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FINANCE

FINANCIAL RISK MANAGEMENT AND PROFITABILITY OF THE TOP 100 SMES IN KENYA

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ABSTRACT

Purpose of the study: The study examined the effect of financial risk management on the profitability of the top 100 SMEs in Kenya between 2018 and 2023.

Methodology: The study employed an explanatory research design. The population comprised Top 100 SMEs between 2018 and 2023, with a census of 40 consistently listed firms selected for analysis. Data were collected through questionnaires and audited financial statements. Analysis was conducted using SPSS.

Findings: The study revealed that financial risk management significantly affected profitability ($\beta = 0.600$, $R^2 = 0.16$, $p = 0.013$), explaining 16% of profitability variance. The analysis showed that 94.6% of firms were exposed to various financial risks including market, credit, liquidity, and operational risks, with 92% conducting regular risk assessments. However, insurance coverage remained inconsistent across the study period, achieving adequate levels only in 2019, 2022, and 2023. Most SMEs (78%) conducted annual risk reviews, though more frequent monitoring was less common. The profitability trend analysis revealed fluctuating patterns, with years 2020, 2022, and 2023 recording healthy profit margins while 2018, 2019, and 2021 showed weaker performance.

Conclusion: The study concludes that financial risk management significantly influences profitability among Kenya's top-performing SMEs.

Recommendations: The study recommends that SME owners should adopt comprehensive risk management frameworks with continuous monitoring systems, strengthen insurance coverage, and invest in capacity building through targeted training programs. Policymakers should develop support programs providing subsidized access to risk management advisory services, while financial institutions should create products that reward strong risk management practices with favorable lending terms.

Keywords: *Financial risk management, profitability, top 100 SMEs, Kenya*

BACKGROUND OF STUDY

Financial management plays a vital role in enhancing the profitability and stability of SMEs, particularly those ranked among the top 100 in various regions, including Kenya (Mutegi et al., 2015). Clear knowledge in financial areas such as financial planning, liquidity management, business investment strategies, and business risk assessment enables SME entrepreneurs and managers to make informed decisions that directly impact their bottom line in running their businesses (Usama & Yusoff, 2019; Ingale & Paluri, 2022; Adom & Agyemang, 2021). Top 100 SMEs in most cases exhibit higher levels of financial literacy, which enables them to navigate economic challenges, optimize resource allocation, and seize growth opportunities.

Yakob and Rusli (2021) show that firms with strong financial backgrounds are well positioned to make strategic financial decisions, manage debt effectively, and assess risks more accurately. In support of this, Alhassan (2020) established that organizations in Ghana with a better understanding of financial principles are more adept at optimizing resources and identifying growth opportunities. Building on these findings, this study bases its foundation on evaluating the positive effects of financial risk planning knowledge on the SMEs performance in Kenya. Globally profitability, SMEs profitability has garnered significant attention from scholars, investors, and policymakers due to their pivotal role in the economic growth of many countries worldwide (Esiebugie et al., 2018; Abe, Troilo & Batsaikhan, 2015).

Financial risk management has emerged as an essential function in maintaining business stability and improving profitability. Several studies and policy reviews have underscored the direct link between poor risk management and declining profitability. The Kenya Association of Manufacturers (2023) noted that inadequate cash flow monitoring and weak financial control systems have led to delayed payments, unplanned borrowing, and increased insolvency among small enterprises. Similarly, FSD Kenya (2023) observed that many SMEs operate without contingency plans or insurance coverage, leaving them exposed to risks that could have been mitigated through proper planning. These weaknesses have limited the ability of SMEs to reinvest in innovation and expansion, ultimately constraining their contribution to economic growth.

The conducting of the current study was therefore prompted by the persistent profitability challenges faced by Kenya's Top 100 SMEs despite their reputation for innovation and operational excellence. In Kenya, Benedict *et al*. (2021) noted that about 60 % of SMEs with low financial capability saw their profits decline by 12-18%. These findings highlight the substantial challenges SMEs face, especially in developing countries where the survival rate for new businesses has dropped significantly, from 67.6% within the first two years to 27.5% after 15 years (Ndiaye, Razak, Nagayev, & Nga',2018). Such statistics highlight the impact of business age and operational efficiency on profitability, with negative profit margins and increased volatility acting as indicators of potential stagnation and growth obstacles. Therefore, it is good for SMEs to promote their monitory literacy and management practices to effectively navigate these hurdles.

