EFFECT OF FINANCIAL RISK MANAGEMENT ON FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN HIRSHABELLE STATE-SOMALIA

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ABSTRACT

Firms are exposed to numerous financial risks which can greatly affect their performance. Despite the increasing exposure to risk events organizations view risk management as primarily a cost center and undervalue or under invest in integrated risk management practices. The purpose of this study was to study on the effect of financial risk management on the performance of SMEs in Hirshabelle state-Somalia. The study was guided by the following specific variable, effect of financial risk identification on financial performance of small and medium enterprises in Hirshabelle state-Somalia, effect of financial risk analysis on financial performance of small and medium enterprises in Hirshabelle state-Somalia, effect of financial risk monitoring on financial performance of small and medium enterprises in Hirshabelle state-Somalia, and effect of financial risk mitigation on financial performance of small and medium enterprises in Hirshabelle state-Somalia. This study was conducted through the use of cross-sectional survey research design. The target population included the 2,657 SMEs in Hirshabelle state-Somalia. Stratified sampling technique was used to ensure that the target population was divided into different homogeneous strata Random sampling technique was used. The study had a sample size of 348 respondents. The study did a pilot of 10% of the respondents who did not take part in the study. The researcher used internal consistency measure known as Cronbach's Alpha (α) where the recommended value of 0.7 and above as a measure of reliability. Data was analyzed using the descriptive statistics with the help of data analysis software - Statistical Package for Social Sciences (SPSS version 23). Multiple regressions helped the researcher identify the relationship between financial risk management factors and financial performance of small and medium enterprises.

Key terms: Financial risk identification, Financial risk analysis, Financial risk monitoring, Financial risk mitigation, financial performance, Financial Risk Management, Risk Acceptance, Risk Avoidance, Risk Limitation, Risk Transference

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INTRODUCTION

Business ventures operate in an environment which is highly volatile and uncertain. This is true due to the globalization of business environment. There are numerous financial risks that organizations encounter while in their daily operations. However, the globalization of business environment has come with numerous benefits besides the risk associated. These benefits include but not limited to bigger customer base that ensures optimal returns as compared to the mediaeval way of doing business. Technology and other innovations have greatly improved the way business environment operates thus enabling firms sustainable. (Sharifi, 2014)

Firms are exposed to numerous financial risks which can greatly affect their performance. Due to the nature of firms business, an enterprise is exposed to different types of risks. This may range from financial risk to health, safety and environmental risks. When an organization has financial market exposure, there is a possibility of loss but also an opportunity for gain or profit. Financial market exposure may provide strategic or competitive benefits to an organization. The reduction of risks enables the firm to perform better and forecasts. (Muriithi, 2016)

Despite the increasing exposure to risk events organizations view risk management as primarily a cost center and undervalue or under invest in integrated risk management practices. However, in practice the process of assessing overall risk can be difficult, and balancing resources used to mitigate between risks with a high probability of occurrence but lower loss versus a risk with high loss but lower probability of occurrence can often be mishandled. Risk management is highly strategic in nature and is essential to a firm.

Risk-management approaches by the firm are relevant in the sense that they are able to add value. These activities may reduce total risk and diversified investors have already done so by eliminating all of the specific risk. Hence, risk management activities will increase the market price of the firm's shares for listed companies. Approaching financial risks, such as market, credit, and operational uncertainties can be very usefully to Small and Medium enterprises (Wolfgang , 2005)

Globally financial risk management has been practices by major firms for profitability and sustainability. (Berrell, 2017) described an approach to Enterprise Risk Management (ERM) in China. A literature search identified areas of generic business risk in China. They used an Expert Panel as a Nominal Group Technique and Linear Rating Scales to identify and prioritize business risks in the Chinese economy. The approach demonstrated how an expedient and quick assessment of risk can occur using intellectual capital as a principal throughout.

