

Journal of  
**Strategic Management**  
(JSM)



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PERFORMANCE OF SMALL SCALE  
AGRIBUSINESS FIRMS IN KIAMBU COUNTY**

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## **RISK MANAGEMENT STRATEGIES AND PERFORMANCE OF SMALL SCALE AGRIBUSINESS FIRMS IN KIAMBU COUNTY**

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### **ABSTRACT**

**Purpose:** This study sought to establish the risk management strategies and performance of small agribusiness firms in Kiambu County.

**Methodology:** The study employed descriptive research design. The population of the study was 11,120 small agribusinesses businesses (SME) in Kiambu County. The selection was done in random manner ensuring that all types of firms are considered. This was achieved through stratified random sampling. Data of the list of firms and type was obtained from the County office in-charge of industrialization. The study used both primary data. Primary data was gathered by use of closed ended questionnaires, which was self-administered. A multiple linear regression model was used to test the significance of the influence of the independent variables on the dependent variable. Data was analyzed mainly by use of descriptive and inferential statistics. SPSS was used to produce the descriptive and inferential statistics. Descriptive statistics included mean, and standard deviation. Inferential statistical techniques included correlation and regression analysis.

**Results:** The study findings indicated that financial risk management strategy, operational risk management strategy, human resource risk management strategy, regulatory risk management strategy and disaster risk management strategy affected organizational performance. The study indicated that keeping previous record enables to forecast future risks, financial distress affects performance, keeping informed of various risks reduces the risk of poor performance and that having contingent measures to reduce financial risks improves the organizational performance.

**Unique contribution to theory, practice and policy:** The study recommends that it is important for a company to reduce the volatility of earnings or cash flows due to financial risk exposure as the reduction enables the firm to perform better forecasts.

**Key words:** *risk management, performance, agribusiness firms*

## 1.0 INTRODUCTION

### 1.1 Background of the Study

Risk can be seen as the possibility of economic or financial losses or gains, as a consequence of the uncertainty associated with pursuing a course of action (Richards & Manfredi, 2007). Risk pervades all human actions (to varying degrees), all kinds of business and every area of management of a company. However, in many cases, risk can be predicted on the basis of experience, trying to better govern the disorder. Risk management (RM) has the task of identifying risks, measuring the probability and the possible impact of events, and treating risks, eliminating or reducing their effect with the minimum investment of resources. RM has been developed and adopted in a lot of fields, such as environment, healthcare, public safety, and within enterprise management. SMEs require the adoption of a risk management strategy and methodology, because they lack the resources to respond promptly to internal and external threats, leading to potentially huge losses that seriously threaten their survival (Vargas-Hernandez, 2011).

German based SMEs, however, have been neglected in risk management considerations. A fundamental study of Turpin (2002) examines the state of risk management in SMEs of various European countries, including Germany. Its focus is on the specific characteristics of insurance. Moreover, the size classes of micro and small firms are neglected. Turpin also states that 4 out of 10 enterprises have no official risk strategy due to problems of communication and of delegating risk management competencies to employees. In European SMEs the five most frequently mentioned risks are: increasing competition, loss of employees to competitors, changes of customer demands, wrong strategies due to lack of market data and personnel absence rate (Turpin, 2002).

An investigation of the risk management practices small and medium enterprises in India revealed that the attitudes of the owner managers and their knowledge towards risks play an essential role in how systematically risks are handled. Therefore, there is the need of improving current planning system within the MSMEs together with enhancing the owner managers' knowledge and awareness regarding risks management through proper training and development. Risk management highlights the fact 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. It should be clearly understood that the objective of risk management is not to prevent or prohibit taking risk, but to ensure that the risks are consciously taken with complete knowledge and clear understanding so that it can be measured to help in mitigation (Panigrani, 2012).

Risk management strategies, as an increasingly popular concept in the developing countries, it is indeed a relatively new term that is catching much today as it is viewed as the ultimate approach to effective Risk Management. Nigeria being prone to a lot of environmental inconsistencies requires high degree of risk aversion strategy to break the circle of poverty which engulfed over 70% of its population and also to achieve increased food production to meet 3.18% population growth (NIPC, 2007; Ojo, 2003; FRN, 2009; Alimi and Ayanwale, 2005). Risk which investment economists describe as the variation from expected outcomes due to imperfect knowledge of investor in decision making is inherent in every form of enterprise but is more intensive in input- output relation among agribusiness productions (Kuyrah et al., 2006). Alimi and Ayanwale (2005) opined that a situation of imperfect knowledge is more common in agribusiness enterprises. Hence, investors in agribusiness enterprises face the danger that what they expect ex-ante may not be realized ex-post (Ndugbu, 2003). For instance, each time an investor borrows money for investment in

agribusiness enterprise, there is the possibility that return on investment is less than cost of borrowed fund. Also, in this era of global climate change, an investor cannot predict with certainty the degree of fluctuation in prices of input and output. Risk sources to agribusiness enterprises can be grouped into social, market, political, financial, production and foreign exchange risk. (Njavro, 2009; NIPC2006; CN, 2008; Dercon,2002; Mikhaylova,2005).