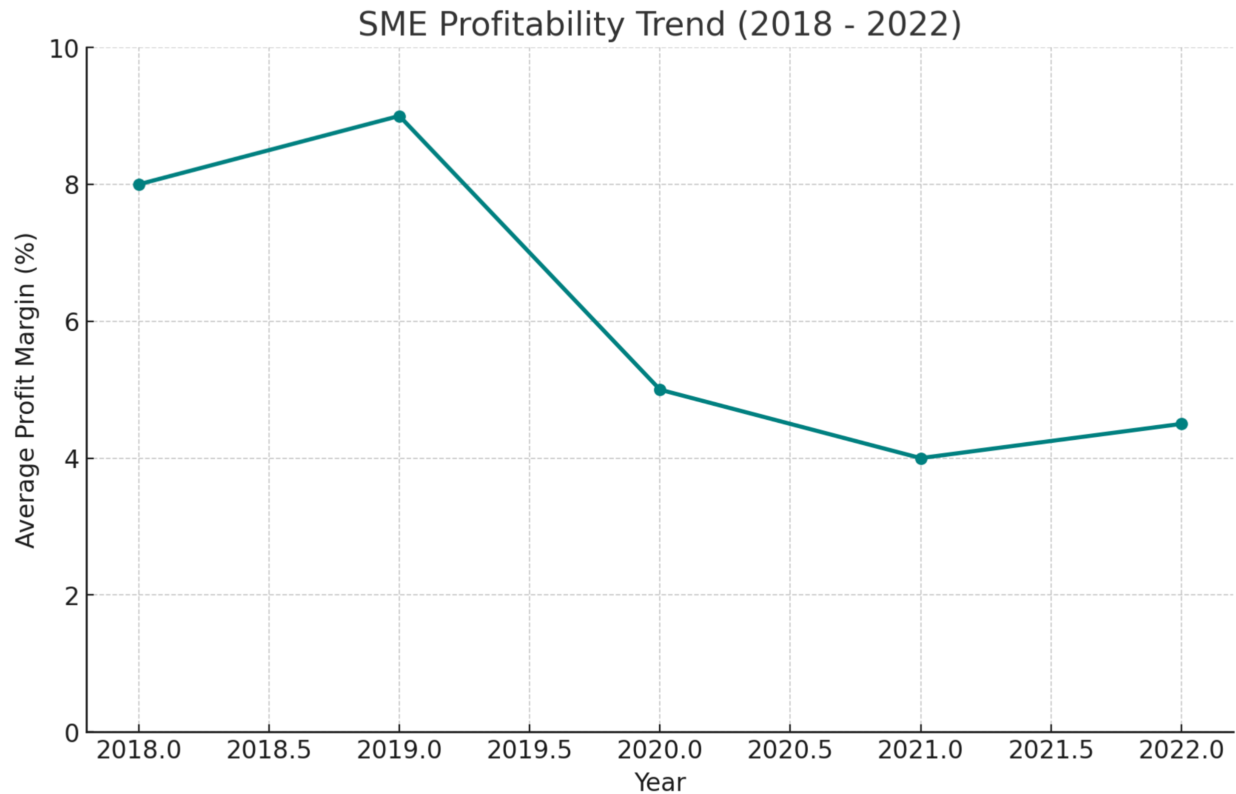

Figure 1: Profitability Trend

Source: Researcher (2025)

SME performance between 2018 and 2023 showed notable fluctuations, with profitability rising gradually from 2018 to 2019 before experiencing a sharp decline between 2019 and 2020, followed by a continued but slower drop through 2021; however, profitability began to recover steadily in 2021, 2022, and 2023, indicating a slow but promising improvement. Based on these trends, the study adopted Net Profit Margin (NPM) as the key measure of profitability, given its ability to capture overall operational efficiency and reflect both revenue generation and expense management. NPM is widely recognized as an effective indicator for SMEs with limited resources, helping reveal profitability movement over time and demonstrating how improved financial knowledge can influence performance. Since the Top 100 SMEs are ranked using criteria unrelated to profitability-such as sales thresholds, audited reports, and non-listing on the Nairobi Stock Exchange-the study emphasizes the importance of examining how financial risk management

affects their actual profitability. By assessing how risk identification, evaluation, and mitigation shape performance outcomes, the study aims to generate practical insights that can strengthen financial management systems, guide policy reforms, and support SME owners and managers in building resilient, stable, and sustainable enterprises in Kenya. The findings are expected to guide training programs, policy reforms, and managerial decisions that can help Kenyan SMEs maintain profitability amid dynamic economic and financial conditions.

