financial risks has a lower impact than the predicted risk severity level of influence by providing that entrepreneurs adopt various risk limitations practices. This would increase the number of members adopting the financial risk management practices after the financial risk management training.

More than a third of the respondents stated that their level of education was a primary school certification. This means their level of understanding of the financial risk management training could be slower than the ones who had their level of education being secondary school and above. The study recommends that the trainers should spend more time with this category of entrepreneurs to ensure they understand and are capable of adopting the financial risk management practices with many challenges. Hand-holding the entrepreneurs under this category would also help increase the number of entrepreneurs adopting financial risk management practices.

Regarding policy issues, the study has revealed that most of the enterprises are registered as sole proprietorships. This will limit the entrepreneurs from benefiting from government initiatives due to their legal status. The Kenyan legislature is in a discussion of an act of parliament that will provide capacity building on financial and risk management to startups, a framework for credit guarantee for startups, the provision of accessible financial support to startups, and availing of financial support and credit information to startups. The startup bill specifies that for an entity to be eligible for admission into an incubation program the enterprise must be registered as a company under the Companies Act, or partnership firm under the Partnership Act, or limited liability partnership under the Limited Liability Partnership Act, or non-governmental organization under the Non-Governmental Organizations Coordination Act. This leaves out sole proprietorships from benefiting from such government initiatives and hence the need to encourage the SMEs to change their legal status to either limited companies or partnerships.

### **5.5 Research Areas for Further Study**

This study focused on one main element of financial risk management training: financial risk management and how financial risk management training influence the adoption of financial risk management practices.

As a result, the interpretations of the results are limited to the following variables; influence financial risk management training has on the adoption of financial risk identification and analysis by SMEs, influence financial risk management training has on the adoption of financial risk monitoring by SMEs, and influence financial risk management training has on the adoption of financial risk mitigation by SMEs. The study used Pearson correlations and multiple regressions to establish the relationships between these variables, and as a result, interpretation is limited to the robustness of these statistical measures.

Further research can investigate why entrepreneurs find it hard to transfer financial risks despite being trained and able to do so. Additionally, other studies can use other methodological approaches, particularly qualitative research approaches for an in-depth exploration of the influence of financial risk management training on the adoption of various risk management practices that incorporate other non-financial risks.

### **5.6 Limitations of the Study**

The study collected information from the entrepreneurs who run the SMEs regarding how financial risk management training influences their financial risk management practices adoption. Approached organizations that offer financial risk management training were not willing to share the data required for this study. Nevertheless, the data collected from Hand in Hand Eastern Africa was a good representation of SMEs in Nairobi which has helped in arriving at a conclusion and recommendations.

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## APPENDICES

### APPENDIX I: QUESTIONNAIRE

#### SECTION A: GENERAL INFORMATION

Please answer the questions by putting a tick [] in the appropriate box.

1. What is your gender?

Male [] Female []

2. What is your age group?

Less than 20 years [] 21-25 years []

26-30 years [] 31-35 years []

Over 36 years []

3. Please indicate your level of education.

Primary [] Secondary [] Tertiary [] University []

4. How long have you been running the enterprise?

1-5 years [] 6-10 years []

11-15 years [] 16 years and above []

5. What industry does your enterprise fall in?

Wholesale and Retail enterprises []

Transportation & Storage []

Agriculture, Forestry & Fishing []

Manufacturing []

Accommodation and food service activities []

6. What is this enterprise's current legal status?

- Sole proprietorship
- Partnership
- Limited Company

**SECTION B: Financial risk management training on financial risk identification and analysis**

Indicate the extent to which, as an entrepreneur, the financial risk management training has enhanced your ability to identify and analyze financial risks. Tick (√) once as applicable to the following statements where **1. Very low extent; 2. Low extent; 3. Moderate extent; 4. Great extent; 5. Very great extent**

Statement	1	2	3	4	5
Trained and able to recognize new financial risk exposure					
Trained and able to measure how often a financial risk occurs on average					
Trained and able to determine the severity of the financial risks					
Trained and able to categorize the identified financial risks from high occurrence and high consequences to low occurrence and low consequences.					
Trained and able to analyze financial risks and make decisions that will mitigate the risks					
Trained and able to analyze and trace back the origin of the risk					

**SECTION C: Financial risk management training on financial risk monitoring.**

Indicate the extent to which, as an entrepreneur, the financial risk management training has enhanced your ability to monitor financial risks. . Tick (√) once as applicable to the following statements where **1. Very low extent; 2. Low extent; 3. Moderate extent; 4. Great extent; 5. Very great extent**

Statement	1	2	3	4	5
Trained and able to map internal controls to the financial risks and ensure there are no gaps between risks and controls.					

Trained and able to track any financial risk that has been identified for any changes in probability or severity.					
Trained and able to derive a most-to-least-critical rank-order of identified financial risks to form a basis for allocating resources of managing it.					

**SECTION D: Financial risk management Training on financial risk mitigation.**

Indicate the extent to which, as an entrepreneur, the financial risk management training has enhanced your ability to mitigate financial risks. Tick (√) once as applicable to the following statements where **1. Very low extent; 2. Low extent; 3. Moderate extent; 4. Great extent; 5. Very great extent**

Statement	1	2	3	4	5
Trained and competent in knowing when to avoid any exposure to financial risk that poses a potential loss.					
Trained and able to limit exposure of financial risks by taking some action or series of actions i.e. Acceptance, avoidance, the limit of transfer of the risk.					
Trained and able to understand when to accept financial risk where potential loss from risk is not great enough to warrant spending money to avoid it.					
Trained and competent in understanding when to transfer financial risk to third parties contracted to mitigate or cover the risk.					

**SECTION E: Adoption of Financial Risk Management Practices.**

Indicate the extent to which, the financial risk management training has influenced the adoption of the following financial risk management practices in the administration of your Enterprise. Tick (√) once as applicable to the following statements where **1. Not adopted; 2. Low extent; 3. Moderate extent; 4. Great extent; 5. Very great extent**

Statement	1	2	3	4	5
<b>Risk Identification and Analysis</b>					
The financial risk identification process is carried out to identify internal and external risks					
For all the risks identified, the likelihood and impact of the risks were assessed.					

All financial risks were ranked from low/negligible risks to major/critical risks.					
<b>Risk Monitoring</b>					
Risk register/matrix was developed and maintained incorporating internal controls on how the financial risks identified are monitored					
The financial risk register/matrix is continuously reviewed and monitored.					
<b>Risk Mitigation</b>					
The actual Severity of the financial risks had a lower impact compared to the Predicted risk Severity level of impact due to risk limitation					
A high cost of mitigating the financial risks was incurred compared to the cost of accepting the risk.					
A high number of financial risks were closed (avoided) compared to financial risks initially identified					
Financial risks have been transferred to third parties e.g Insurance policy or contractual agreements					

