



Risk Management and Financial Performance of Small and Medium Enterprises in Kabale Municipality, Uganda

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Abstract: This study examined the effect of risk management on the financial performance of Small and Medium Enterprises (SMEs) in Kabale Municipality, Uganda. Specifically, the influence of risk identification and risk assessment on financial performance, measured in terms of profitability, liquidity, and market share. A descriptive research design was adopted. The study targeted 244 registered SMEs, and a sample of 152 respondents was selected using Slovin's formula, proportionate stratified sampling, and simple random sampling. Data were collected using structured questionnaires. Descriptive statistics, Pearson correlation, and multiple linear regression analyses were used to summarize the data and examine the relationship among the study variables. The findings showed that both risk identification and risk assessment had a positive and statistically significant effect on the financial performance of SMEs. Risk identification exhibited a stronger influence on financial performance ($\beta=0.603$, $p < 0.001$) than risk assessment ($\beta=0.472$, $p < 0.001$). The regression model explained 83.7% of the variation in financial performance ($R^2 = 0.837$), indicating that effective risk management practices enhance SME profitability, liquidity and market share. Therefore, each Null hypothesis was rejected. The study concludes that strengthening risk identification and risk assessment practices significantly improves the financial performance of SMEs. It recommends that SME owners, managers, government agencies, and business development organizations provide continuous risk management training, technical support, and staff capacity building to enhance SMEs' risk management capabilities, enterprise sustainability, and economic growth in Uganda.

Keywords: Risk Management, Risk identification, Risk assessment, financial performance, SMEs, Profitability, Liquidity, Market share in Uganda, Kampala, Uganda.

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1. Introduction

Small and medium enterprises (SMEs) have been widely recognized as drivers of economic growth, job creation, and poverty alleviation in developing countries. In Uganda, SMEs are responsible for about 90 percent of private sector businesses and employ millions of people across various sectors (Hussein Kakembo et al., 2021). Despite their economic significance, many SMEs are facing serious challenges related to declining profitability, liquidity constraints, and shrinking market share due to poor risk management practices (Naradda Gamage et al., 2020a). Risk management is a management function which helps organizations detect, assess risks as well as

take action on them for achieving their goals. According to (Aoun, 2023) risk management is a process that includes identifying, assessing, and mitigating risks to business performance.

Risk control improves organization's flexibility, as well as its profitability over time. Internationally, small businesses are more likely to use formal methods of managing risks for survival amid fluctuating economies, innovations, competitive pressures as well as instability within markets. However, small scale enterprises are usually not equipped with sufficient technology as well as capital to implement a full range of risk management systems (Mthiyane et al., 2022).

In Africa, weak institutional frameworks, financial constraints, and informal business practices continue to limit effective risk management adoption among SMEs (Chakabva et al., 2021). In Uganda SMEs have many risks such as high operating expenses, payment delays, financing difficulties, inflation, and competition (Eton et al., 2021a). The SMEs of Kabale municipality are at risk which affects profits as well liquidity problems significantly. Despite efforts by government agencies and development organizations to enhance SME resilience through training and financial support, many companies still find it difficult to systematically identify and assess risks affecting their operations (Esperance, 2021). Existing literature has largely focused on general SME challenges without adequately examining how specific risk management practices influence financial performance in localized contexts such as Kabale Municipality (Kabatunzi, 2022). This study therefore sought to bridge this gap by examining the effect of risk identification and risk assessment on the financial performance of SMEs in Kabale Municipality, Uganda.

1.1 Statement of the Problem

Small and Medium Enterprises (SMEs) are a cornerstone of Uganda's economy, contributing approximately 90% of the private sector (Ndawula, 2018) and employing over 2.5 million people (Statistics, 2022). However, the sector faces significant challenges, with a 30% failure rate within the first year of operation and only 50% surviving beyond five years (UBOS, 2022).

The inability of SMEs to effectively manage risks has been identified as a major contributor to their declining financial performance which is characterized by falling profitability, liquidity constraints and shrinking market share (Naradda et al., 2020). Average net profit margins for SMEs in Uganda dropped by 15% between 2018 and 2022 (Odokonyero et al., 2022), 60% of SMEs reported cash flow challenges that hinder their ability to meet short-term obligations (Herbert, 2014). SMEs with poor risk management practices experienced a 20% reduction in market share over the past five years, compared to those with robust systems (Oyadeyi et al., 2024).

