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Abstract

Risk management techniques are systematic approaches that organizations use to identify, assess, prioritize and address potential risks that may affect their business objectives. Financial performance is a crucial indicator that determines the success and sustainability of businesses including small and medium enterprises (SMEs). The study aimed to determine risk management techniques and financial performance of SMEs in Elgeyo Marakwet County, Kenya. The study's objective was to assess the influence of risk acceptance, risk avoidance, risk retention, and risk transfer on financial performance of SMEs. The study was anchored by Modern Portfolio Theory, Enterprise Risk Management Framework, and Prospect Theory. The study employed a descriptive survey research design. Elgeyo Marakwet County was selected because it represents rural Kenya's SME environment accurately. The study target population was 258 registered SMEs in Elgeyo Marakwet County. Using Yamane's (1967) formula, the sample size was calculated as 157 SMEs from manufacturing, trading, and service sectors. A total of 137 SMEs participated in the study. SME owners and managers were surveyed using structured questionnaires. Descriptive statistics and Multiple Linear Regression Analysis were used to analyze the data. According to the research regression coefficient findings, risk transfer was positively and significantly related to financial performance ($\beta = 0.407$, $p=0.000$), followed by risk acceptance ($\beta = 0.266$, $p=0.000$), risk avoidance ($\beta = 0.219$, $p=0.000$), and risk retention ($\beta = 0.187$, $p=0.000$). To enhance financial performance, the study recommended that SMEs adopt integrated risk management systems that encompass all four techniques with emphasis on risk transfer strategies such as insurance and contractual agreements.

Keywords: Risk Management Techniques, Financial Performance, Small and Medium Enterprises, Elgeyo Marakwet County, Kenya

1.0 Background to the Study

Risk management techniques have evolved into a sophisticated field with substantial theoretical foundation that guides their application in the business arena globally (Zainuddin et al., 2023). Equally, risk management through its dynamics has become a global practice with increasing importance committed to enhancing organizational performance in the global economy. Employers in Africa have begun to appreciate the significance of implementing effective risk management strategies for their workforce (County Government of Elgeyo Marakwet, 2023). Financial performance has been among the key goals of every organization because the focus of long-term success in any given entity depends on sustainable financial outcomes (Ahinful et al., 2021). According to Bahta et al. (2021), once a business organization has identified and implemented appropriate risk management techniques, the returns benefit securing the company's competitive advantage to enhance financial performance. According to Singh and Rastogi (2022), organizations with poor risk management will experience financial difficulties if they aren't able to effectively manage uncertainties and threats that impact their operations. It is very expensive and time-consuming to recover from financial losses caused by poor risk management, so implementing effective techniques is essential. Risk management and its effect on financial performance was investigated by various researchers globally. Managing risks effectively is a challenge all over the world in today's increasingly interconnected economy. An increase in business uncertainties poses serious challenges for SME managers. Disparate expectations for risk tolerance, resource allocation, and strategic priorities have made it challenging to implement effective risk management efforts in some parts of the world (Lima et al., 2021).

Indicative of the global economy, research shows that SMEs with effective risk management practices demonstrate superior financial performance compared to those without systematic risk management approaches. High rates of business failures (approximately 40% of SMEs not surviving the first five years) were attributed largely to poor risk management practices. The global business environment is not alone in experiencing the impact of risk management on performance; it affects every country and industry worldwide. For example, studies in Malaysia, Spain, and Italy show that SMEs are rapidly adopting risk management practices (Zainuddin et al., 2023; Lima et al., 2021; Crovini et al., 2020). In addition, according to these researchers, effective risk management is widespread, and it is especially important in the SME sector due to resource constraints and vulnerability to external shocks. The SME sector, according to various studies, is more significantly impacted by poor risk management because small businesses are the key determinant of economic growth and employment creation.