(Song & Xiong, 2018) Reviews several commonly perceived financial risks and discusses their roots in China's

Locally a number of developing countries have enacted pro-market reforms to transform their economies to market economies. In Kenya Foreign exchange risk and Market risk are commonly affecting business. For example Market risk can be seen in the context of commercial banks and other financial institutions that have approved decisions that are not vetted leading to loan defaults and nonperforming loans, massive extension of credit and directed lending. (Akong'a , 2014) Some of other challenges facing the financial services industry include customer retention, financial risk, legal and compliance risk, strategic risk, technological risk and stiff competition from MFIS, mortgage firms and SACCOs (Wanjohi, Wanjohi, & Ndambiri, 2017)

Small and Medium Enterprises (SMEs) is the backbone of a nation and is recognized as a prime vehicle for economic development of both developed and developing (Abeywardhana, 2017).The sector plays an important role in any economy through

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employment generation, contributing to the growth of Gross Domestic Product (GDP), embarking on innovations and simulating of other economic activities. SMEs are vehicle for economic growth of countries because they have the capacity to achieve rapid economic growth, while generating a considerable extent of employment opportunities. They also significantly create wealth and help in the livelihood of the individuals. (Abdullah, 2017)

Small and medium-sized enterprises (SMEs) are non-subsidiary, independent firms which employ less than a given number of employees. This number varies across countries with the most frequent upper limit of 250 employees. Those with less than 50 employees are considered to be the small SMEs. In Somalia this is no different. SMEs operate as small and medium firms with fewer employees. They however face numerous challenges from the time of inception. (Sharifi, 2014)

Every business venture works towards achieving its main goal. Mostly the goals are geared towards profitability ad sustainability. This is not different from small and medium enterprises. Their ultimate goals are to be sustainable in the business world. This can only be achieved through financial performance. However, the present business environment is so dynamic and fast changing making it very difficult for any modern business enterprise to continuously operate and sustain itself. This is due to numerous financial risks an enterprise is exposed to. According to (Alshatti, 2015) the dynamic and turbulent business environment, and one that faces financial risks, requires analyzing and understanding of the uncertainties, threats and risks associated with the business opportunities available. In order for a business venture to successfully sustain itself and deal with the uncertainty, threats ad risk available, there must be proper mechanism in place. One of the best mechanisms is a financial risk management plan.

Firms must have risk management plans to enable them reduce or mitigate uncertainty. Efficient financial risk management practices have been vital in enabling the growth of small and medium enterprises. Small and medium enterprises face challenges due to their complex operations. In contrast to larger companies, SMEs often lack the necessary resources, with regard to manpower, databases and specialty of knowledge to perform a standardized and structured risk management. This could be due to the fact that many SMEs do not perform sufficient analysis to identify their risk ad that have no mitigating mechanisms thus face financial distress and lead to bankruptcy. In Somalia, SMEs are facing different type of financial risks in their business activities thus making loses and failing to be sustainable. Problems in the SME sector will lead to create uncertainties in the sector and badly affect the performances of SMEs.

The expansion of small business is not a guarantee that they can survive to the end. In fact, the first five years of establishment is the crucial stage as it is where the highest failure rate occurs (Chong, 2012). Among the challenges faced are including lack of access credit, poor management, informal risk management and many more. Risk management especially in terms of financial is frequently hitting small business even thus failing to realize their goals. When faced with financial risks, SMEs tend to spend a lot of money for risk solution whereas rather that earning money through investments. Hence, this research aims to identify the effect of financial risk management among SMEs in Hirshabelle state-Somalia.

Research Objectives
- Effect of financial risk identification on financial performance of small and medium enterprises in Hirshabelle state-Somalia
- Effect of financial risk analysis on financial performance of small and medium enterprises in Hirshabelle state-Somalia

- Effect of financial risk monitoring on financial performance of small and medium enterprises in Hirshabelle state-Somalia
- Effect of financial risk mitigation on financial performance of small and medium enterprises in Hirshabelle state-Somalia

LITERATURE REVIEW

Theoretical Review

Transaction Costs Theory

Vertical integration involves a variety of complex strategic decisions to be performed by the top-management of companies. According to Transaction Costs Theory "the explanation on as to whether economic agents procure critical inputs and services through internal production or via market transactions is the role of asset specificity" (Macher & Richman, 2008)

Monteverde and Teece studied 133 automobile components. For each of them they ascertained the extent of vertical integration by Ford and General Motors for American production in 1976 (Monteverde & Teece, 1982) Their studies confirmed that vertical integration in General Motors and Ford is based at least in part on efficiency assumption. They further stated that the structure appeared to take advantage of the ability of internal organization reduction of an automakers' exposure for a risk of suppliers' opportunism; and the coordinating properties of hierarchies. (Abdullah, 2017)

According to Martin (1986) value added sale commonly known as VAS is the most common measure of vertical integration in economic research. If a firm integrates forwards or backwards (i.e. acquiring customers or suppliers) the VAS increases and vice versa. (Akong'a , 2014) state that higher profitability can be observed for firms with high values of vertical integration, measured as VAS.