In Kenya the poor face two types of risks namely; idiosyncratic (specific to the household) and *covariate* (common to all). To combat these risks, they have traditionally used risk pooling (for instance funeral and burial societies), income support (for instance credit arrangements and transfers) and informal insurance or risk-sharing schemes such as grain storage, savings, asset accumulation and loans from friends and relatives (Bhattamishra & Barrett, 2008; Tadesse & Brans, 2012). However, the prevalent forms of risk management (in kind savings, self-insurance, mutual insurance) which were appropriate earlier are no longer adequate and feasible (Pierro& Desai, 2007; Giesbert& Steiner, 2012) as they are limited in outreach and the benefits typically cover a small portion of the loss (Churchill, 2006), offer limited protection, low returns for households, and are prone to breakdown during emergencies (Bhattamishra & Barrett, 2008). Formal insurance instruments can offer superior risk management alternatives, provided poor households can access these services (Maleika & Kuriakose, 2008).

### **1.2 Statement of the Problem**

SMEs face a number of operational risks. Panigrahi (2012) identified this to be mainly stemming from the fact that most SMEs are family businesses structured along sole-proprietorship or partnership. Managerial decisions here are usually at the mercy of the key owner who in most cases lacks basic managerial skills, qualities and culture to manage a business successfully. This also has effects on the management structure and employees-employer relationship. In addition, SMEs' survival is threatened by high employee turnover, which results to poor and unstable organization structure.

Furthermore as business entities, SMEs face a lot of hazard or pure risks. These include personal risks which result from bodily injury to or death of employees while working. Also, property risks which emanate from damage to plants, machineries or other assets use for production. Liability risks which place responsibility of other people's losses on the entrepreneurs and risks that arise from the failure of other people like debtors, suppliers, contractors among others. The happening of these risks hinder the performance, growth and expansion of SMEs. This is why Idemobi (2012) reports that over 70% of SMEs die within five years of establishment.

### **1.3 Objective of the Study**

- i. To establish the effect of financial risk management strategies on the performance of small agribusiness firms in Kiambu County
- ii. To determine the influence of operational resource risk management strategies on the performance of small agribusiness firms in Kiambu County
- iii. To determine the influence of human resource risk management strategies on the performance of small agribusiness firms in Kiambu County
- iv. To determine the effect of regulatory risk management strategies on the performance of small agribusiness firms in Kiambu County
- v. To establish the extent to which disaster risk management strategies affect the performance of small agribusiness firms in Kiambu County



## **2.0 LITERATURE REVIEW**

### **2.1 Theoretical Review**

#### **2.1.1 Enterprise Risk Management Theory**

Enterprise risk management is a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives (McGraw, Galai& Mark 2001). Companies that succeed in creating an effective ERM have a long-run competitive advantage over those that manage and monitor risks individually. Our argument in brief is that, by measuring and managing its risks consistently and systematically, and by giving its business managers the information and incentives to optimize the tradeoff between risk and return, a company strengthens its ability to carry out its strategic plan (Morgan, 2006).

Enterprise risk management consists of eight interrelated components. These are derived from the way management runs an enterprise and are integrated with the management process. These components are internal environment, objective setting, event identification, risk assessment, risk response, control activities, information and communication and monitoring. Enterprise risk management is not strictly a serial process, where one component affects only the next. It is a multidirectional, iterative process in which almost any component can and does influence another (Morgan, 2006).

#### **2.2 Empirical Review**

Financial risk management is a process of creating economic value in a firm by using financial techniques and methodologies to manage exposure to risk ;credit, exchange rate, inflation, interest rate, price and liquidity risk (Crockford, 1986). One important aspect and general risk factor is the management of the company. SME often lack the necessary resources expertise, as well with regard to IT systems as also experts among the employees and management, for establishing and performing an in depth risk management. A risk management should easily be integrated into the existing management of the company and understandable also without special knowledge of risk management.

According to Schneider (2002) DRM has often been viewed as a reactive measure because activities such as risk reduction and hazard mitigation are rarely seen as urgent. To reduce risks, Boshier et al (2007) suggests various forms of mitigation measures. Some of the non-structural measures address the development of coping mechanisms and consist of various behavioral changes that the companies can make in either avoiding or reducing the impact of risk in facing up to extreme weather events. Within the hotel sector, Raksakulthai (2003) lists out various indigenous strategies that large resort hotels adopt such as when the meteorological department predicts high winds making swimming for children dangerous, alternative activities are planned at the man-made lakes located within their resorts. However, small businesses (small hoteliers) do not have adequate resources to adopt the requisite behavioral changes due to unfavorable weather conditions. They face financial, manpower and other resource constraints. For instance, guides working for small hotels who takes tourists on diving excursions or trips to nearby islands such as 'Phi Phi' also receives the weather report each day (like large hotels). When rainis forecasted (or when it starts raining), the guides have no choice but to cancel the trip as they are unable to organize any alternative trips due to constraints in funding.

According to Naidoo, (2002) regulatory and compliance risk management strategies are a business process and could be approached as such. However, approaching compliance in this manner is still in its infancy and differences in and integration of different regulation processes across the organization. Neither is there any general way of modelling and describing the regulatory risk management process and its links to business process models.