In Africa, the SME sector has introduced various strategies in an attempt to enhance risk management practices. Countries like Ghana, Nigeria, and Ethiopia, for example, have conducted research showing that SME risk management is progressive, and that financial performance is based on effective risk management techniques (Ahinful et al., 2021; Aduloju & Akindipe, 2021; Haile et al., 2020). The main reasons for poor financial performance have been related to inadequate risk management, limited access to finance, and poor business practices. Moreover, there are also SMEs that fail due to inability to identify and manage risks while the successful ones implement comprehensive risk management strategies. Due to limited resources, lack of expertise, and inadequate risk management frameworks, the SME sector in Kenya has struggled to optimize financial performance for decades (Cherotich & Kwasira, 2021; Mumassabba et al., 2022).

1.1 Statement of the Problem

The SME sector in Kenya is a key source of economic growth and employment creation. SMEs that prioritize effective risk management have a better chance of achieving superior financial

performance from well-managed operations, which strengthens their competitive advantage. However, studies show that approximately 40% of SMEs in Kenya do not survive the first five years of operation, with poor risk management cited as a major contributing factor. According to the Kenya National Bureau of Statistics (2022), SMEs contribute about 33.8% to Kenya's GDP and employ over 14.9 million people, making their financial performance critical to the country's economic development. Despite this significant contribution, the Kenya SME Performance Index (2023) indicates that only 42% of SMEs are profitable after the third year, with inadequate risk management being identified as one of the primary reasons for business failures.

Existing research has not adequately addressed the specific effects of individual risk management techniques on SME financial performance in rural Kenyan contexts. While studies have been conducted on risk management in urban areas and other countries, there is limited research focusing on how risk acceptance, avoidance, retention, and transfer specifically impact financial performance in rural counties like Elgeyo Marakwet. The Elgeyo Marakwet County SME Baseline Survey (2023) reported that only about 46% of SMEs achieve profitability after three years of operation, with the majority facing challenges including limited access to finance, inadequate infrastructure, market volatility, and insufficient risk management practices. Therefore, this study sought to address the research gap by determining the effect of risk management techniques on financial performance of SMEs in Elgeyo Marakwet County, Kenya.

1.2 Research Objective

To determine the effect of risk management techniques on financial performance of SMEs in Elgeyo Marakwet County, Kenya.

1.2.1 Specific Objectives

- i. To assess the effect of risk acceptance on financial performance of SMEs in Elgeyo Marakwet County
- ii. To examine the effect of risk avoidance on financial performance of SMEs in Elgeyo Marakwet County
- iii. To evaluate the effect of risk retention on financial performance of SMEs in Elgeyo Marakwet County
- iv. To analyze the effect of risk transfer on financial performance of SMEs in Elgeyo Marakwet County

1.3 Research Hypotheses

H₀₁: There is no significant relationship between risk acceptance and financial performance of SMEs in Elgeyo Marakwet County, Kenya

H₀₂: There is no significant relationship between risk avoidance and financial performance of SMEs in Elgeyo Marakwet County, Kenya

H₀₃: There is no significant relationship between risk retention and financial performance of SMEs in Elgeyo Marakwet County, Kenya

H₀₄: There is no significant relationship between risk transfer and financial performance of SMEs in Elgeyo Marakwet County, Kenya

2.1 Theoretical Framework

2.1.1 Prospect Theory

Prospect Theory was developed by Daniel Kahneman and Amos Tversky (1979) and has become one of the most influential behavioral economic theories as a psychologically realistic alternative to expected utility theory. The theory explains how people behave when making decisions under risk and uncertainty, particularly how individuals perceive potential losses and gains (Kahneman & Tversky, 1979). The theory states that decisions are made by individuals based on the potential value of losses and gains rather than the final outcome, and subjects evaluate losses and gains using certain heuristics or reference points (Tversky & Kahneman, 1992). One of Prospect Theory's key concepts is that individuals are risk-averse when facing gains and risk-seeking when facing losses, contrary to traditional expected utility theory that assumes consistent risk attitudes (Barberis, 2013). This asymmetric risk behavior gives rise to the reflection effect where individuals demonstrate different risk preferences in loss versus gain scenarios (Levy, 1992). The theory also introduces reference dependence, meaning individuals evaluate outcomes relative to a reference point, typically the status quo, rather than absolute terms (Koszegi & Rabin, 2006).