Moral hazard theory

A moral hazard is where one party is responsible for the interests of another, but has an incentive to put his or her own interests first. For example one might take risks that someone else will have to bear. Moral hazards such as these are a pervasive and inevitable featuring of the financial system and of the economy more generally (Wanjohi, Wanjohi, & Ndambiri, 2017) . (Krugman, 2009) Described moral hazard as "any situation in which one person makes the decision about how much risk to take, while someone else bears the cost if things go badly."

According to (Busato & Coletta , 2017) corporation's owners, namely the shareholders, do not have control over the day-by-day operations of their company. This separation is the consequence of asymmetric information within corporations. They further state that the contract between the shareholders and the managers leaves the latter too much discretion on how to run the business, because the managers, unlike shareholders, have the skills and the knowledge to do so. This leads, in more than one case, to a moral hazard problem, when managers may act in their own interests instead of shareholders' best interests. This is a widespread phenomenon, occurring not only within corporations, but in different realities of modern economic structure. The study benefited from the theory through identification of various stakeholders and owner related issues that bring about the financial risks experienced in a firm.
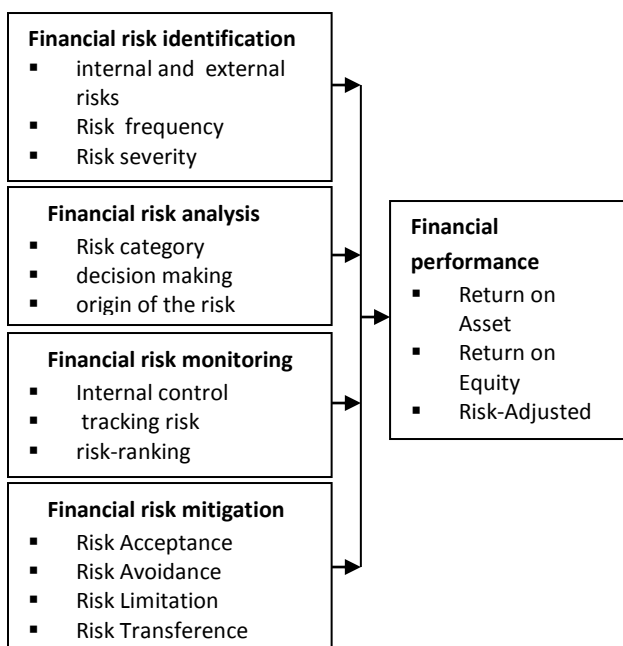
Capital Structure Theories

Capital structure theory of was coined by Modigliani and Miller (1958). The Capital Structure theory is crucial for any business organization, including SMEs. The capital structure of a firm is a mix of different securities. (Angote, , Malenya, & Musiega, 2015) define capital structure as the relative proportions of debt, equity, and other securities that a firm has outstanding constitute its capital structure. A perfect

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market is one in which there are no frictions such as transaction and bankruptcy costs.

According to (Abeywardhana, 2017) Modigliani and Miller stated that the theory is based on assumptions related to the behavior of investors and capital market .they further state that the firm value is unaffected by the capital structure of the firm. Securities are traded in perfect capital market, all relevant information are available for insiders and outsiders to take the decision. The allocation of assets across different markets with independent of cash flows reduces the impact of unsystematic risk resulting from external contingencies in each of the various markets hence, diversification reduces firms exposure to risk as well as firms enjoy higher leverage and debt capacity. (Abeywardhana, 2017)

Conceptual Framework

Financial risk identification
▪ internal and external risks
▪ Risk frequency
▪ Risk severity

Financial risk analysis
▪ Risk category
▪ decision making
▪ origin of the risk

Financial risk monitoring
▪ Internal control
▪ tracking risk
▪ risk-ranking

Financial risk mitigation
▪ Risk Acceptance
▪ Risk Avoidance
▪ Risk Limitation
▪ Risk Transference