STATEMENT OF THE PROBLEM

Interest in SME studies has continued to rise across developing countries because of their economic contribution, with the World Bank (2020) reporting that SMEs represent 90% of global businesses, generate 60–70% of employment, and contribute nearly 50% of global GDP. Despite this importance, SMEs have faced persistent profitability challenges arising from limited finance, inadequate investment capital, and weak financial support services, a concern highlighted by Lusimbo (2016), who noted that low financial capability and poor management skills hinder sustainable profits. Financial constraints have further limited access to essential credit, creating resource imbalances that threaten business continuity, while Chepkemoi et al. (2017) observed that weak financial management strategies reduce competitiveness and business survival. Between 2018 and 2023, SME profitability in Kenya declined noticeably, with only 15% achieving profits above 20% in 2018 and nearly 50% recording losses during COVID-19 (KNBS, 2022). This downward trend was linked to poor financial literacy and inadequate financial forecasting, which made it difficult for firms to anticipate market changes, manage cash flows, and respond to crises (KNBS, 2022; Central Bank of Kenya, 2022). Although financial literacy remained essential for building SME resilience (Kenya Association of Manufacturers, 2022), existing studies offered limited applicability to Kenya due to diverse socio-economic, regulatory, and cultural contexts.

The current study therefore addressed persistent gaps in literature, as existing research had relied heavily on cross-sectional designs that provided only a single-time snapshot of SME performance without capturing long-term profitability dynamics (Sensini & Vazquez, 2020; Njenga & Jagongo, 2019; Sitharama & Hoque, 2016). Much of the available evidence originated from countries such as Indonesia, Nigeria, and South Africa, where regulatory and cultural settings differ significantly

from Kenya's, reinforcing the need for localized research (Omol et al., 2023; Ndungu, 2020). Moreover, essential determinants of profitability-such as financial literacy, credit accessibility, and debt management-had been defined and measured inconsistently, resulting in varied outcomes across studies. Local managerial perceptions of financial literacy had also not been adequately incorporated (Brown et al., 2022; Kimani, 2021; Arinda, 2019). Research from other African countries, including Ghana, South Africa, and Nigeria, had not captured Kenya-specific financial management dynamics because of economic and cultural contrasts (Nthenge & Ringera, 2017). Addressing these gaps is therefore necessary to generate evidence capable of enhancing the profitability and resilience of Kenyan SMEs.

OBJECTIVE OF THE STUDY

To establish the effect of financial risk management on the Profitability of the Top 100 SMEs in Kenya.

RESEARCH HYPOTHESIS

H_0: Financial risk management has no significant effect on the profitability of the top 100 SMEs in Kenya.

LITERATURE REVIEW

A literature review is a structured examination of existing scholarly work that identifies what is already known on a topic, highlights gaps, and situates a study within the broader body of knowledge. In the current study, the literature review included theoretical literature review, empirical and conceptual framework

Theoretical Literature Review

The study was based on risk management theory developed by Frank H. Knight in 1921. The theory indicates that business success largely depends on the ability to systematically identify, assess, and mitigate financial risks that threaten profitability and long-term sustainability (Hopkin, 2018). It assumes that all firms operate in uncertain environments and that effective risk management decisions enhance resilience and reduce financial vulnerability. According to the theory, proactive measures such as forecasting, insurance, diversification, and strategic planning

help organizations minimize exposure to credit, liquidity, and market risks, thereby safeguarding profitability (Rehman & Anwar, 2019).

The theory emphasizes that financial risk management is not simply about avoiding losses but about making informed decisions that balance risk and opportunity to achieve optimal returns (Brustbauer, 2016; Wu, Yan & Umair, 2023). It posits that businesses that integrate risk assessment into their strategic frameworks tend to adapt more effectively to changing market conditions. This adaptability is particularly vital for SMEs, which often operate with limited capital reserves and are therefore more exposed to shocks arising from market fluctuations or unexpected disruptions. The theory, therefore, advocates continuous monitoring of financial performance indicators and dynamic adjustment of strategies to prevent financial distress and ensure long-term viability.

The theory was relevant to the current study to inform the financial risk management variable since it provides a framework for understanding how firms can enhance profitability through proactive risk mitigation. This is because the Top 100 SMEs in Kenya, while financially strong, still face exposure to risks related to liquidity, debt management, and operational uncertainties that can erode their earnings. By applying the theory's principles, these enterprises can anticipate potential challenges, plan accordingly, and sustain profitability even in volatile environments.

The theory further asserts that effective financial risk management practices—such as identifying financial vulnerabilities, monitoring cash flows, and creating buffers against market volatility—directly contribute to stable profit generation (Lins et al., 2017). The assumption that risk control supports firm survival aligns with the study's objective of determining how structured financial risk management enhances profitability among high-performing SMEs. The theory also highlights that failure to recognize or mitigate financial risks often leads to increased operational costs, reduced investor confidence, and long-term decline in business performance (Baker et al., 2019). Therefore, developing a strong risk culture within SMEs ensures that financial decisions are not only reactive but strategic, balancing potential losses with opportunities for growth.