Prospect Theory is relevant to this study because it provides insights into how SME managers perceive and evaluate risks, which directly influences their choice of risk management techniques - whether acceptance, avoidance, retention, or transfer (March & Shapira, 1987). The theory's focus on loss aversion helps explain why SMEs may prefer certain risk management strategies over others, particularly when facing potential financial losses that could threaten business survival (Wiseman & Gomez-Mejia, 1998). Additionally, the theory's emphasis on framing effects can illuminate how SME decision-makers' perceptions of risk management options affect their ultimate impact on financial performance (Fiegenbaum & Thomas, 1988).

2.1.2 Enterprise Risk Management Framework

The Enterprise Risk Management (ERM) Framework emerged as an evolution of traditional risk management practices, aiming to provide a more integrated and comprehensive approach to organizational risk management (COSO, 2017). ERM is defined as 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 (Nocco & Stulz, 2006). The ERM framework takes a holistic approach to risk management, integrating it within an organization's strategy and objectives while focusing on value creation, preservation, and realization (Bromiley et al., 2015). It provides a structured methodology for identifying, assessing, responding to, and monitoring risks across an entire organization, rather than managing risks in isolation (Lundqvist, 2014). ERM enables the integration of risk management with strategic planning and operational processes, helping organizations develop enhanced decision-making capabilities and improved performance (Hoyt & Liebenberg, 2011).

The ERM Framework is relevant to this study as it provides a theoretical foundation for understanding how the four risk management techniques being studied (acceptance, avoidance, retention, and transfer) can be integrated into a comprehensive risk management approach (Lundqvist, 2014). The framework's emphasis on aligning risk management with organizational objectives directly relates to how SMEs can utilize risk management to enhance their financial performance (Hoyt & Liebenberg, 2011). Furthermore, ERM's portfolio

approach to risk management provides insights into how SMEs can balance different risk responses to achieve optimal outcomes (Nocco & Stulz, 2006).

2.1.3 Contingency Theory of Risk Management

The Contingency Theory of Risk Management is derived from the broader contingency theory of organizational design, first applied to risk management by Lawrence and Lorsch (1967) and later developed by Mikes and Kaplan (2013). The theory has been further elaborated by Woods (2009), Chenhall (2003), and Jokipii (2010) in the context of enterprise risk management and organizational control systems. Contingency Theory of Risk Management posits that there is no single, universally optimal approach to risk management, but rather that the effectiveness of risk management techniques depends on how well they fit with an organization's internal and external contingencies (Mikes & Kaplan, 2013). According to the theory, risk management practices should be tailored to match organizational characteristics such as size, structure, technology, industry, regulatory environment, and strategic objectives (Woods, 2009). The theory suggests that organizations achieving the right fit between risk management strategies and contingencies will outperform those using generic or ill-fitting risk management approaches (Chenhall, 2003).

The theory emphasizes that risk management practices should also evolve with changing contingencies over time to maintain alignment (Jokipii, 2010). Additionally, the theory recognizes that different types of risks may require different management approaches within the same organization, challenging the notion of universal risk management solutions (Mikes, 2011). This theory is applicable to the research because it provides a theoretical foundation for why different SMEs in Elgeyo Marakwet County may find different combinations of risk management techniques more effective depending on their specific characteristics and circumstances. The theory's emphasis on organizational fit directly relates to the study's investigation of how different risk management techniques (acceptance, avoidance, retention, and transfer) affect financial performance, suggesting that the most effective approach may vary based on SME size, industry, and risk exposure (Mikes & Kaplan, 2013). The theory's recognition of dynamic business environments provides insights into how SMEs in developing economies like Elgeyo Marakwet County may need to adapt their risk management practices as they grow or as market conditions change (Woods, 2009).