Virdi (2005) finds that 30% of SMEs consider the existing ‘employee turnover rate’ as a substantial impediment to effective business operation, while 43% indicate the impediment from this factor to be small, and 26% indicate it to be negligible. These are apparently linked to operational risks of direct or indirect losses due to failures in systems, processes, and people or from external factors. Thus, dissatisfaction level with net profit and in business growth and employee turnover rate is considered as ‘risk indicators’ for research. In addition to these three, 11 risk indicators which are linked to operational, occupational, and economic losses are identified from the study. A study on the association between ICT operational risk in SMEs and performance in SME by (ITGI, 2003) found that good ICT operational risk in SMEs can generally improve performance. However, there are others which empirically suggest the existence of indirect relationships between ICT operational risk management in SMEs and performance (Anderson & Choobineh, 2008).

### 3.0 RESEARCH METHODOLOGY

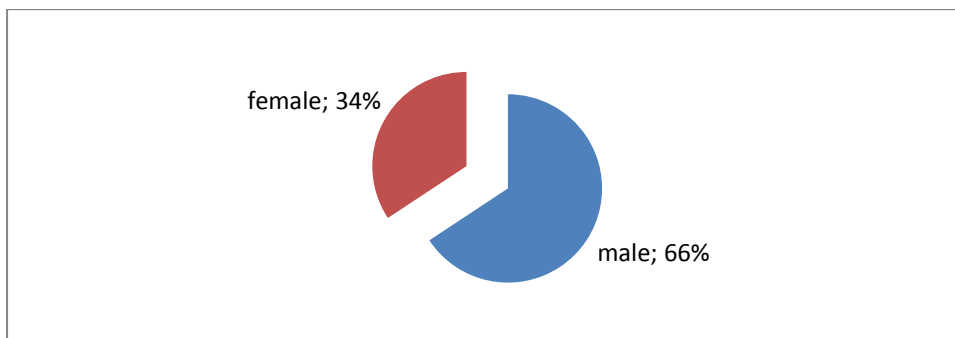
The study employed descriptive research design. The population of the study was 11,120 small agribusinesses businesses (SME) in Kiambu County. The selection was done in random manner ensuring that all types of firms are considered. This was achieved through stratified random sampling. Data of the list of firms and type was obtained from the County office in-charge of industrialization. The study used both primary data. Primary data was gathered by use of closed ended questionnaires, which was self-administered. A multiple linear regression model was used to test the significance of the influence of the independent variables on the dependent variable. Data was analyzed mainly by use of descriptive and inferential statistics. SPSS was used to produce the descriptive and inferential statistics. Descriptive statistics included mean, and standard deviation. Inferential statistical techniques included correlation and regression analysis.

### 4.0 DATA ANALYSIS, FINDINGS AND DISCUSSION

#### 4.1 Sample Characteristics

##### 4.1.1 Gender

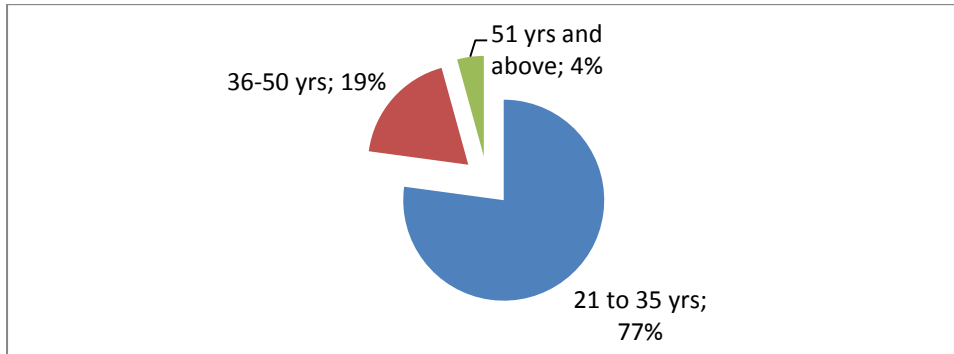
The respondents were asked to indicate their gender.68% of the respondents indicated that they were male while 34% indicated that they were female. This implied that those who take risks in SMEs are mainly men hence SMEs sector is male dominated field .The findings are presented in figure 4.1.



## Figure 4.1: Gender

### 4.1.2 Age

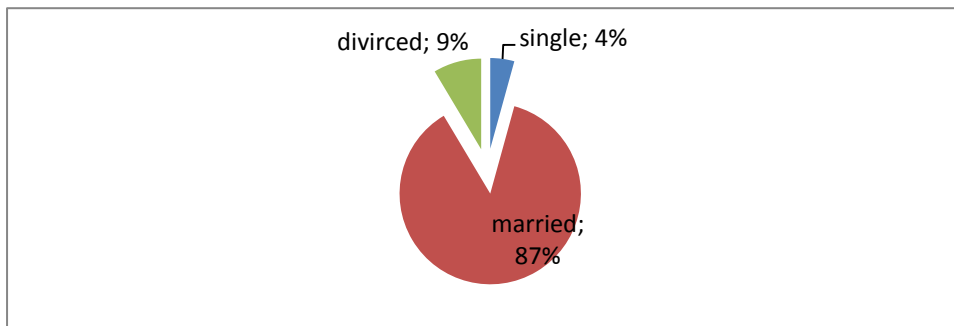
The respondents were asked to indicate their age. Majority of the respondents indicated that they were aged between 21-35 years, 19% of the respondents stated that they were between 36-50 years while 4% indicated that were 51 and above years. This implied that majority of the respondents were young people who end up in SMEs due to lack of employment.