A survey conducted by the Ministry of Trade, Industry and Cooperatives (2022) revealed that 60% of SMEs in the region experienced a decrease in sales over the past year. Factors contributing to this decline include poor access to finance, lack of market information and ineffective risk management practices (John & Nyamboga, 2024). Additionally, the COVID-19 pandemic exacerbated these challenges, with many SMEs reporting losses exceeding 30% during lockdowns (Owusu-Pepurah, 2024). These trends highlighted the urgent need to examine the underlying causes of financial decline, particularly the risks, because if not addressed, many SMEs would face insolvency and closure.

Various initiatives have been implemented to mitigate these challenges (Iqbal et al., 2024). The Ugandan

government has introduced programs aimed at improving access to finance for SMEs through microfinance institutions and credit guarantee scheme (Esperance, 2021).

There is limited research on how risk management practices directly influence the financial performance indicators such as profitability, liquidity and market share in Uganda especially, in Kabale Municipality (Sarah et al., 2022). This gap hinders the development of SMEs, this not only affects the individual firms and their stakeholders but also has broader economic implications, for example the government will not be able to collect enough taxes that can be used in the development of the economy, high rate of unemployment in the country and reduced entrepreneurial activity (Casey, 2021). This study therefore examined risk management and financial performance of small and medium enterprises with specific reference to Kabale Municipality, Uganda.

1.2 Justification of the study

This study is justified by the increasing financial challenges faced by Small and Medium Enterprises (SMEs) in Uganda despite their significant contribution to employment creation and economic growth (Turyahikayo, 2015). Many SMEs in Kabale Municipality continue to experience declining profitability, liquidity problems, and reduced market share due to inadequate risk management practices (Naradda Gamage et al., 2020b). Although previous research has explored various challenges confronting SMEs, there remains a gap in understanding the effect of risk identification and risk assessment on financial performance within specific local contexts (Sserwanga, 2023). Therefore, this study provides empirical evidence that can guide SME owners, policymakers, and development agencies in designing effective risk management strategies to enhance business sustainability, profitability, and economic development in Kabale Municipality, Uganda.

1.3 Research Objectives

The following objectives guided this study:

- i) To examine the effect of risk identification on the financial performance of small and medium Enterprises in Kabale Municipality.
- ii) To assess the effect of risk assessment on the financial performance of small and medium Enterprises in Kabale Municipality.

1.4 Research Hypotheses

The following null hypotheses were developed to test in this study

H₀₁: Risk identification has no significant effect on the financial performance of small and medium enterprises in Kabale Municipality.

H₀₂: Risk assessment has no significant effect on the financial performance of small and medium enterprises in Kabale Municipality.

2. Literature Review

2.1 Risk Identification and Financial Performance of SMEs

Risk Identification is one of the most fundamental components of risk management, which is a process of systematic recognition and assessment of the events that could pose a negative impact on the organization's objectives and performance (Tishko et al., 2023). Risk identification helps organizations identify uncertainties caused by operational, financial, strategic, and environmental activities before the uncertainties can turn into significant losses, according to (Bromiley et al., 2015). Likewise, according to Hillson & Murray-Webster, (2017), organizations which consistently identify and monitor risks are better placed to make informed decisions, allocate resources efficiently and remain a competitive organization in changing business environments. Although these studies give a good theoretical background on the importance of risk identification, they are mostly conceptual and have a limited amount of empirical evidence, which deals specifically with risk identification's impact on the financial performance of SMEs in developing economies (Hudáková et al., 2023).

Several studies have been conducted at global level that show a positive correlation between the identification of risks and financial performance. In Asia, (Rehman & Anwar, 2019) discovered that manufacturing companies using structured risk identification systems had higher profitability and lower operational losses compared to companies that were using informal methods. Similarly, Pomaza-Ponomarenko et al., (2023) determined that companies which incorporated risk identification into their enterprise risk management practices had better financial performance. These were mainly conducted in large manufacturing firms in developed and emerging industrial economies, however. The results of their study may not necessarily be applicable to SMEs, who tend to be more resource-constrained, having informal management structures, and different risk exposures. Also, the studies used mainly quantitative methods, which were not suitable for acquiring a deep understanding of the application of risk identification practices in organizations.