2.1.4 Modern Portfolio Theory

Modern Portfolio Theory (MPT) was first introduced by Harry Markowitz (1952) and later extended by researchers such as Sharpe (1964) and Lintner (1965). MPT explains that investors can construct portfolios to optimize expected returns according to a given level of market risk, demonstrating that risk is an inherent element of achieving returns (Markowitz, 1952). The theory states that it is possible to construct an "efficient frontier" of optimal portfolios offering the maximum possible expected return for a given level of risk (Mayo, 2011). The theory addresses how risk-averse investors can construct portfolios to optimize expected return based on a given level of market risk, and how diversification can reduce the overall risk of investments (Fabozzi et al., 2002). MPT provides a mathematical framework for constructing a portfolio of assets such that the expected return is maximized for a given level of risk, defined as variance or standard deviation (Elton et al., 2009). By considering the correlations between different assets, MPT demonstrates that proper diversification can reduce portfolio volatility without necessarily reducing expected returns (Bodie et al., 2014).

The theory's focus on diversification directly relates to how SMEs can strategically allocate risk across different management techniques to achieve optimal financial outcomes (Rejda, 2011). MPT is relevant to this study because it provides a theoretical foundation for

understanding how SMEs can balance risk and return in their financial decision-making processes, potentially enhancing their competitive positioning in the market (Meulbroek, 2002). The theory's emphasis on portfolio optimization can guide SMEs in determining the most effective combination of risk acceptance, avoidance, retention, and transfer strategies to maximize their financial performance while managing overall business risk exposure.

2.2 Empirical Literature Review

Cherotich and Kwasira (2021) conducted a study on risk acceptance practices and water project performance in Baringo County, Kenya, finding that effective risk acceptance practices significantly enhanced project completion rates and overall performance. The study revealed that organizations with systematic risk acceptance processes achieved greater operational efficiency and stakeholder satisfaction.

Bunde and Wagude (2021) investigated risk acceptance in road construction projects in Migori County, Kenya, concluding that risk acceptance significantly contributed to successful project implementation. Their research showed that calculated risk-taking, when properly managed, led to improved project outcomes and reduced delays. International studies support these findings, with Polas et al. (2022) examining ethical decision-making in UAE SMEs, finding beneficial relationships between risk acceptance and organizational performance when risks are strategically evaluated and managed. Mumassabba et al. (2022) studied risk avoidance strategies among Kenyan SMEs, finding that approaches such as delayed market entry, working with reliable suppliers, and engaging legally compliant contractors significantly reduced earnings volatility and maximized shareholder value.

Ochola et al. (2022) examined risk avoidance effects on devolved government performance in Kenya, establishing that risk avoidance strategies were crucial in eliminating threats that could negatively impact institutional performance. International research by Sun (2021) investigated societal trust and risk avoidance in global insurance firms, finding that risk aversion had significant negative effects on risk-taking behavior, while Chi et al. (2022) demonstrated that risk avoidance strategies in hospitality sectors enhanced customer confidence and business sustainability. Mwanja and Suva (2023) examined financial risks and commercial bank performance in Kenya, finding that strategic risk retention practices positively influenced institutional performance when properly managed with adequate reserves.

Aduloju and Akindipe (2021) analyzed risk control techniques among Lagos State SMEs, discovering that risk retention was a significant financial risk management strategy with positive correlations to organizational success and operational efficiency. Their research demonstrated that SMEs with adequate internal risk management capabilities achieved better financial outcomes. International studies by Agyapong (2020) in Ghana's food processing sector confirmed that risk retention practices, when supported by sufficient financial resources, contributed to enhanced business performance and sustainability. Risk transfer involves shifting risks to third parties through mechanisms such as insurance, outsourcing, or contractual agreements (Strupczewski et al., 2022). Research consistently demonstrates strong positive relationships between effective risk transfer strategies and organizational performance. Thuku and Muchemi (2022) studied risk transfer strategies among insurance companies in Nyeri County, Kenya, finding that risk transfer mechanisms including insurance derivatives and reinsurance significantly enhanced organizational performance by allowing businesses to focus on core activities.