Financial performance
▪ Return on Asset
▪ Return on Equity
▪ Risk-Adjusted

Independent Variables   Dependent Variables
Figure 1: Conceptual Framework
Source: Author (2019)

Review of Litrature on Variables

Financial risk identification

Risk identification is the first stage of risk management process. Risk identification ensures risk management effectiveness and that when managers do not succeed in identifying all possible losses or gains that challenge the organization, then these non-identified risks will become non-manageable. (Lagat & Tenai, 2017)

Risk identification process needs to be a continuing process, and should be understood at both the transaction and portfolio levels. Risk identification reveals and determines the potential risks which are highly occurring and other events which occur very frequently. This can only be achieved through looking at the activity of organizations in all directions and attempting to introduce the new exposure which will arise in the future from changing the internal and external environment. (Akong'a , 2014) asserts that correct risk identification ensures risk management effectiveness.

Financial risk analysis

Risk analysis is the second phase of risk management. It is a step that deals with the consequences, options and decision making (Wanjohi, Wanjohi, & Ndambiri, 2017). The process of analysis and assessment can be done through classification of the different risks according to the amount of damage they possibly cause or may cause. Classification enables the management to divide risks that are enabling to threat the existence of the corporation from those which can only causing slight damages.

Risk analysis enables a firm to cluster or categorize financial risks based on the field of risk, this for example can be to check if the identifies risk is market or financial risks. The process also identifies the origin of the risk. Clustering allows a company to later analyses whether some of the risks are related and whether some of them offset each other.

Financial risk monitoring

Before financial risk monitoring starts, the goals and expectations of the business need to be specified in order to structure and implement the risk management process. Secondly risk identification,

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evaluation and assessment should have been successfully done. Monitoring stage involves the developments of the risk positions and measures to control them. (Angote, , Malenya, & Musiega, 2015)

Risk monitoring can be used to make sure that risk management practices are in line and proper. Risk monitoring can also enable an organization discover mistake at early stage. Lack of risk monitoring activities can lead to losses and underperformance. (Muriithi, 2016)

Financial risk monitoring clearly audits the process of risk management and points out any risks that can be treating to a firm. (Alshatti, 2015) States that the performance of an organization can well be achieved through financial risk monitoring. (Wolfgang , 2005) Explains that monitoring enables banks examine market risks and how to deal with for profitability.

Financial risk mitigation

Risk mitigation is defined as taking steps to reduce adverse effects. (Abeywardhana, 2017). There are four types of risk mitigation strategies that hold unique to Business Continuity and Disaster Recovery. The four major risk mitigation steps are bellow as stated by (Sharifi, 2014). Risk Acceptance: This strategy is a common option when the cost of other risk management options such as avoidance or limitation may outweigh the cost of the risk itself. However the strategy does not completely remove the risk but reduces it.

Risk Avoidance: Risk avoidance is the opposite of risk acceptance. It is the action that avoids any exposure to the risk whatsoever. Risk avoidance is usually the most expensive of all risk mitigation options. Risk Limitation: Risk limitation is the most common risk management strategy used by businesses. This strategy limits a company's exposure by taking some action. It is a strategy employing a bit of risk acceptance along with a bit of risk avoidance or an average of both. An example of risk limitation would be a company accepting that a disk drive may fail and avoiding a long period of failure by having backups.

Financial performance

Financial performance is company's ability to generate new resources, from day-to-day operations, over a given period of time and performance is gauged by net income and cash from operations. (Akong'a , 2014). It also shows the firms overall financial health over a period of time, and it helps to compare different firms across the industry at the same time. Financial performance is a general measure of how well an organization generates revenues from its capital. The major financial performance indicators include Return on Asset (ROA), Return on Equity (ROE), profitability and Risk-Adjusted and Return on Capital (RAROC). (Wanjohi, Wanjohi, & Ndambiri, 2017)

Financial performance is the an independent estimate of best ways in which an organization can utilize its assets from primary mode of business besides generation of revenue (Abdullah, 2017)