## Figure 4.2: Age

### 4.1.3 Marital Status

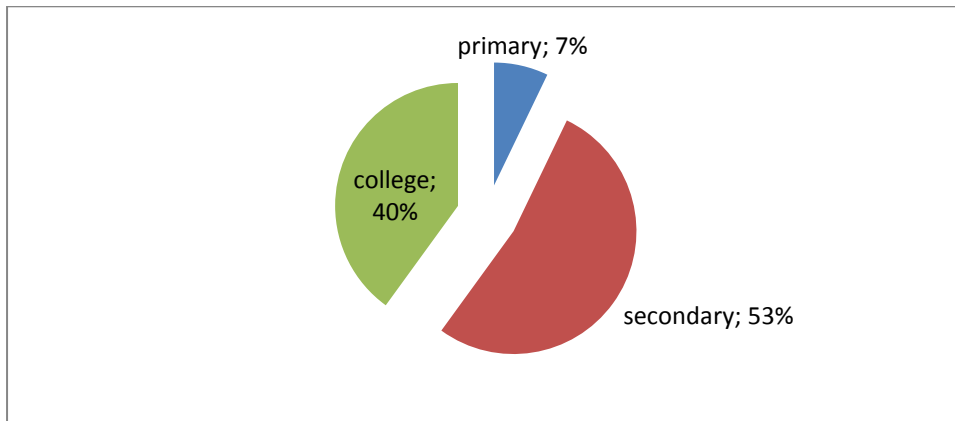
The respondents were asked to indicate their marital status. 87% of the respondents indicated that they were married, 9% of the respondents indicated that they were divorced while 4% indicated that they were single. This implied that those in SMEs sector are married and therefore higher chances of savings.



## Figure 4.3: Marital Status

### 4.1.4 Level of education

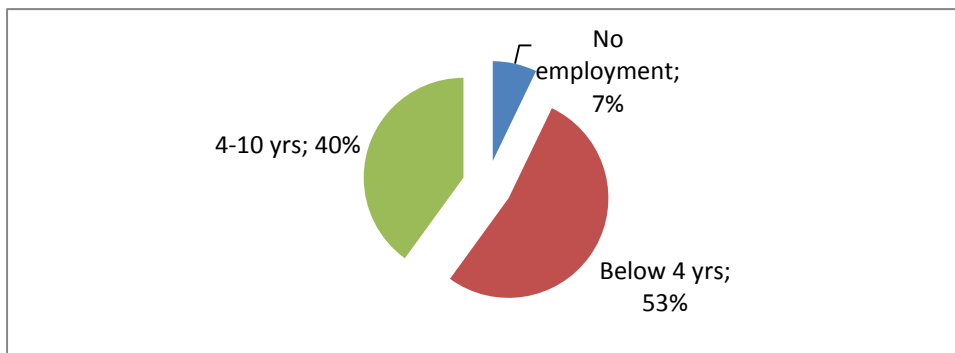
The respondents were asked to indicate the level of education. Majority 53% indicated that had attained secondary education level, 40% indicated that had college level of education and 7% indicated that had primary level. The findings implied that the respondents had low level of education and could be at risk of lacking knowledge on the sector.



**Figure 4.4: Level of education**

#### 4.1.5 Period worked

The respondents were asked the period of time they had worked in the business. 53% indicated they had worked for less than 4 years, 40% indicated that they had worked between 4-10 years. This implied that majority of the respondents had low experience but were knowledgeable and reliable in the issues raised in the study.



**Figure 4.5: Period worked**

#### 4.2 Descriptive Analysis

##### 4.2.1 Organizational Performance

The respondents were asked to indicate their organizational performance. The findings are presented in Table 4.1



**Table 4.1: Organizational Performance**

Statement	strongly disagree	disagree	Neither disagree nor agrees	agree	strongly agree	Mean	Std Dev
The agribusiness has experienced an increase in total revenue over the last 2 years	7.1%	10.0%	4.3%	54.3%	24.3%	3.79	1.14
The agribusiness has experienced an increase in profitability over the last 2 years	1.4%	11.4%	8.6%	30.0%	48.6%	4.13	1.08
The agribusiness has experienced an increase in assets over the last 2 years	1.4%	12.9%	10.0%	41.4%	34.3%	3.94	1.05
Profit is a key indicator of performance in my business	7.1%	10.0%	4.3%	54.3%	24.3%	3.79	1.14
Motivated employees are important for better performance of a firm	1.4%	0.0%	5.7%	57.1%	35.7%	4.26	0.70
<b>Average</b>						<b>3.98</b>	<b>1.02</b>

Table 4.1 revealed that 78.6% of the respondents agreed the agribusiness had experienced an increase in total revenue over the last 2 years, 78.6% of the respondents agreed that the agribusiness has experienced an increase in profitability over the last 2 years, 75.7% of the respondents agreed that the agribusiness had experienced an increase in assets over the last 2 years, 78.6% of the respondents agreed that profit was a key indicator of performance in their business and 92.9% of the respondents agreed that motivated employees were important for better performance of a firm. The findings were supported by a mean score of 3.98 and standard deviation of 1.02.