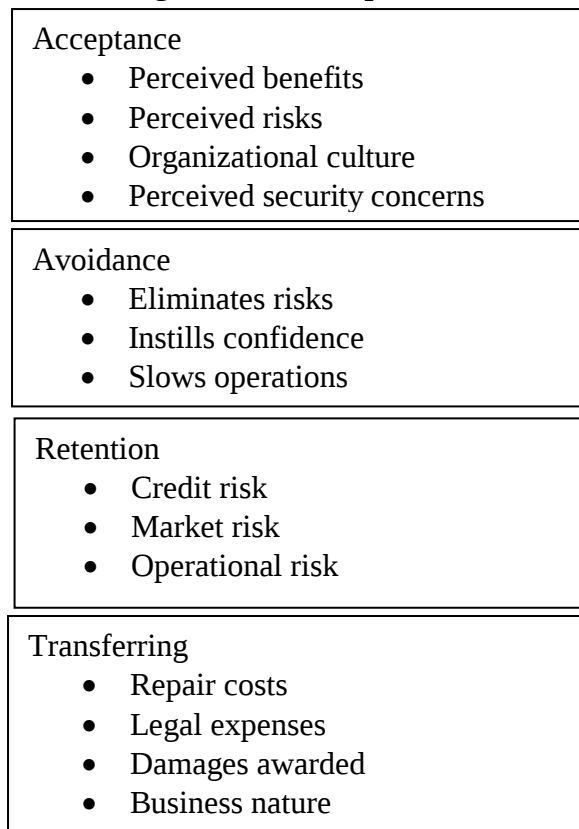
Strupczewski et al. (2022) investigated alternative risk transfer usage among Polish enterprises, discovering that risk transfer methods provided effective alternatives to traditional insurance solutions, particularly for catastrophic risks. Their research showed that company size was the

most significant determinant of risk transfer adoption success. International studies by Haile et al. (2020) in rural Ethiopia demonstrated that formal climate risk transfer mechanisms significantly improved farmer risk-taking behavior and overall agricultural performance, while Chamarande et al. (2024) found that risk transfer strategies in Kenya's energy sector, though complex, ultimately benefited organizational sustainability when properly implemented.

2.3 Conceptual Framework

Independent Variable

Risk Management Techniques



Dependent Variable

Performance

Financial Performance

- Return on Investment (ROI)
- Profit Margin
- Revenue Growth Rate
- Cash Flow Stability

Figure 1: Conceptual Framework

3.0 Research Methodology

The study employed a descriptive survey research design combining cross-sectional data collection from multiple SMEs simultaneously. The target population consisted of 258 registered SMEs in Elgeyo Marakwet County as of 2024, categorized into manufacturing (76), trading (102), and service (80) businesses. Using Yamane's (1967) formula, the sample size was calculated as 157 SMEs, with stratified random sampling ensuring proportional representation across business categories: manufacturing SMEs (46), trading SMEs (62), and service SMEs (49). SME owners and managers were surveyed using structured questionnaires administered through drop-and-pick method. Primary data was collected using 5-point Likert scale questionnaires covering risk management techniques (acceptance, avoidance, retention, and transfer) and financial performance indicators (profitability, revenue growth, competitive advantage, and return on assets). A pilot study involving 16 SMEs (10% of sample size) was conducted to test instrument reliability, with Cronbach's alpha values exceeding 0.7 for all constructs. Data collection procedures involved obtaining research permits from NACOSTI,

securing county government approvals, and ensuring participant confidentiality and voluntary participation. Quantitative data analysis was conducted using SPSS version 25, employing descriptive statistics (means, standard deviations, frequencies) and inferential statistics including correlation analysis and multiple linear regression analysis to examine relationships between variables. Diagnostic tests for normality (Shapiro-Wilk), multicollinearity (VIF and tolerance), and heteroscedasticity (Breusch-Pagan) were conducted to validate regression assumptions before hypothesis testing at 0.05 significance level.