The theory's applicability to this study stems from its capacity to explain how sound risk management strategies enable firms to maintain consistent profitability under uncertainty. The Top 100 SMEs operate in dynamic sectors such as manufacturing, ICT, and trade, where financial

exposure is inevitable. Using the Risk Management Theory as an anchor, the study examined how these firms apply risk mitigation measures to enhance their financial outcomes. The theory ultimately underscores that profitability is not merely a function of revenue generation but of prudent management of risks associated with financing, operations, and investment decisions. By anchoring this study on Risk Management Theory, it becomes possible to empirically assess how financial risk management practices translate into improved profitability and sustained growth within Kenya's SME sector

Empirical Review

Financial risk management plays important aspect in enhancing profitability of SMEs in Kenya, as evidenced by several studies such as Maina (2016) which focused results of insurance firms' strategies of innovation in Kenya. Research explored the link existing in business compliance activities and the financial outcomes of those 100 insurance firms selected and surveyed in Murang'a County, Kenya. Variables such as risk assessment techniques and profitability indicators using regression analysis. Researchers established that effective compliance management was positively skilled to improved profitability. However, there were methodological gaps encountered during the study, because it depended on self-responding data that was prone bias. The research was limited to a single country, as a result generalization of the finding could not be viable for this research, it also looked on only financial management risk ignoring all other forms of risk which could affect SMEs performance.

Mwanzia (2021) looked at management of risk and its effect on Commercial banks performance in Kenya. The findings noted that proper management of financial risk fosters profitability, healthy relationship between strategies of managing risk and performance various bank product among commercial banks was witnessed. The Central bank of Kenya supervision report was used as source of secondary data where the researcher did not clearly mention the number of banks involved in the research. Summary statistics were used to analyze and draw statistical inference by using STATA and SPSS. Despite these insights, there were contextual gaps pointed out by the study since it focuses only on the banking sector in Kenya which could not be linked to SMEs, the

research looked on risk associated with banks and not any other firm, it also used secondary data which is subject to be outdated.

Samuel, Nyakundi and Osodo (2019) conducted research into youth owned enterprises in Baringo. The study established that young people had no fears of investing in areas where risks are calculated and known, they encountered cash flow risk and credit risk which interred progress of their businesses. The study established that most youth businesses were faced with serious lack of technical expertism in managing financial risk. There was a big association of financial risk to the outcomes of youth business in Baringo. Despite of all these findings current researcher feels this study did not explore everything, it was done in only on part of Kenya Baringo sub-county in Kenya, it only targeted 182 SMEs run by youthful people, this study only used primary data and did not consider historical performance of these businesses. This study also looked on only credit and Cashflow risk and ignored all other aspect financial literacy.

Chakabva, Tengeh and Dubihlela *(*2021) focused on factors preventing successful management of risk in growing SMEs Market in Zambia. The objective was assessing how effectively managing financial risks can enhance profitability levels within the SME sector. The data was collected from 320 SEs operating in Cape Metropole and analyzed by use of SPSS, due unavailability of data on SMEs in the Cape Metropole area study population was unknown at the time of collecting data. The study also focused on risk management in the emerging market. The research established that factors preventing risk management effectively amongst upcoming markets are many ranging from financial knowledge, lack of reasonable resources amongst others. Despite this, this study lacked tangible study population for one to accurately select study samples, this study was geographically limited to one location and worked only on emerging market risk and ignored existing market trends. To answer question on financial risk effect on Kenyan SMEs, this research ought to be carried on in country with target of 100 SMEs operational in the period 2018 through 2023.

Gaio *et al.* (2018) conducted a comparative study investigating the profitability of large firms and SMEs. To establish clear comparative variables, the study employed financial forecasting to assess the profitability of SMEs and large enterprises within the European Union. Research aimed to explore how financial risk within management frameworks and check on how this supports SME

growth and stability in competitive markets. Sample size of 54,654 firms was used. It was established that Debt levels influence performance of firms negatively and increases risk of insolvency which makes firms collapse easily. Contrary to this a positive relationship with debt and profits was established, hence returning to shareholders, suggesting that companies with a higher level of borrowed capital experience increased levels of risk thus equity holders require a higher return for their investment. The study also establishes liquidity risk and stock obsoleteness risk which requires financial literacy for one to manage. Despite this establishment this study was done in one location within the EU, data was not collected to all companies and was only limited to a few measures of financial risk.

Conceptual Framework

The conceptual framework is presented in Figure 2.