#### 4.2.2 Financial Risk Management Strategies

The respondents were asked to indicate their financial risk management strategies on the performance of small agribusiness firms. The results are shown in Table 4.2.

**Table 4.2: Financial Risk Management Strategies**

Statement	strongly disagree	Disagree	Neither disagree or agree	Agree	Strongly agree	Mean	Std Dev
I keep a record of previous risk costs to enable me forecast future risks	10.0%	11.4%	2.9%	51.4%	24.3%	3.70	1.20
I engage in those transactions that I am familiar with and know that they are likely to yield higher returns	10.0%	4.3%	8.6%	28.6%	48.6%	4.00	1.30
I try to avoid financial distress and the costs connected with it	7.1%	1.4%	4.3%	32.9%	54.3%	4.30	1.10
I am aware of the various financial risks likely to arise in my business	1.4%	0.0%	2.9%	60.0%	35.7%	4.30	0.70
I have contingent measures to take in case I am faced with a financial risk in my business	8.6%	10.0%	5.7%	54.3%	21.4%	3.70	1.20
<b>Average</b>						<b>4.00</b>	<b>1.10</b>

Table 4.2 revealed that 74.2% of the respondents agreed they kept a record of previous risk costs to enable them forecast future risks, 80.0% of the respondents agreed that they engaged in those transactions that were familiar with and knew that they were likely to yield higher returns, 90.0% of the respondents agreed that they tried to avoid financial distress and the costs connected with it, 70.0% of the respondents agreed that they were aware of the various financial risks likely to arise in my business and 74.3% of the respondents agreed that they had contingent measures to take in case they were faced with a financial risk in their business.

The findings agree with those in Dhanini et al., (2007) who found out that the reasons for managing financial risks are the same as those for implementing a risk management, as financial risks are a subcategory of the company's risks. One of the main objectives is to reduce the volatility of earnings or cash flows due to financial risk exposure. The reduction enables the firm to perform better forecasts. Furthermore this will help to assure that sufficient funds are available for investment and dividends. Another argument for managing financial risks is to avoid financial distress and the costs connected with it.

The findings also agree with those in Armeanu & Bălu (2007) who noted that for the management of external financial risks financial instruments have been developed, which match the characteristics of the different risks and can be used to assess these. As the instruments are derived from an underlying asset, as for example commodities, metals and oil or financial assets, they are called derivatives (Chisholm,2010), forwards, options and swaps are the first generation of derivatives (Armeanu&Bălu, 2007) Other derivatives are mainly based upon the four main categories. However, they are more complicated and require mathematical tools and computer programs to analyze their effects.

#### 4.2.3 Operational Resource Risk Management Strategies

The respondents were asked to indicate their operational resource risk management strategies on the performance of small agribusiness firms. The results are shown in Table 4.3.

**Table 4.3: Operational Risk Management Strategies**

Statement	strongly disagree	disagree	Neither disagree nor agree	agree	strongly agree	Mean	Std Dev
Lack of proper information system could lead to in effectiveness in the business	1.4 %	12.9%	10.0%	41.4%	34.3%	3.94	1.05
Profit is a key indicator of performance in my business	4.3 %	18.6%	5.7%	24.3%	47.1%	3.91	1.29
There is proper business practices relating to better workplace and systems	1.4 %	17.1%	17.1%	30.0%	34.3%	3.79	1.14
The business has experienced an increase in sales over the last 5 years	0.0 %	2.9%	4.3%	25.7%	67.1%	4.57	0.71
The agribusiness has experienced an increase in assets over the last 5 years	0.0 %	0.0%	4.3%	34.3%	61.4%	4.57	0.58
<b>Average</b>						<b>4.16</b>	<b>0.96</b>

Table 4.3 revealed that 75.7% of the respondents agreed that lack of proper information system could lead to in effectiveness in the business, 71.4% of the respondents agreed that profit was a key indicator of performance in their business, 64.3% of the respondents agreed that there was a proper business practices relating to better workplace and systems, 92.9% of the respondents agreed that the business has experienced an increase in sales over the last 5 years and that 95.7% of the respondents agreed that the agribusiness had experienced an increase in assets over the last 5 years.

The findings are consistent with those in Viridi (2005) who found out that 30% of SMEs consider the existing 'employee turnover rate' as a substantial impediment to effective business operation, while 43% indicate the impediment from this factor to be small, and 26% indicate it to be negligible. These are apparently linked to operational risks of direct or indirect losses due to failures in systems, processes, and people or from external factors.