4.0 Findings and Discussion

The study distributed 157 questionnaires with 137 completed responses, resulting in an 87.3% response rate. Demographics showed: 66.4% male and 33.6% female respondents; majority (42.3%) had 5-10 years business experience; 35.8% were aged 35-45 years; 40.1% had diploma-level education; and 46.7% operated trading businesses. The descriptive analysis revealed positive perceptions of risk management practices among SMEs, with risk acceptance (mean = 3.61), risk avoidance (mean = 3.54), risk retention (mean = 3.68), and risk transfer (mean = 3.61) all showing favourable implementation levels. Financial performance indicators demonstrated satisfactory outcomes with an overall mean of 3.62, indicating that SMEs generally achieve positive financial results including profitability, revenue growth, and competitive positioning.

4.1 Correlation Analysis Results

According to Table 1, the study's correlation findings are as follows.

Table 1: Correlation Matrix

Variables	Financial Performance	Risk Acceptance	Risk Avoidance	Risk Retention	Risk Transfer
Financial Performance					
Pearson	1.000				
Correlation					
Sig. (2-tailed)	-				
Risk Acceptance					
Pearson	0.694**	1.000			
Correlation					
Sig. (2-tailed)	0.000	-			
Risk Avoidance					
Pearson	0.720**	0.559**	1.000		
Correlation					
Sig. (2-tailed)	0.000	0.000	-		
Risk Retention					
Pearson	0.579**	0.388**	0.487**	1.000	
Correlation					
Sig. (2-tailed)	0.000	0.000	0.000	-	
Risk Transfer					
Pearson	0.782**	0.570**	0.639**	0.446**	1.000
Correlation					
Sig. (2-tailed)	0.000	0.000	0.000	0.000	-

The results depict that in Elgeyo Marakwet County, Small and Medium Enterprises demonstrate enhanced financial performance through risk transfer strategies, according to Table 19 ($r = 0.782$, $P = 0.000$). This indicates that SMEs in Elgeyo Marakwet County exhibited superior financial performance if risk transfer initiatives are enhanced. This strong positive correlation suggests that when SMEs effectively transfer dangers to unaffiliated parties by

policies, contracts and other mechanisms, their overall financial performance significantly improves. These results align with studies on risk management effectiveness, which found that strategic risk transfer enables businesses to focus resources on core activities while maintaining financial stability. Another significant finding is that SMEs in Elgeyo Marakwet County demonstrate improved financial performance when they implement greater risk avoidance strategies ($r = 0.720$, $P = 0.000$). This implies that SMEs that are proactive in the removal of high-risk activities, unpredictable markets, and conservative business strategies will operate at a higher financial level. The high correlation shows that the risk avoidance strategies promote financial stability and predictable returns of SMEs.

In addition, the research established that risk acceptance and financial performance had a positive and significant relationship in SMEs in Elgeyo Marakwet County ($r = 0.694$, $P = 0.000$). This implies that the level of financial performance of SMEs rises significantly when they critically analyse and take calculated risks that have the possibility of high returns. The correlation means that the strategic risk acceptance is a potent growth and profitability driver in the SME environment. This observation shows that SMEs that strike the right balance between risk and reward by analysing it thoroughly has greater financial success, innovation, and performance persistence. In addition, according to the results, risk retention was significantly related to financial success ($r = 0.579$, $P = 0.000$), which is a somewhat favourable association. This implies that financial performance is enhanced when SMEs have sufficient reserves, build internal risk management capacity, and take responsibility of risks that they can manage. Although this correlation is not high in comparison with other risk management methods, it proves that internal risk management establishes cost-effective environment to improve performance. These findings confirm the observations that self-insuring against risks that can be managed lowers the external costs and offers the financial flexibility that SMEs need to exploit their growth opportunities to the fullest.