METHODOLOGY

This study was conducted through the use of cross sectional research design. Descriptive research was used to describe characteristics of a population or phenomenon being studied. The descriptive survey method was preferred because it ensured complete description of the situation, making sure that there was minimum bias in the collection of data and finding what, where and how of the phenomenon (Kothari, 2008). The research design generally entailed quantitative and qualitative descriptions to effect of financial risk management on financial performance of small and medium enterprises in Hirshabelle state-Somalia. The research design enabled the researcher to obtain extensive data, which will facilitated in explaining the effect of financial risk management on financial performance of small and medium enterprises in Hirshabelle state-Somalia (Kothari, 2012). Data was analyzed using the

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descriptive statistics with the help of data analysis software - Statistical Package for Social Sciences (SPSS version 23). The statistics to be generated are frequencies, descriptive and inferential statistics. The study used multiple regressions analysis to analyze data. Multiple regressions helped the researcher identify the relationship between financial risk management factors and financial performance of small and medium enterprises. The study employed the following multiple Regression Model:

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon i$

Where:

Y_i = financial performance (dependent variable)

X_1 = financial risk identification

X_2 = financial risk analysis

X_3 = financial risk monitoring

X_4 = financial risk mitigation

β_i = Regression coefficient for each Independent variable i.e. coefficient for X_i (i=1, 2, 3, 4)

β_0 = Constant or intercept (value of dependent variable when all independent variables are zero)

ε = Error term

FINDINGS

Table 1: Financial Risk Identification

	N	Mean	Std. Deviation
Identification looks at all activity of organizations attempting to introduce the new exposure	244	3.24	1.205
Risk identification determines the frequency of the risk	244	3.52	.882
identification of risk clearly indicates the severity of the risks	244	3.50	1.106
Risk mapping provides an organization with a way to identify risks	244	3.45	1.208
Necessary statistical tools for analysis are used for risk analysis	244	3.36	1.411
Valid N	**244**		

The first objective of the study was to assess the effect of financial risk identification on financial performance of small and medium enterprises in Hirshabelle state-Somalia. The respondents were asked using a Linkert scale of 1-5, to tell the extent to which financial risk identification affects financial performance of small and medium enterprises in Hirshabelle state-Somalia. The statement on Identification looked at all activity of organizations attempting to introduce the new exposure had a mean score of 3.24 and a standard deviation 1.205. The statement on risk identification determined the frequency of the risk had a mean score of 3.52 and a standard deviation 0.882. The statement on identification of risk clearly indicated the severity of the risks had a mean score of 3.50 and standard deviation of 1.106. Risk mapping provides an organization with a way to identify risks recorded a mean score of 3.45 and a standard deviation of 1.205.

Finally, on necessary statistical tools for analysis is used for risk analysis recorded a mean score of 3.36 and a standard deviation of 1.411.

The findings indicated that all the respondents agreed that financial risk identification affected financial performance of small and medium enterprises in Hirshabelle state-Somalia with an aggregate mean of 3.41. The study concurs with findings by (Lagat & Tenai, 2017), that risk identification ensures risk management effectiveness and that when managers do not succeed in identifying all possible losses or gains that challenge the organization, then these non-identified risks will become non-manageable. Risk identification reveals and determines the potential risks which are highly occurring and other events which occur very frequently. This can only be achieved through looking at the activity of organizations in all directions and attempting to introduce the new exposure which will arise in the

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future from changing the internal and external environment. (Akong'a , 2014), asserts that correct risk identification ensures risk management effectiveness.

Financial Risk Analysis

Level of agreement was a requirement to determine the respondents response related to the extent to which financial risk evaluation affected financial performance of small and medium enterprises in Hirshabelle state-Somalia by filling a 5-Likert scale where; 5= very large extent 4= large extent 3= moderate extent 2= small extent 1= very small extent. Variability was computed through Mean and standard deviation as illustrated in Table 2 below:

Table 2: Financial Risk Analysis

	N	Mean	Std. Deviation
Risks are analysed with assumptions and uncertainties been clearly considered and presented	244	4.02	.900
Measurement of both of the quantities in which risk assessment is concerned -potential loss and probability of occurrence- is carried out by the business	244	3.64	.921
Risks are subdivided into individual levels for further analysis	244	4.14	1.011
Risk is evaluated in terms of both quantitative and qualitative value	244	3.77	1.063
Valid N	**244**		