Thus, dissatisfaction level with net profit and in business growth and employee turnover rate is considered as ‘risk indicators’ for research. In addition to these three, 11 risk indicators which are linked to operational, occupational, and economic losses are identified from the study. A study on the association between ICT operational risk in SMEs and performance in SME by (ITGI, 2003) found that good ICT operational risk in SMEs can generally improve performance. However, there are others which empirically suggest the existence of indirect relationships between ICT operational risk management in SMEs and performance (Anderson & Choobineh, 2008).

The findings also agree with those in National Credit Regulator (2008) found out that ICT operational risk management activities contribute significantly to enhancing the efficiency of SMEs. Here they argue that ICT operational in SMEs are activities that may be used to improve efficiency. National Credit Regulator (2008) found that efficiency has positive effects on ICT operational risk management in SMEs and interest rate risk capitalization, but a mixed result on the effect of ICT operational risk in SMEs. Then, Standing, Guilfoyle, Lin and Love (2007) show that profit efficiency is sensitive to ICT operational risk management in SMEs and insolvency risk, but not to liquidity risk or to a mix of loan products in SMEs. Hence it is expected that by managing these risks, the institution’s efficiency is expected to improve. From the literature, operational risk management in SMEs’ practices is associated with the level of efficiency and performance of SMEs.

#### 4.2.4 Human Resource Risk Management Strategies

The respondents were asked to indicate their human resource risk management strategies on the performance of small agribusiness firms. The results are shown in Table 4.4

**Table 4.4: Human Resource Risk Management Strategies**

Statement	strongly disagree	disagree	Neither disagrees nor agrees	agree	strongly agree	Mean	Std Dev
The employees turn over in the business is low	1.4%	0.0%	5.7%	57.1%	35.7%	4.26	0.70
Motivated employees are important for better performance of a firm	5.7%	10.0%	7.1%	58.6%	18.6%	3.74	1.06
Incompetent employees presents a challenge to the operation of the business	7.1%	5.7%	4.3%	58.6%	24.3%	3.87	1.08
Demotivated staff and employees can lead to low performance	5.7%	10.0%	5.7%	30.0%	48.6%	4.06	1.21
Training of employees leads to less operational risks leading to higher business performance	8.6%	10.0%	5.7%	54.3%	21.4%	3.70	1.17

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**Average**

**3.93 1.04**

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Table 4.4 revealed that 75.7% of the respondents agreed with the statement that the employees turn over in the business was low, 77.2% of the respondents agreed that motivated employees were important for better performance of a firm, 87.2% of the respondents agreed that Incompetent employees presented a challenge to the operation of the business, 95.7% of the respondents agreed that demotivated staff and employees can lead to low performance while 75.7% of the respondents training of employees leads to less operational risks leading to higher business performance. The findings were supported by a mean score of 3.93 and standard deviation of 1.04. This implied that that majority of the respondents agreed with the statements.

The findings also concur with those in Paul & Mitlacher (2008) who noted that HR risk management provides unique opportunities for HR directors, managers and practitioners to support risk governance and management and to develop appropriate HR risk management plans to address HR risks. Approaches to managing risk are designed to enable an organization to reduce the uncertainty surrounding the achievement of its objectives. They aim at reducing the likelihood that the events, which organizations expect to affect them negatively, will occur. These approaches also focus on reducing the effect these events might have on achieving objectives.

The findings also agree with those in Ernest & Young (2009) who noted that a group of HR directors from Executives Global Network South Africa had a detailed discussion about the HR planning and risks associated with organizations. Their discussions covered the negative risks and the potential positive consequences, like improved morale and nation building. Thus, robust risk management planning is essential for the success of any venture, project or organization. The 2009 Ernest and Young Business Risk Report highlighted the importance of HR risk management. Christopher Lipski, HR Risk Management Service Line Leader in the United States of America (USA), said that ‘managing risk in the HR area has become an increasingly important issue for global executives’.

#### **4.2.5 Regulatory Risk Management Strategies**

The respondents were asked to indicate their regulatory risk management strategies on the performance of small agribusiness firms. The results are shown in Table 4.5

**Table 4.5: Regulatory Risk Management Strategies**

Statement	strongly disagree	disagree	Neither disagrees nor agrees	agree	strongly agree	Mean	Std Dev
I am aware of the different regulatory requirements for the SMEs	10.0%	4.3%	8.6%	28.6%	48.6%	4.01	1.29
The SME are compliant with all relevant regulations	7.1%	1.4%	4.3%	32.9%	54.3%	4.26	1.11
The regulatory environment provides an appropriate framework for the SMEs current and potential operations and legal status	1.4%	0.0%	2.9%	60.0%	35.7%	4.29	0.66
The SME has no cases pending in court over breach of contract	1.4%	2.9%	8.6%	32.9%	54.3%	4.36	0.87
The SME have not in the past incurred heavy fines for violating regulations	18.6%	7.1%	4.3%	38.6%	31.4%	3.57	1.47
The SME that fail to comply with the rules are heavily fined	1.4%	11.4%	8.6%	30.0%	48.6%	4.13	1.08
<b>Average</b>						<b>4.10</b>	<b>1.08</b>

Table 4.5 revealed that 77.1% of the respondents agreed that they were aware of the different regulatory requirements for the SMEs, 87.1% of the respondents agreed that the SME were compliant with all relevant regulations, 95.7% of the respondents agreed that the regulatory environment provides an appropriate framework for the SMEs current and potential operations and legal status, 87.1% of the respondents agreed that the SMEs had no cases pending in court over breach of contract, 70.0% of the respondents agreed that the SMEs had not in the past incurred heavy fines for violating regulations had not 78.6% of the respondents agreed that the SMEs that fail to comply with the rules are heavily fined. The findings are supported by a mean score of 4.10 and a standard deviation of 1.08.