Inter-correlations of variables of risk management techniques also provide valuable information. There was a high inter-relationship between risk avoidance and risk transfer ($r = 0.639$, $P = 0.000$), which indicates that the businesses that avoid high risks also transfer unavoidable risks to third parties. On the same note, there was a high correlation between risk acceptance and risk transfer ($r = 0.570$, $P = 0.000$), which means that when SMEs accept some risks, they also have transfer mechanisms to protect them and vice versa. These results are in line with the Modern Portfolio Theory and Enterprise Risk Management models, which assume that efficient risk management is a balanced mix of various methods that can be used to maximize business performance and financial results altogether.

4.2 Regression Analysis

Table 2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.877a	0.769	0.762	0.142031

An R-value of 0.877 shows a very significant positive link, according to the model description between the integrated risk management approaches and financial success. The value of R-squared is 0.769 which means that the combination of all the four risk management strategies contains an explanation of about 76.9 percent of the variation in the financial performance. The robustness of the model is confirmed by a cautious estimate of adjusted R-squared value of 0.762.

Table 3: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8.888	4	2.222	110.147	.000b
	Residual	2.663	132	0.02		
	Total	11.551	136			

The ANOVA results prove F (110.147) and p (0.000) indicate that the regression model is statistically significant overall. The overall impact of the risk management methods offers a significant explanation of the variance in the bottom line as shown by this F-statistic, which is very high compared to the F-value of any of the methods. This is an indication of the strength of having more than one risk management strategy at a time.

Table 4: Coefficients

Model		Unstandardized Coefficients	Standardized Coefficients		t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.32	0.16		2.002	0.047
	Acceptance	0.223	0.045	0.266	4.958	0.000
	Avoidance	0.189	0.051	0.219	3.711	0.000
	Retention	0.151	0.039	0.187	3.813	0.000
	Transfer	0.351	0.05	0.407	6.979	0.000

The coefficients table reveals the individual contribution of each risk management technique within the combined model. Risk Transfer comes across as the most important predictor because it has a standardized coefficient (Beta) value of 0.407 that has the highest t-value of 6.979 ($p < 0.000$), meaning that a one-unit increment in risk transfer leads to the increment by 0.351 units in financial performance holding other variables at constant values. This finding aligns with Strupczewski et al. (2022) and Thuku and Muchemi (2022) studies, which established that risk transfer strategies, particularly through insurance and contractual agreements, significantly enhance organizational performance by allowing businesses to focus resources on core activities. The second in importance is Risk Acceptance with its standardized coefficient equal to 0.266 and t-value of 4.958 ($p < 0.000$), which indicates that when the level of risk acceptance increases by one unit, the level of financial performance increases by 0.223 units. This supports findings by Cherotich and Kwasira (2021) and Bundeh and Wagude (2021), who demonstrated that calculated risk acceptance practices positively influence performance outcomes when organizations carefully evaluate potential benefits and establish appropriate risk thresholds.

Risk Avoidance has a large effect with standardized coefficient of 0.219 and t-value or 3.711 ($p < 0.000$) which shows that an increase of a unit in risk avoidance results to an increase of 0.189 unit in financial performance. These results are consistent with Mumassabba et al. (2022) and Ochola et al. (2022) findings, which showed that systematic risk avoidance strategies, including avoiding high-risk markets and working with reliable suppliers, contribute to reduced earnings volatility and enhanced performance. Risk Retention presents the least influential

variable with the standardized coefficient of 0.187 and test value 3.813 ($p < 0.000$) which illustrates that an increment in risk retention by one unit would lead to the corresponding increase in financial activity by 0.151 unit. This finding supports Mwanja and Suva (2023) and Aduloju and Akindipe (2021) observations, which indicated that strategic risk retention through self-insurance and dedicated reserve funds can improve cost efficiency and financial flexibility.