There is also evidence that risk identification is positively related to organizational performance in developing countries. (Zafar et al., 2022) concluded that SMEs in Pakistan that made financial, operational, and competitive risk identification on regular basis had better profitability and operational liquidity when compared to those without formal risk identification system. The study underscores the need for a proactive approach to risk identification, but

was done in a different socio-economic and regulatory setting. Furthermore, the study only considered the profitability measures, neglecting other factors like liquidity and market share. This leaves a methodological gap which needs further study (Assaad & El-Adaway, 2020).

Risk identification has also been shown to be important in studies done in Nigeria. SMEs practicing regular risk identification had higher growth in sales and profitability compared to the SMEs that adopted a reactive approach in managing risk (Adeoye et al., 2024). Likewise, (Osisioma et al., 2020) found that risk identification helps in achieving continuity of the business and financial stability. However, the studies were mainly conducted on urban based SMEs in the relatively bigger economies. For smaller municipalities like Kabale, the business conditions may vary significantly across the municipalities in terms of market size, competition, access to information and financial resources. The results do not have great generalizability because of this contextual difference.

In East Africa, Muriithi & Muigai, (2024) looked at risk management among SMEs in Kenya and found that those SMEs with established risk identification procedures had better liquidity and profitability. In a similar way, (Ishmail, 2024a) discovered that identification of risks greatly improved the financial sustainability of SMEs as it helped the entrepreneur foresee possible disruption in the business. Although these studies are relevant, they concentrated on SMEs in Kenya and their institutional and economic environment is different to that in Uganda. Both of the studies used a descriptive research design but it is not possible to conclude whether their findings are able to explain SME Financial Performance in Uganda.

In Uganda, (Annah, 2022) discovered that firms with proactive risk identification systems would have more stable cash flows and sustainable profitability. Similarly, (Nkundabanyanga et al., 2020a) found that the identification of risk is correlated with the performance of an organization, in the sense that it gives the organization advantage of foreseeing the risk and taking necessary controls. While these studies give useful insights in the risk management practices in Uganda, they rather looked at risk management as a generic concept than specifically at-risk identification. The contribution of risk identification to the financial performance is thus not adequately researched. Moreover, the majority of studies were undertaken in the banking sector and failed to adequately reflect the experience of Small Medium Enterprises.

The overall reviewed literature consistently indicates that risk identification contributes positively to financial performance (Sajid et al., 2023). However, significant methodological, contextual, and empirical gaps remain. Methodologically, many studies rely on cross-sectional quantitative designs that limit causal interpretation. Contextually, most studies have been conducted in

developed countries or major urban centers, with limited focus on SMEs operating in municipalities such as Kabale. Empirically, previous Ugandan studies have largely examined risk management as a broad concept rather than isolating the specific effect of risk identification on financial performance. Therefore, this study seeks to address these gaps by examining the effect of risk identification on the financial performance of SMEs in Kabale Municipality, Uganda.

2.2 Risk Assessment and Financial Performance of SMEs

Risk assessment is a key element of the risk management process that requires an analysis of the risks identified in terms of how they are likely to happen and how they will affect the achievement of the organization's intentions. According to (Wicaksono, 2020), risk assessment helps an organization to understand the nature of the risks, prioritize the risks, and develop appropriate response strategies. A good risk assessment will improve managerial decision making by informing about the risks, both threats and opportunities, that could affect the organization's performance. (Meskovic & Zaimovic, 2021) believe that companies that incorporate risk assessment into their strategic planning can allocate resources more efficiently, reduce losses and enhance financial performance.

There has been a positive link between risk assessment and financial performance that has been demonstrated in numerous studies at the global level. (Adam et al., 2023) concluded that firms with more complex risk assessment practices in Enterprise Risk Management (ERM) frameworks achieved better financial results than firms with less developed risk assessment practices in ERM frameworks. The study found that risk assessment can increase an organization's preparedness and provide better knowledge of how to deal with uncertainties that could have a negative impact on profitability and growth. Likewise, (Ghazieh & Chebana, 2021) found that organizations with a well-established risk assessment system performed better on firm value and financial performance based on the benefits of better strategic decision making and reduced vulnerability to negative events. Despite this, both (Adam et al., 2023) and Ghazieh & Chebana, (2021) examined large corporations in developed countries. The financial, technical and managerial capabilities of these organizations are also very different from SMEs in developing countries. As such, the results cannot be directly applied to an SME with limited resources and unstructured management processes.