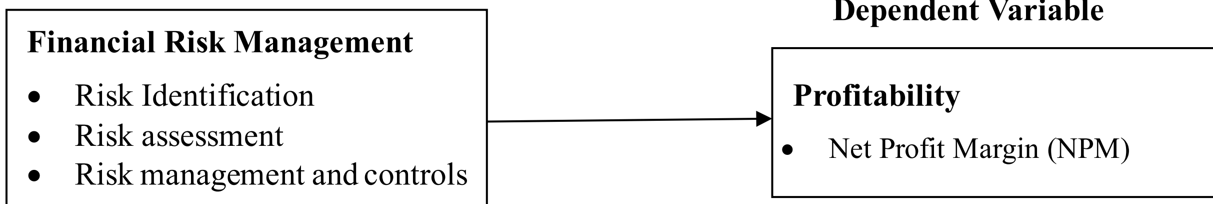

Figure 2: Conceptual Framework

RESEARCH METHODOLOGY

The study employed an explanatory research design under a positivist philosophy to investigate the effect of financial risk management on profitability among Kenya's Top 100 SMEs. Linear regression was used to examine the direct effects of financial risk management on profitability. The population comprised Top 100 SMEs between 2018 and 2023, with a census of 40 consistently listed firms selected for analysis. Data were collected through questionnaires for primary information and audited financial statements for secondary data. Data collection adhered to ethical standards, including university and NACOSTI approvals, informed consent, and confidentiality assurances. Analysis was conducted using SPSS, producing descriptive, correlation, and regression

outputs presented through tables and charts to enable clear interpretation and draw practical, data-driven recommendations.

RESEARCH FINDINGS AND DISCUSSIONS

The presentation of findings was structured in sections. Each of the section is discussed in depth.

Response Rate

The response rate is a critical indicator of data quality and representativeness in survey research. Figure 3 presents the response rate achieved in this study.

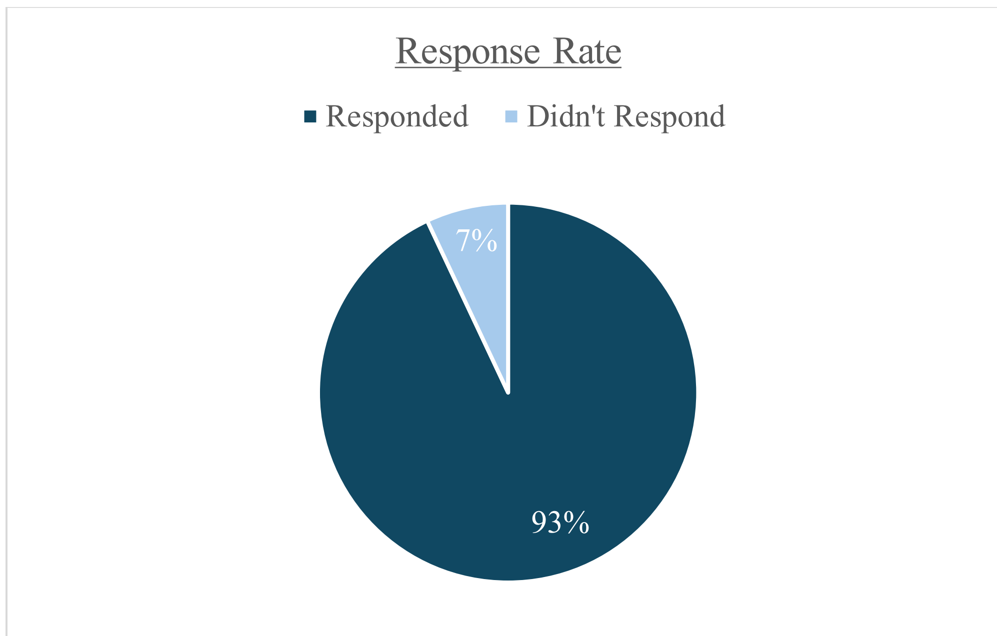

Figure 3: Response rate

Source: Research Data 2025

Out of 40 questionnaires distributed to the sampled SMEs, 37 were successfully returned, yielding a response rate of 93%. Only 3 questionnaires were not returned, accounting for 7% of the total distributed instruments. This response rate was considered robust and demonstrated adequate participation from the targeted SMEs in the study. According to Ericson et al. (2023), a higher response rate is ideal for the generalization of study findings and the development of viable conclusions.

Demographic Results

The demographic results revealed a balanced gender representation among SME leaders, with 54.1 percent male and 45.9 percent female respondents, reflecting a modest narrowing of the gender gap in business ownership in Kenya, though men still dominate the SME sector due to greater access to financial resources and networks. Most respondents were in the mature age brackets, with 54.1 percent aged between 41–50 years and 40.5 percent between 31–40 years, indicating that SMEs are primarily led by experienced and seasoned entrepreneurs. The educational profile of participants was notably high, as all respondents had post-secondary qualifications, with 56.8 percent holding bachelor's degrees and 32.4 percent master's degrees. This demonstrated a highly literate managerial base capable of applying advanced financial and managerial concepts, which enhances strategic decision-making and business sustainability.