$$\text{Financial Performance (Y)} = 0.320 + 0.223(\text{Risk Acceptance}) + 0.189(\text{Risk Avoidance}) + 0.151(\text{Risk Retention}) + 0.351(\text{Risk Transfer})$$

The position of this equation is that with all the risk management methods at zero level, the value of the financial performance is 0.320. The model indicates that all four methods of risk management are the most effective approach of enhancing the financial performance in SMEs. The results are compliant with the Enterprise Risk Management Framework and Modern Portfolio Theory described in the literature review, according to which a mixture of risk management techniques yields better results than the application of each technique separately. This can be an integrated approach that will enable the SMEs to achieve optimal risk-return trade-offs and be financially stable and growing, as suggested by Crovini et al. (2020) and Lima et al. (2021).

5.0 Conclusion

The research findings are that the risk acceptance practices of SMEs in Elgeyo Marakwet County are mostly effective, and satisfaction is high in terms of security concern evaluation and comprehensive impact analysis prior to risk acceptance. Nevertheless, it can be improved, especially in the area of creating documented risk processes and the uniformity of risk acceptance frameworks in all business activities. SMEs can further enhance their risk acceptance practices by paying attention to continuous improvement, augmenting formal risk documentation and the overall risk acceptance policies. With regard to risk avoidance, the main strengths are that SMEs are highly committed to the identification and removal of high-risk activities, they are cautious when entering unpredictable markets, and they acknowledge the confidence-building impact of conservative strategies. These have helped SMEs to be financially stable and less volatile in terms of earnings. Nevertheless, it can be improved, especially in terms of more frequent updating of risk avoidance policies and the need to balance safety and growth opportunities to prevent being too conservative and thus restricting business growth.

The study also concluded that risk retention practices in SMEs have been moderately effective, particularly in setting aside contingency funds, regularly reviewing risk retention strategies, and basing retention decisions on financial capacity analysis. These initiatives contribute to cost efficiency and internal risk management capabilities. However, there have been challenges, particularly in developing formal credit risk management procedures and enhancing market risk management strategies, which could further strengthen internal risk management capabilities. The study also concludes that SMEs' risk transfer strategies are highly effective, especially in using insurance for large risks, transferring repair costs to third parties, and utilizing financial instruments for hedging. These practices are crucial for maintaining financial protection and enabling focus on core business activities. However, areas such as enhancing legal expense transfer mechanisms and improving contractual risk transfer arrangements could be strengthened to provide more comprehensive external risk protection.

There exist strong relationships between all risk management technique predictors and financial performance, with risk transfer showing the strongest effect, followed by risk avoidance, risk acceptance, and risk retention respectively. However, the remaining proportion

of the variation is not accounted for by the model's predictors. These unexplained factors could stem from additional variables or influences not included in the study, such as market conditions, government regulations, technological changes, or specific management practices that vary across different SME sectors. The study further concludes that even though the risk management technique variables significantly explain financial performance in the region, there are other important factors at play.

6.0 Recommendations

Based on the study findings, the research recommends that SMEs prioritize risk transfer strategies by securing comprehensive insurance coverage and formalizing agreements with suppliers and partners to safeguard against financial losses. It is also advised that SMEs adopt integrated risk management systems that combine acceptance, avoidance, retention, and transfer techniques rather than relying on isolated approaches. The county government should support this by offering targeted capacity-building programs on risk assessment and management for SME owners and managers. Additionally, SMEs should establish formal risk documentation processes to ensure consistent identification, evaluation, and monitoring of risks across operations. Lastly, the creation of SME risk management support networks is recommended to promote knowledge sharing and provide access to affordable tools and resources.

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