The results of risk assessment in improving business performance are also demonstrated in developing countries. Amponsah et al., (2024) identified that financial and operational risk assessment performed regularly by SMEs in Ghana were more likely to manage their liquidity

problems and avert business failure. The study showed that risk assessment benefits the better cash flow management, business profitability and business sustainability. Likewise, Sathiamoorthi et al., (2020) found that SMEs in Botswana that could evaluate market, operational, and financial risks were more resilient in terms of adapting to changing business environments and holding onto their market position as compared to those that could not. Although these research studies offer some evidence from developing economies in Africa, care should be taken when interpreting the results. The studies were primarily targeted at certain sectors and geographical areas, and may be not easily transferable to other contexts. Besides this, the studies employed various measures of financial performance which made comparisons between the studies difficult.

In the East African context, a number of studies have found the importance of risk assessment for improving SME performance. (Muriithi & Muigai, 2024b) discovered Kenyan SMEs that systematically performed risk assessment had favorable financial results than enterprises that made decisions informally and intuitively. The research findings revealed that Risk Assessment helps business owners to identify risks of high priority and resource allocation more effectively. Similarly, (Ishmail, 2024b) found that risk assessment has a positive impact on business continuity and profitability, as it helps businesses prepare for uncertainties and disruptions in the market. While these studies offer valuable insights into SME risk management in East Africa, they were carried out in countries with different institutional, economic and regulatory contexts to Uganda. Moreover, most of the research used quantitative cross-sectional designs, which are only able to reflect associations in one moment in time rather than the dynamics of risk assessment practices and their impact on financial performance over time.

In Uganda, SMEs are still major players in the employment creation, income generation and economic development (Eton et al., 2021b). But, a lot of businesses are dealing with major issues due to market fluctuation, monetary restraints, inflation rate and rising risks. The study by (Nkundabanyanga et al., 2020b) noted that formal risk management practices such as risk assessment are found to positively impact on organizational performance as they help the organization to anticipate and prepare for potential disruption. In the same way, Jefferis et al., (2020) established that SMEs that regularly assess risks generally have good liquidity management and profitability compared to those that do not have formal assessment mechanism. However, the literature available in Uganda has some limitations. Firstly, most of the research has been conducted on the multidimensional nature of risk management as opposed to risk assessment as a stand-alone variable influencing financial outcome. Secondly, most studies have concentrated on businesses that are based in big cities, resulting in little evidence about the characteristics of businesses in smaller municipalities like Kabale. Third, the predominance of

cross-sectional studies in the literature limits the ability to establish a clear cause-and-effect relationship between risk assessment and financial performance, as data are collected at only one point in time.

Overall, the reviewed literature consistently suggests that risk assessment contributes positively to financial performance through improved decision-making, resource allocation, profitability, liquidity management, and organizational resilience. Nevertheless, important methodological, contextual, and empirical gaps remain. Current research is mostly cross-sectional with a focus of developing countries as well as cities, it tends towards being more about managing risks instead of assessing them directly. Therefore, this study seeks to address these gaps by assessing the effect of risk assessment on the financial performance of SMEs in Kabale Municipality, Uganda.

3. Methodology

This section presents the research design, population and sampling procedures, validity and reliability of the research instruments, and data analysis plans used in the study.

3.1 Research Design

This study used a descriptive research design, which is a type of research methodology that involves describing features, behaviors, trends, or situations of a particular group of people, event, or phenomenon (Adewale, 2024). By employing a descriptive research design, the study provided a comprehensive overview of how risk management affects financial performance in SMEs within Kabale Municipality.

3.2 Population and Sampling Procedures

In this study, the target population consisted of 244 small and medium enterprises (Commercial Office Records, Kabale Municipal Council, 2025 report). This population represented the various industries within the Municipality. This study concentrated on the following SMEs, which include Financial Institutions (68), Hotels (30), Professional and Consultancy firms (69), and Health and Medical businesses (77), selected from a total of 244 registered SMEs (Commercial Office Records, Kabale Municipal Council, 2025 report). Focusing on 244 SMEs allowed the researcher to study a smaller, more manageable sample while still drawing conclusions applicable to the broader population, making the research more cost- and time-efficient. These industries were chosen because of their economic importance, excluding others for feasibility.