In terms of organizational roles and firm characteristics, 75.6 percent of the respondents held top or managerial positions such as CEO, Managing Director, or Finance Manager, underscoring that the data was drawn from individuals with strong decision-making authority. Most firms (77.8 percent) had been in operation for over a decade, indicating a mature business environment with established operational frameworks. Similarly, the workforce data revealed that 78.4 percent of the firms were small enterprises employing between 10 and 50 staff, while 18.9 percent were medium-sized, showing the dominance of smaller operations within Kenya's SME landscape. Geographically, most businesses (75.7 percent) operated nationally, with 24.3 percent having international reach, suggesting that while many SMEs maintain a domestic focus, a significant share has expanded regionally or globally, reflecting Kenya's growing entrepreneurial competitiveness.

Descriptive Statistics Analysis

This section provided a detailed analysis of the descriptive statistics related to both independent and dependent variables. Data was obtained from participants' responses to structured questionnaire items. Measures such as frequencies, percentages, means, and standard deviations were used to summarize the data. These statistics helped to describe the general trends, patterns, and distribution of responses. The findings served as a foundation for further inferential analysis

and interpretation. Profitability margin trends over time provide critical insights into the financial health and sustainability of SMEs. Table 1 presents the profitability margin movements of the sampled SMEs from 2018 to 2023.

Table 1: Profitability Margin

Year	0–5 (%)	6–10 (%)	11–15 (%)	16–20 (%)	20> (%)	Mean	S.D	Decision
2018	2 (5.4%)	26 (70.3%)	8 (21.6%)	1 (2.7%)	0 (0%)	9.18	3.41	Weak P Margin
2019	0 (0%)	26 (70.3%)	9 (24.3%)	1 (2.7%)	1 (2.7%)	9.89	3.35	Weak P Margin
2020	11 (29.7%)	21 (56.8%)	3 (8.1%)	1 (2.7%)	1 (2.7%)	7.43	4.43	Health P Margin
2021	5 (13.5%)	25 (67.6%)	5 (13.5%)	1 (2.7%)	1 (2.7%)	8.6	3.99	Health P Margin
2022	1 (2.7%)	25 (67.6%)	7 (18.9%)	2 (5.4%)	2 (5.4%)	10.12	4.28	Health P Margin
2023	26 (70.3%)	8 (21.6%)	3 (8.1%)	0 (0%)	0 (0%)	10.26	4.22	Health P Margin

Note:0–5% – Minimal Profit, 6–10% – Basic Profitability, 11–15% – Sustainable Profit, 16–20% – Strong Profitability, above 20% – Premium Profit. Decision rule-weighted Everage mean=3.95

Source: Research Data (2025)

An analysis of net profit margin trends from 2018 to 2023 revealed that the years 2020, 2022, and 2023 recorded healthy profit margins among SMEs, whereas 2018, 2019, and 2021 showed weaker performance, as illustrated in Table 1. This fluctuation could be attributed to the level of financial literacy, economic factors, policy shifts, and changes in operational efficiency across the years. Notably, the improved margins in 2022 and 2023 suggested a positive recovery trajectory for SMEs following earlier periods of financial strain. These findings aligned with the International Monetary Fund (2021), which clearly indicated a decline in profitability of many businesses during the COVID-19 period of 2020-2022 and recovery beginning in 2023. Benedict *et al*. (2021) had the same findings. The attribute of financial literacy also came in as a way to adapt to changes and maintain the business posture after the pandemic period as indicated in the study done by Eniola and Entebang (2017) on the level of SMEs business owners' managers' financial literacy and its impact on the firm's performance.

Financial Risk Management

Conducting regular financial risk assessments enables SMEs to identify potential threats and develop appropriate mitigation strategies. Table 2 presents the financial risk assessment practices of the sampled SMEs from 2018 to 2023.

Table 2: Financial Risk assessment

Year	Yes (%)	No (%)	Mean	S.D	Decision
2018	33 (89.2%)	4 (10.8%)	0.89	0.32	Best
2019	34 (91.9%)	3 (8.1%)	0.92	0.28	Better
2020	34 (91.9%)	3 (8.1%)	0.92	0.28	Better
2021	34 (91.9%)	3 (8.1%)	0.92	0.28	Better
2022	34 (91.9%)	3 (8.1%)	0.92	0.28	Better
2023	34 (91.9%)	3 (8.1%)	0.92	0.28	Better

Note: Decision rule-weighted Everage mean=0.92

Source: Research Data (2025)

It was found that in 2018, 89% of firms successfully conducted risk assessments representing 33 firms, with only 3 firms failing to do so. In the subsequent years, this figure improved slightly, with 92% of firms (equivalent to 34 firms) consistently carrying out risk assessments each year, and only 3 firms annually falling short. This upward trend reflects a growing awareness and integration of risk planning within firms' operational strategies. Continued efforts in promoting best practices could further close the gap among the remaining

Financial risk Insurance coverage rating

Insurance coverage serves as a key risk mitigation tool that protects SMEs against potential financial losses. Table 3 presents the insurance coverage ratings of the sampled SMEs from 2018 to 2023.