The results in Table 2 indicated respondents' agreement to a large extent that; risks were evaluated with assumptions and uncertainties being clearly considered and presented by Mean of 4.02 and Standard deviation of 0.900. In addition, respondents agreed to a large extent that measurement of both of the quantities in which risk assessment is concerned - potential loss and probability of occurrence – is carried out by the business by a Mean of 3.64 and Standard deviation of 0.921. Further respondents agreed to a great extent that risks are subdivided into individual levels for further analysis by a Mean of 4.14 and Standard deviation of 1.011. Finally respondents agreed that risk is evaluated in terms of both quantitative and qualitative value as indicated by a Mean of 3.77 and Standard deviation of 1.063. This agrees with Pagach and Warr (2011) that risk analysis positively influenced the performance of financial performance of small and medium enterprises. Risk management has moved from the narrow view that focuses on analysis of risk from a narrow perspective to a holistic, all-encompassing view.

Table 3: Financial Risk Monitoring

	N	Mean	Std. Deviation
Controls are in place to evaluate the efficiency of the risk management program	244	3.70	.906
Regular reviews of risk management efforts and reporting to senior management	244	3.62	1.005
Employees are properly trained on risk management policies of the firm	244	3.66	1.025
Risks are subdivided into individual levels for further analysis	244	4.16	.987
Valid N	**244**		

Level of agreement was a requirement to determine the respondents response related to the extent to which financial risk monitoring affects financial performance of small and medium enterprises in

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Hirshabelle state-Somalia by filling a 5-Likert scale where; 5= very large extent 4= large extent 3= moderate extent 2= small extent 1= very small extent. Variability was computed through Mean and standard deviation as illustrated in Table 3 above:

The study sought to establish the effect of financial risk monitoring on financial performance of small and medium enterprises. The study findings found that respondents to a great extent agreed that; controls were in place to evaluate the efficiency of the risk management program by a Mean of 3.70 and Standard deviation of 0.906. Also respondents agreed to a large extent that regular reviews of risk management efforts and reporting to senior management as indicated by a Mean of 3.62 and Standard deviation of 1.005. In addition respondents agreed to a great extent that employees are properly trained on risk management policies of the firm by a Mean of 3.66 and Standard deviation of 1.025. Finally

respondents agreed to a very great extent that risks are subdivided into individual levels for further analysis by a Mean of 4.16 and Standard deviation of 0.987. The study findings were corroborated by (Alshatti, 2015), that the performance of an organization can well be achieved through financial risk monitoring. (Wolfgang , 2005), explains that monitoring enables businesses examine market risks and how to deal with for profitability.

Financial Risk Mitigation

Level of agreement was a requirement to determine the respondents response related to the extent to which financial risk mitigation affects financial performance of small and medium enterprises in Hirshabelle state-Somalia by filling a 5-Likert scale where; 5= very large extent 4= large extent 3= moderate extent 2= small extent 1= very small extent. Variability was computed through Mean and standard deviation as illustrated in Table 4 below:

Table 4: Financial Risk Mitigation

	N	Mean	Std. Deviation
We regularly conduct simulation analysis and measure our financial performance	244	3.47	1.239
We avoid any exposure to risk	244	3.66	.913
When the cost of other risk management options such as avoidance or limitation outweigh the cost of the risk itself we accept it	244	3.63	1.098
Unmanageable risks are handed to a willing third party	244	3.43	1.330
Valid N	**244**		

The study sought to establish the effect of financial risk mitigation on financial performance of small and medium enterprises. The study findings found that respondents to a great extent agreed that; they regularly conduct simulation analysis and measure our financial performance by a Mean of 3.47 and Standard deviation of 1.239. Also respondents agreed to a large extent that they avoid any exposure to risk as indicated by a Mean of 3.66 and Standard deviation of 0.913. In addition respondents agreed to a great extent that when the cost of other risk management options such as avoidance or limitation outweighs the cost of the risk itself we accept it by a

Mean of 3.63 and Standard deviation of 1.098. Finally respondents agreed to a very great extent that unmanageable risks are handed to a willing third party by a Mean of 3.43 and Standard deviation of 1.330.