3.3 Sample Size

A sample is a subset of the population from which data are collected for a study (Nyimbili & Nyimbili, 2024a). The Slovin's formula for determining a suitable sample size and minimizing bias or error rates of confidence was used (Nyimbili & Nyimbili, 2024b). It ensured a fair, representative sampling with proper numbers for it. For this study, a sample size of 152 respondents was calculated using Slovin's formula as shown below.

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

Where:

n= Sample size

N= Target population

e = Margin of error

The margin of error (e) denotes the maximum expected sampling error between the estimated value obtained from the sample and the true population parameter. It serves as an indicator of the accuracy of the sample estimates by showing the extent to which they may vary from the actual characteristics of the population.

Given:

Study population (N) = 244

$$n = \frac{244}{1 + 244(0.05)^2} =$$

$$n = \frac{244}{1 + 244(0.0025)} =$$

$$n = \frac{244}{1.61} = 151.55 \quad n=152$$

Therefore, the number of samples taken by means of Slovin's formula was 152. Proportionate sampling was utilized to find out each respondent representation of every group being studied here. This method divided the population into subgroups and selected samples from each subgroup according to their population size, ensuring that the sample accurately represented the overall population distribution.

Table 1: Showing the Sample size of the Respondents

Category of Respondents	Population	Sample size	Sampling procedures
Financial Institutions	68	42	Stratified
Hotels	30	19	Stratified
Professional and Consultancy	69	43	Stratified
Health and medical Business	77	48	Stratified
Total	244	152	

Source: Commercial Office Records, Kabale Municipal Council, 2024 report

3.4 Sampling

The study employed stratified random sampling. Stratified sampling is a method used in statistical research where the population is divided into distinct subgroups, known as strata that share similar characteristics (Singh & Mangat, 1996). This technique ensured that each subgroup is adequately represented within the sample, which could lead to more accurate and reliable results. Given that SMEs varied significantly by sector or size within Kabale Municipality, stratified sampling was beneficial. The researcher divided the population into different strata based on their business type (financial institutions, Hotels, Professional and Consultancy, Health and medical Business) to ensure representation across different businesses and then after, simple random sampling was used to randomly select samples from each stratum proportionally (sample size matches the population proportion). Simple random sampling involves selecting respondents from the target population without bias (Raifman et al., 2022). The technique split people up for sampling purposes; then it took a few individuals randomly out of every group based on how big they were so as not leave any groups unrepresented at all. This technique involves selecting subjects at random so as for each person is equally likely of being selected by a study participant.

3.5 Survey Questionnaire Design

The study used a structured questionnaire as an instrument for data collection. The questionnaire was divided into two sections. Section A collected demographic information of respondents such as gender, age, and level of education. Section B contained closed-ended questions based on the study objectives using a five-point Likert scale ranging from Strongly Agree to Strongly Disagree (Zhou et al., 2017). The questionnaire design enabled the researcher to collect standardized responses from respondents, making data analysis easier and improving the reliability of the study findings (Phellas et al., 2011). This method was used mainly because it helps the researcher to get responses from a large number of respondents. For each SME, one employee (either owner, Manager or accountant) was administered with a Questionnaire.

3.6 Validity and Reliability

Validity refers to the extent to which the research instrument measures what it is intended to measure (Strauss & Smith, 2009). In this study, content validity is ensured through expert review of the questionnaire to confirm that all relevant aspects of e-recruitment, efficiency, and employee engagement are adequately covered (Demanuele, 2025).

Reliability refers to the consistency of the research instrument (Alfiyah et al., 2025). A pilot study is conducted to test the reliability of the questionnaire. The Cronbach's alpha coefficient is used to assess internal consistency, and a value of 0.7 or above is considered acceptable (Izah et al., 2023).

3.7 Data Collection Procedure

The researcher presented a letter of introduction obtained from the Head of the Business Studies Department at Kabale University to all respondents, explaining the purpose of the study. After obtaining their consent, the researcher proceeded with the data collection, assuring respondents that their responses would remain confidential and solely were used for academic purposes, thereby building their trust.