Table 3: Risk Insurance Coverage

Year	1	2	3	4	5	Mean	S.D	Decision
2018	2 (5.4%)	3 (8.1%)	20 (54.1%)	10 (27.0%)	2 (5.4%)	3.19	0.88	Scant Secured
2019	1 (2.7%)	2 (10.8%)	20 (54.1%)	10 (27.0%)	2 (5.4%)	3.22	0.82	Well Secured
2020	1 (2.7%)	7 (18.9%)	17 (45.9%)	10 (27.0%)	2 (5.4%)	3.14	0.89	Scant Secured
2021	1 (2.7%)	6 (16.2%)	18 (48.6%)	10 (27.0%)	2 (5.4%)	3.16	0.87	Scant Secured
2022	1 (2.7%)	4 (10.8%)	20 (54.1%)	10 (27.0%)	2 (5.4%)	3.22	0.82	Well Secured
2023	1 (2.7%)	3 (8.1%)	20 (54.1%)	10 (27.0%)	3 (8.1%)	3.3	0.85	Well Secured

Note: 1 = Poor 2 = Fair 3 = Good 4 = Very Good 5 = Excellent. Decision rule-weighted Everage mean=3.21

Source: Research Data (2025)

The analysis of insurance risk coverage clearly indicates that, in the years 2019, 2022, and 2023, most SMEs were well protected against financial losses, with their mean coverage scores exceeding the weighted mean of 3.21. In contrast, during the years 2018, 2020, and 2021, most firms were scantly covered, reflecting lower levels of insurance protection. Overall, insurance coverage awareness and uptake during the period appeared evenly split roughly 50/50 between adequately and inadequately insured firms.

Financial risk Review

Regular review of financial risk strategies ensures that SMEs remain proactive in addressing emerging threats and adapting to changing business environments. Table 4 presents the frequency of financial risk reviews conducted by the sampled SMEs from 2018 to 2023.

Table 4: Financial risk Review

Year	Annually n (%)	Semi-Annually n (%)	Quarterly n (%)	Never n (%)
2018	30 (81.1%)	1 (2.7%)	5 (13.5%)	1 (2.7%)
2019	29 (78.4%)	1 (2.7%)	6 (16.2%)	1 (2.7%)
2020	28 (75.7%)	2 (5.4%)	6 (16.2%)	1 (2.7%)
2021	28 (75.7%)	2 (5.4%)	6 (16.2%)	1 (2.7%)
2022	29 (78.4%)	1 (2.7%)	6 (16.2%)	1 (2.7%)
2023	29 (78.4%)	1 (2.7%)	6 (16.2%)	1 (2.7%)
Mean	28.83 (78.0%)	1.33 (3.6%)	5.83 (16.0%)	1.00 (2.7%)
SD	0.75 (2.1%)	0.52 (1.4%)	0.41 (0.1%)	0.00 (0.0%)

Source: Research Data (2025)

Table 4 showed that the majority of the Top 100 SMEs consistently conducted annual reviews of their financial risk strategies, with an average of 28.83 firms (78.0%) over six years. This reflected a clear preference for structured, once-a-year assessments. Quarterly reviews were the next most common, averaging 5.83 firms (16.0%), followed by semi-annual reviews at 1.33 firms (3.6%). Only 1 firm (2.7%) consistently reported no reviews. The low standard deviations across all categories suggested stable and consistent risk management practices among these SMEs.

Financial risk and Profitability

The analysis was conducted to assess the level of understanding among SMEs regarding the relationship between financial risk assessment and profitability and results are presented in Table 5

Table 5: SMEs' Understanding of the Relationship Between Financial Risk Assessment and Profitability

Level of Understanding	Frequency	Percentage (%)
Clear Understanding	35	94.59
Lack of Understanding / No Engagement	2	5.41
Total	**37**	**100.0**

Source: Research Data (2025)

The results revealed that 35 SMEs (94.59%) demonstrated a clear understanding of this relationship, whereas only 2 SMEs (5.41%) did not engage or showed lack of understanding. The calculated mean score for this understanding was 0.95, with a standard deviation (SD) of 0.21, indicating a high overall level of comprehension with low variability among the respondents. These findings suggest that most SMEs recognize the importance of financial risk assessment in influencing profitability, reflecting strong awareness and insight within the sector as shown by the figures below.

Financial risk Mitigation

Confidence in evaluating and selecting appropriate insurance coverage reflects the competence of SME managers in mitigating financial risks. Table 6 presents the confidence levels of the sampled SMEs in evaluating and selecting insurance coverage to mitigate financial risks.