The findings agree with those in Naidoo, (2002) who noted that regulatory and compliance risk management strategies are a business process and could be approached as such. However, approaching compliance in this manner is still in its infancy and differences in and integration of different regulation processes across the organization. Neither is there any general way of modelling and describing the regulatory risk management process and its links to business process models.

The findings also agree with those in Braithwaite (2007) who noted that Responsive regulation is a process that, confidently and openly engages regulates to think about their obligations and accept responsibility for regulating themselves in a manner that is consistent with the law. The basic idea of responsive regulation is that regulatory agencies should be, responsive to the conduct of those they seek to regulate and law enforces should be responsible to how effectively citizen are regulating themselves before they intervene (Ayres and Braithwaite, 1992). As highlighted by Sparrow (2000) responsive regulation is about how regulators should behave rather than how regulation should be changed. The idea is during interaction with regulatees, responsive regulation requires regulators to conduct themselves in responsive, respectful and professional manner. Through responsive regulation, compliance can be fostered through persuasion, education, encouragement and assistance. These soft approaches would be a better strategy to be adopted by regulators that may result in cooperation from the regulates.

#### 4.2.6 Disaster Risk Strategies

The respondents were asked to indicate their disaster risk management strategies on the performance of small agribusiness firms. The results are shown in Table 4.6

**Table 4.6: Disaster Risk Management Strategies**

<b>Statement</b>	<b>strongly disagree</b>	<b>disagree</b>	<b>Neither disagree nor agrees</b>	<b>agree</b>	<b>strongly agree</b>	<b>Mean</b>	<b>Std Dev</b>
I am aware of the different disasters that can strike my business	8.6%	11.4%	5.7%	47.1%	27.1%	3.73	1.23
There are known measures put in place to curb disaster when it occurs	7.1%	2.9%	10.0%	30.0%	50.0%	4.13	1.17
In the event that disaster risks arise insurance companies are ready to compensate and help restore businesses	4.3%	1.4%	4.3%	35.7%	54.3%	4.34	0.96
My business has adequate resources to adopt the requisite behavioral changes due to unfavorable weather conditions	10.0%	14.3%	5.7%	45.7%	24.3%	3.60	1.28

I am aware and familiar with possible disaster risks risk and this has prompted me to put in place measures to deal with such risks should they happen to occur	11.4%	5.7%	8.6%	25.7%	48.6%	3.94	1.36
<b>Average</b>						<b>3.95</b>	<b>1.20</b>

Table 4.6 revealed that 74.3% of the respondents agreed that they were aware of the different disasters that could strike their business, 80.0% of the respondents agreed that there are known measures put in place to curb disaster when it occurred, 90.0% of the respondents agreed that in the event that disaster risks arise insurance companies were ready to compensate and help restore businesses, 70.0% of the respondents agreed that their business had adequate resources to adopt the requisite behavioral changes due to unfavorable weather conditions and 74.3% of the respondents agreed that they were aware and familiar with possible disaster risks risk and this had prompted them to put in place measures to deal with such risks should they happen to occur. The findings were supported by a mean score of 3.95 and a standard deviation of 1.20.

The findings agree with those in Schneider (2002) who found out that DRM has often been viewed as a reactive measure because activities such as risk reduction and hazard mitigation are rarely seen as urgent. To reduce risks, Boshier et al (2007) suggests various forms of mitigation measures. Some of the non-structural measures address the development of coping mechanisms and consist of various behavioral changes that the companies can make in either avoiding or reducing the impact of risk in facing up to extreme weather events. Within the hotel sector, Raksakulthai (2003) lists out various indigenous strategies that large resort hotels adopt such as when the meteorological department predicts high winds making swimming for children dangerous, alternative activities are planned at the man-made lakes located within their resorts. However, small businesses (small hoteliers) do not have adequate resources to adopt the requisite behavioral changes due to unfavorable weather conditions. They face financial, manpower and other resource constraints. For instance, guides working for small hotels who takes tourists on diving excursions or trips to nearby islands such as ‘Phi Phi’ also receives the weather report each day (like large hotels). When rain is forecasted (or when it starts raining), the guides have no choice but to cancel the trip as they are unable to organize any alternative trips due to constraints in funding.