3.8 Data Analysis Plan

To test the hypotheses, the researcher determined if there was a statistically significant relationship between risk identification, risk assessment and financial performance using multiple regression analysis test. Quantitative data were analyzed using descriptive statistics such as means, standard deviations and frequency distributions, alongside inferential methods like correlation analyses, facilitated by SPSS software (Almquist et al., 2020). Inferential statistics are employed to test the study objectives. Specifically, correlation analysis is used to examine the relationship between variables (Senthilnathan, 2019), while regression analysis is used to determine the effect of risk management on financial performance of SMES in Kabale Municipality.

3.9 Ethical Considerations

The ethical considerations taken in this study included: not exposing the information for other purpose but using it for only academic purposes since it was the main issue for collecting such information. In addition, the participants in the research had access to the results of the study.

Before collecting any data, the researcher obtained informed consent from each participant. This involved providing them with a clear and concise explanation of the study's purpose, procedures, potential risks and benefits, their right to withdraw and how their data were protected. The consent form was written in a language the participants understood.

The researcher also requested for voluntary participation and ethical consent to participate in the study from respondents before they were interviewed.

The names of the respondents were left anonymous as a confidentiality measure. Even the researcher told the respondents that this study was for academic purposes only. The researcher collected data herself to ensure originality and adequate data.

4. Results and Discussion

This chapter presents, analyses, and interprets the findings of the study on the relationship between risk management and financial performance of Small and Medium Enterprises (SMEs) in Kabale Municipality, Uganda. The study specifically examined the influence of risk identification and risk assessment on financial performance, which was measured in terms of profitability, liquidity, and market share.

The collected data were coded, entered, and analyzed using SPSS. Both descriptive and inferential statistical techniques were used. Descriptive statistics, including frequencies, percentages, means and standard deviations, were used to summarize the characteristics of respondents and the study variables. Inferential statistics, including correlation and regression analyses, were used to examine the relationships between risk management practices and financial performance.

This chapter is organized into sections covering the demographic characteristics of respondents, descriptive analysis of the study variables, diagnostic tests of regression assumptions, correlation analysis, regression analysis, and discussion of findings.

Table 1: Frequencies Table

Age

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	20-29	18	11.8	11.8	11.8
	30-39	31	20.4	20.4	32.2
	40-49	40	26.3	26.3	58.6
	50+	63	41.4	41.4	100.0
	Total	152	100.0	100.0	

The findings show that majority of the respondents were aged 50 years and above which covers 41.4% of the entire sample population, followed by those aged between 40 to 49 years (26.3%), 30 to 39 years (20.4%) and lastly between 20 to 29 (11.8%) as shown in Table 2. This shows that most SME owner and managers in Kabale

Municipality are relatively mature individuals with vast business and managerial experience. The low representation of young respondents implies that SME ownership and management in the municipality is dominated by older entrepreneurs who have accumulated business knowledge and resources over time.

Table 3: Gender of respondents**Gender**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Female	79	52.0	52.0	52.0
	Male	73	48.0	48.0	100.0
	Total	152	100.0	100.0	

Results reveal that 52% of the respondents were females and 48% were males which indicates a fairly balanced gender distribution among SME owners and managers in

Kabale with slightly higher participation of women. It also indicates that both women and men actively engage in entrepreneurial activities and contribute significantly to SME operations with in the municipality.

Table 4: Education level of respondents**Education**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Certificate	24	15.8	15.8	15.8
	Degree	29	19.1	19.1	34.9
	Diploma	37	24.3	24.3	59.2
	Masters	20	13.2	13.2	72.4
	Primary	42	27.6	27.6	100.0
	Total	152	100.0	100.0	

The largest number of respondents had attained primary education (27.6%), followed by diploma holders (24.3%), degree holders (19.1%), certificate holders (15.8%) and masters holders (13.2%) which indicates that SME owners and managers in Kabale municipality possess varying

levels of education attainment. The presence of respondents with at least a diploma suggests that a substantial proportion of SME operators have the educational capacity to understand and implement risk management practices that can enhance financial performance.

Table 5: Reliability of data

Variable	Number of Items	Cronbach's Alpha
Risk Identification (RI)	8	0.834
Risk Assessment (RA)	8	0.858
Financial Performance (FP)	9	0.830

The Cronbach's Alpha values obtained for Risk identification ($\alpha=0.834$), Risk Assessment ($\alpha=0.858$), and Financial Performance ($\alpha=0.830$) demonstrate that the research instrument possessed satisfactory reliability. According to commonly accepted standards, reliability

coefficients above 0.70 indicate acceptable reliability, while values above 0.80 indicate good reliability. Consequently, the study instrument was considered sufficiently reliable for measuring the constructs under investigation, thereby enhancing the credibility and accuracy of study findings.