Table 6: Financial Risk Mitigation

Confidence Level in Evaluating and Selecting Insurance Coverage	Frequency	Percentage (%)
Very Confident	33	89.2
Not Confident	4	10.8
Total	**37**	**100.0**

Source: Research Data (2025)

Most respondents, 33 out of 37 or 89.2%, reported being very confident in evaluating and selecting proper cover to mitigate financial risk, while only 4 or 10.8% were not confident. The mean confidence score of 1.89 on a scale where 1 equal not confident and 2 equals very confident reflects a strong overall confidence among participants. The low standard deviation of 0.31 indicates that respondents' confidence levels were consistent. This suggests that most respondents feel assured in their ability to manage financial risk through proper evaluation and selection.

Financial Risk Evaluation and Adjustment`

The summary of the results regarding financial risk evaluation and adjustment is summarized in Table 7

Table 7: Financial Risk Reviews

Financial Risk Review Practice	Frequency	Percentage (%)
Regular Interval Risk Reviews and Adjustments	21	56.8
Continuous Review Process	13	35.1
Occasional Risk Reviews	2	5.4
No Financial Risk Review	1	2.7
Total	**37**	**100.0**

Source: Research Data (2025)

An analysis of the risk evaluation and adjustment practices among the Top 100 SMEs shows that 56.8% conduct risk reviews and implement necessary adjustments at regular intervals. 35.1% maintain a continuous review process, while 5.4% carry out reviews occasionally. Only 2.7% of the firms do not engage in any form of financial risk review. These findings indicate that most SMEs are proactive in evaluating and adjusting financial risks, demonstrating a strong understanding of their role in effective business operations.

Hypotheses Testing

The relationship between financial risk management and SME profitability was examined to test the second hypothesis. Table 8 presents the regression model summary for financial risk management and profitability.

Table 8: Regression Model Summary: Financial Risk Management and Profitability

Model	R	R^2	Adj R^2	Standard Error of Estimate	F	Sig	N
1	0.40	0.16	0.137	0.750	6.660	0.013	37

Source: Research Data 2025

Table 8 above showed a moderate positive relationship between risk management and profitability, with an R value of 0.40 and an R^2 of 0.16. This meant that risk management explained 16% of the variation in profitability. The model was statistically significant at the 5% level, as indicated by an F-value of 6.660 and a p-value of 0.013. Therefore, risk management had a significant and positive impact on profitability. The study done by Mwanzia (2021) in Kenya on the banking sector

confirmed the result of this study as it was established that the employment of proper risk management strategies amongst the banking sector in Kenya fostered increased profitability. Gaio and Henriques (2018) in a European Union study established a positive correlation between firms' performance and risk management within EU established firms.

Table 9: Coefficient Table: Financial Risk Management and Profitability

	Unstandardized Coefficient β	SE	Standardized Coefficient β	t	Sig
Constant	2.50	0.300	0.000	8.33	0.000
F. Risk M	0.600	0.232	0.400	2.58	0.013

Dependent Variable: Profitability

Source: Research Data 2025

Table 9 above presented the coefficient results for the relationship between financial risk management and profitability. The unstandardized coefficient for financial risk management was 0.600, indicating that a one-unit increase in risk management was associated with a 0.600 unit increase in profitability. The p-value of 0.013 and t-value of 2.58 showed that this relationship was statistically significant at the 5% level. The constant value of 2.50 suggested that when financial risk management was absent, profitability was expected to be 2.50. Based on the findings, H_{02} was rejected at the $\alpha = 0.05$ level of significance.

CONCLUSION

The study concludes that financial risk management significantly influences the profitability of Kenya's Top 100 SMEs. Firms implementing structured risk management practices demonstrate better resilience and sustained profitability, particularly during periods of economic uncertainty such as the COVID-19 pandemic. The research establishes that while awareness of financial risks is high among top-performing SMEs, with most conducting regular risk assessments, the implementation of comprehensive mitigation strategies remains inconsistent, particularly regarding insurance coverage. The findings further indicate that profitability outcomes improved in firms that integrated risk identification, evaluation, and continuous review into their financial

systems. Overall, the study confirms that strengthening risk management practices is essential for enhancing financial stability and long-term business performance within the SME sector.

RECOMMENDATIONS

The study recommends that SME owners and managers should adopt comprehensive financial risk management frameworks that include continuous monitoring rather than relying solely on annual assessments. Firms should invest in capacity building through targeted training programs and strengthen insurance coverage to adequately protect against financial risks. Policymakers should develop support programs providing subsidized access to risk management training and advisory services tailored to SME needs. Financial institutions should create innovative products that reward strong risk management practices with favorable lending terms. SMEs should establish formal risk management structures, diversify mitigation strategies, maintain emergency reserves, and leverage technology for real-time risk monitoring to enhance their ability to anticipate and respond to financial threats proactively.

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