### 4.3 Inferential Statistical Analysis

#### 4.3.1 Pearsons Correlation

Bivariate correlation indicates the relationship between two variables. It ranges from 1 to -1 where 1 indicates a strong positive correlation and a -1 indicates a strong negative correlation and a zero indicates lack of relationship between the two variables. The closer the correlation tends to zero the weaker it becomes. The results are shown in Table 4.7

**Table 4.7: Correlations**

Variable		Organization performance	Financial risk	Operational risk	Human risk	Regulatory risk	Disaster risk
Organization performance	Pearson Correlation	1					
	Sig. (2-tailed)						
Financial risk	Pearson Correlation	0.319	1				
	Sig. (2-tailed)	0.007					
Operational risk	Pearson Correlation	0.468	0.044	1			
	Sig. (2-tailed)	0.000	0.715				
Human risk	Pearson Correlation	0.543	0.359	0.241	1		
	Sig. (2-tailed)	0.000	0.002	0.045			
Regulatory risk	Pearson Correlation	0.395	0.363	0.086	0.227	1	
	Sig. (2-tailed)	0.001	0.002	0.478	0.059		
Disaster risk	Pearson Correlation	0.596	0.581	0.376	0.278	0.375	1
	Sig. (2-tailed)	0.000	0.000	0.001	0.02	0.001	

Correlation is significant at the 0.01 level (2-tailed).

Correlation is significant at the 0.05 level (2-tailed).

The correlation between organization performance and financial risk management was weak but positive (0.319) and significant (0.007). This shows that a change in financial risk management and organization performance changed in the same direction though the

relationship was weak (0.319). However the relationship is statistically significant at a p value of 0.007. The correlation between organizational performance and operation risk management strategies, human resource risk management strategies, regulatory risk management strategies and disaster risk management strategies was 0.468, 0.543, 0.395 and 0.596 respectively and all had statistically significant relationships.

The study employed multiple linear regression analysis in testing the influence of the predictor variables on the dependent variable. The results are shown in Table 4.8

**Table 4.8: Regression Model Fitness**

Model	Coefficients
R	0.765
R Square	0.585
Adjusted R Square	0.553
Std. Error of the Estimate	0.40416

Table 4.8 shows the results for testing the regression model significance. The results indicate that the regression model best fits in explaining organization performance. This is supported by a composite strong and positive correlation of 0.765 and a coefficient of determination (R Square) of 0.585. This means that the predictor variables of the study can explain at least 58.5% of the variation in organization performance. The standard error of estimate (0.40416) is negligible which shows that the sample is close representative of the study population.

Table 4.9 shows the results on analysis of variance (ANOVA).The results are shown in Table 4.9

**Table 4.9: Analysis of Variance (ANOVA)**

	Sum of Squares	df	Mean Square	F	Sig.
Regression	14.758	5	2.952	18.07	0.000
Residual	10.454	64	0.163		
Total	25.212	69			

Table 4.9 revealed indicate that the combined effect of the predictor variables is significant in explaining organization performance with an F statistic of 18.07 and a p value of 0.000

Table 4.10 displays the regression coefficients of the independent variables. The results are shown in Table 4.10.

**Table 4.10: Regression Coefficients**

	B	Std. Error	t	Sig.
(Constant)	-0.169	0.522	-0.324	0.747
Financial risk	0.151	0.115	1.309	0.010
Operational risk	0.244	0.109	2.245	0.028
Human risk	0.4	0.093	4.313	0.000
Regulatory risk	0.165	0.081	2.036	0.003
Disaster risk	0.41	0.108	3.794	0.000

The results reveal that financial risk management strategies, operational risk management strategies, human resource risk management strategies, regulatory risk management strategies and disaster risk management strategies are positively and statistically significant in

explaining organizational performance. The findings imply that all the independent variables were strong determinants of organizational performance. The beta coefficient indicates the direction and degree of influence of the predictor variable on the dependent variable. For example, a beta coefficient of 0.151 of financial risk management strategies means that a unit change in financial risk management strategies causes or leads to a 0.151 positive unit change in organizational performance.

## **5.0 CONCLUSION AND RECOMMENDATIONS**

### **5.1 Conclusions**

The study led to conclusion that keeping previous record enables to forecast future risks, financial distress affects performance, keeping informed of various risks reduces the risk of poor performance and that having contingent measures to reduce financial risks improves the organizational performance.

The study led to conclusion that Lack of proper information system could lead to in effectiveness in the business, Profit is a key indicator of performance in business and that proper business practices relating to better workplace and systems lead to in effectiveness in the business

It was possible to conclude that Motivated employees are important for better performance of a firm, Incompetent employees presents a challenge to the operation of the business, demotivated staff and employees can lead to low performance and that training of employees leads to less operational risks leading to higher business performance

The study also led to conclusion that the regulatory environment provides an appropriate framework for the SMEs current and potential operations and legal status, there are heavy fines for the SMEs and that has affected the performance.

### **5.2 Recommendations**

The study recommends that it is important for a company to reduce the volatility of earnings or cash flows due to financial risk exposure as the reduction enables the firm to perform better forecasts.

The study recommends that proper information system should be put in place as this could lead to effectiveness in the business, the firms should adopt ICT operational as may be used to improve efficiency.

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