The above findings were in line with (Wanjohi, 2013), in their study recommended the use of derivatives to mitigate financial risk as well as develop training courses tailored to the needs of banking personnel in risk management thus improving performance. Risk mitigation through risk Acceptance, risk avoidance, risk limitation and risk transference can be useful to an organization thus increasing profitability. Financial

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performance of a firm can be well managed if a firm has proper risk mitigating mechanisms.

Table 5: Financial Performance

	N	Mean	Std. Deviation
Return on equity has positively improved due to the business risk identification	244	3.93	.913
Risk evaluation affects the financial performance of banks	244	3.64	.875
Profitability of the bank has exponentially improved due to risk monitoring	244	4.11	.927
Valid N	**244**		

The study inquired as to the respondents' views on variables related to bank financial performance. The results were analysed in Table 5 above:

Respondents were further asked to indicate level of agreement with the various variables related to financial performance. As per the above findings, majority of respondents agreed to a great extent that return on equity has positively improved due to business financial risk identification by a Mean of 3.93 and Standard deviation of 0.913. Also majority of respondents agreed that financial risk evaluation affects the financial performance of business (Mean=3.64 and Standard deviation=0.875). Finally, majority of respondents agreed that profitability of the bank has exponentially improved due to financial risk monitoring as indicated by a Mean of 4.11 and Standard deviation of 0.927. The study findings were supported by Yusuwan *et al.*, (2008) who did a study to identify the level of awareness of risk management on construction project companies in Klang Valley, Malaysia. Their studies concluded that risk management positively contributes to the productivity and financial performance.

Table 6: Correlation Analysis

Correlations		Risk identification	Risk analysis	Risk monitoring	Risk mitigation	Financial performance
Risk identification	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	244				
Risk analysis	Pearson Correlation	.151*	1			
	Sig. (2-tailed)	.018				
	N	244	244			
Risk monitoring	Pearson Correlation	.160*	.409**	1		
	Sig. (2-tailed)	.012	.000			
	N	244	244	244		
Risk mitigation	Pearson Correlation	.494**	.041	.115	1	
	Sig. (2-tailed)	.000	.523	.072		
	N	244	244	244	244	
Financial performance	Pearson Correlation	.260	.181	.178**	.201**	1
	Sig. (2-tailed)	.007	.007	.005	.000	

	N	244	244	244	244	244

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

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

Regression Analysis

Table 7: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.617[a]	.381	.371	1.678

a. Predictors: (Constant), Risk mitigation, Risk analysis, Risk monitoring, Risk identification

Table 8: Analysis of Variance: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	55.575	4	13.894	4.933	.001[b]
	Residual	90.165	239	0.377		
	Total	145.740	243			

a. Dependent Variable: Financial performance

b. Predictors: (Constant), Risk mitigation, Risk analysis, Risk monitoring, Risk identification

Table 9: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	8.576	.954		8.990	.000
	Risk identification	.067	.032	.125	2.117	.035
	Risk analysis	.052	.042	.074	1.233	.019
	Risk monitoring	.120	.052	.160	2.334	.020
	Risk mitigation	.136	.040	.243	3.387	.001

a. Dependent Variable: Financial performance

The regression coefficients showed that there was a significant relationship between the dependent variable and independent variables. The regression analysis showed that there was a significant relationship between financial performance and risk identification as shown by a significance level of 0.035 which was lower than 0.05. We therefore rejected the null hypothesis which predicted that risk identification has no effect on financial performance.

The regression coefficients also indicated that there is a significant relation relationship between financial performance and risk analysis represented by 0.019 significance level which was lower than 0.05. We therefore rejected a null hypothesis which predicted that risk analysis has no effect on financial performance.

The regression analysis revealed that the relationship between financial performance and risk monitoring is significant. This was confirmed by 0.020 significance level which was lower than 0.05. This led to rejection of null hypothesis which stated that risk monitoring has no significant effect on financial performance.

The regression analysis further revealed that risk mitigation has a significant effect on financial performance shown by 0.001 significance level which was lower than 0.05. This led to the rejection of null hypothesis which assumed that risk mitigation has no effect on financial performance.

The regression model was represented by $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$

$Y = 8.576 + 0.067 X_1 + 0.052 X_2 + 0.120 X_3 + 0.136 X_4 + \varepsilon$

Where Y was the dependent variable (financial performance), X_1 was the effect of risk identification, X_2 was effect of risk analysis, X_3 was effect of risk monitoring and X_4 was the effect of risk mitigation.

CONCLUSIONS

In testing the significance level, the statistical significance was considered significant if the p-value was less or equal to 0.05. The significance of the regression model with P-value of 0.000 which is less than 0.05 is an indication of relevance of the studied variables significant at the calculated 95% level of significance. This indicates that the regression model is statistically significant in predicting effect of financial risk management on financial performance of SMEs in Hirshabelle state, Somalia. The researcher conducted a multiple regression analysis so as to determine the relationship between financial performance and the four variables investigated in this study. Therefore the study concludes the following;

Risk identification had a statistically significant effect on financial performance of SMEs in Hirshabelle state, Somalia with a beta coefficient of 0.067, the effect is very significant at p=0.005 (β=0.067; P< 0.035). This clearly shows that risk identification ensures risk management effectiveness and that when managers do not succeed in identifying all possible losses or gains that challenge the organization, then these non-identified risks will become non-manageable.

Risk analysis had a statistically significant effect on financial performance of SMEs in Hirshabelle state, Somalia with a beta coefficient of 0.052 and the influence was very significant at (p<0.019). This specifies that risk analysis enables a firm to cluster or categorize financial risks based on the field of risk, this for example can be used to check if the identified risk is market or financial risks. The process also identifies the origin of the risk. Clustering allows a company to later analyze whether some of the risks are related and whether some of them offset each other. Clustering enables a firm to identify the main risks of business, which is of help for future analysis and focus of risk management.

Risk monitoring had statistically significant effect on financial performance of SMEs in Hirshabelle state, Somalia (β=0.120; P< 0.020). This clearly indicates that risk monitoring can be used to make sure that risk management practices are in line and proper. Risk monitoring can also enable an organization discover mistake at early stage, lack of risk monitoring activities can lead to losses and underperformance. Financial risk monitoring clearly audits the process of risk management and points out any risks that can be treating to a firm.

Risk mitigation had a statistically significant effect on financial performance of SMEs in Hirshabelle state, Somalia with a beta coefficient of 0.136 and the effect was very significant at (p<0.001). This implies that risk mitigation through risk Acceptance, risk avoidance, risk limitation and risk transference can be useful to an organization thus increasing profitability. Financial performance of a firm can be well management if a firm has proper risk mitigating mechanisms.

In general, risk mitigation had the most significant effect on financial performance of SMEs in Hirshabelle state, Somalia with a beta coefficient of 0.136 and the influence was very significant at (p<0.001). This clearly proves that this strategy is a common option when the cost of other risk management options such as avoidance or limitation may outweigh the cost of the risk itself. However the strategy does not completely remove the risk but reduces it.

RECOMMENDATIONS

It is paramount for SMEs to have carryout risk identification which will ensure risk management effectiveness and that when managers do not succeed in identifying all possible losses or gains that

challenge the organization, then these non-identified risks will become non-manageable.

SMEs should perform risk analysis which enables a firm to cluster or categorize financial risks based on the field of risk, which can be used to check if the identified risk is market or financial risks.

SMEs to adopt risk monitoring which enables organizations discover mistakes at early stage, lack of risk monitoring activities can lead to losses and underperformance. Financial risk monitoring clearly audits the process of risk management and points out any risks that can be treating to a firm.

Managers of SMEs were advised to fully implement the risk mitigation strategy in order to continuously increase growth and stability of the SMEs. This clearly indicates that risk mitigation through risk acceptance, risk avoidance, risk limitation and risk transference can be useful to an organization thus increasing profitability. Financial performance of a firm can be well managed if a firm has proper risk mitigating mechanisms.

Suggestion for Further Research

This study focused on the effect of financial risk management on financial performance of SMEs in Hirshabelle state, Somalia. Since 38.1% of results was explained by the independent variables in this study, it is recommended that a study be carried out on other elements of financial risk management that affect financial performance. The research should also be done in other regions and the results compared so as to ascertain whether there is consistency on effect of financial risk management on financial performance of SMEs in Hirshabelle state, Somalia.

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