Table 2: Descriptive statistics**Descriptive Statistics**

	N	Minimum	Maximum	Mean	Std. Deviation
RI	152	2.63	5.00	3.8536	.57504
RA	152	2.25	4.88	3.6521	.55974
FP	152	2.44	4.78	3.7339	.48863
Valid N (listwise)	152				

All variables have means above 3.5 indicating generally positive levels of risk management practices and financial performance among SMEs. Risk Identification with 3.85 is the strongest practiced dimension, followed by Financial Performance (3.73) and then Risk Assessment (3.65).

This suggests that SMEs are better at identifying risks than assessing them systematically, and this risk management capacity is associated with moderate financial outcomes. The relatively low standard deviations across variables

indicate homogeneity in responses, meaning that SMEs in Kabale Municipality have fairly similar practices and performance levels.

These findings are consistent with Hudakova et al. (2023), who reported that SMEs that place greater emphasis on identifying operational and financial risks are likely to strengthen their overall risk management capability. This is similar to Mthiyane et al. (2022) who observed that although SMEs in developing countries often face resource constraints, many are able to implement basic risk identification practices more effectively than risk

assessment procedures. This agreement, therefore, suggests that SMEs in Kabale Municipality exhibit similar

patterns of risk management observed in other developing countries.

Table 7: Correlation coefficients

Correlations

		RI	RA	FP
RI	Pearson Correlation	1	.439**	.810**
	Sig. (2-tailed)		.000	.000
	N	152	152	152
RA	Pearson Correlation	.439**	1	.737**
	Sig. (2-tailed)	.000		.000
	N	152	152	152
FP	Pearson Correlation	.810**	.737**	1
	Sig. (2-tailed)	.000	.000	
	N	152	152	152

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

Pearson correlation analysis was conducted to examine the relationship between Risk Management dimensions and Financial Performance among Small and Medium Enterprises in Kabale Municipality as presented in Table 7.

The findings revealed a positive and statistically significant relationship between Risk Identification and Financial Performance ($r = 0.810$, $p < 0.01$). This indicates that SMEs with stronger risk identification practices tend to exhibit higher levels of Financial Performance. The relationship was found to be very strong, suggesting that effective identification of potential risks is associated with improved profitability, liquidity and market share.

The results further showed a positive and statistically significant relationship between Risk Assessment and Financial Performance ($r = 0.737$, $p < 0.01$). This implies that SMEs that regularly assess and evaluate risks are more likely to achieve better financial performance. The relationship was strong, showing that risk assessment contributes substantially to profitability, liquidity and market share.

In addition, Risk Identification was positively and significantly related to Risk Assessment ($r = 0.439$, $p < 0.01$) suggesting that enterprises that effectively identify risks are also likely to undertake comprehensive risk assessment activities.

Since all significance values were less than 0.01, the study concludes that Risk Identification and Risk Assessment are significantly associated with Financial Performance among SMEs in Kabale Municipality

Among the risk management practices investigated, risk identification appears to play a more influential role in enhancing the financial performance of SMEs. This may be because timely identification of potential business risks enables managers to take preventive measures before risks materialize into financial losses, thereby improving profitability, liquidity and market competitiveness.

The positive relationship between risk identification and financial performance agrees with Rehman and Anwar (2019), who found that structured risk identification significantly enhances SME performance through improved decision-making and reduced operational losses. Likewise, Adeoye et al. (2024) reported that SMEs that regularly identify business risks experience higher profitability and business growth than those relying on reactive approaches to risk management. Similarly, the positive association between risk assessment and financial performance supports the findings of Ghazieh and Chebana (2021) and Muriithi and Muigai (2024), who concluded that synthetic risk assessment improves organizational performance through better resource allocation and planning.

Multiple Linear Regression

Regression Assumption Tests

a) Normality test

Normality was assessed to determine whether the data approximated a normal distribution, which is a key assumption for parametric statistical analyses such as regression. This was examined using the normal Q-Q plot of standardized values, where observed data points are compared against a theoretical normal distribution line. A

data set is considered approximately normal when the points closely follow the diagonal reference line.

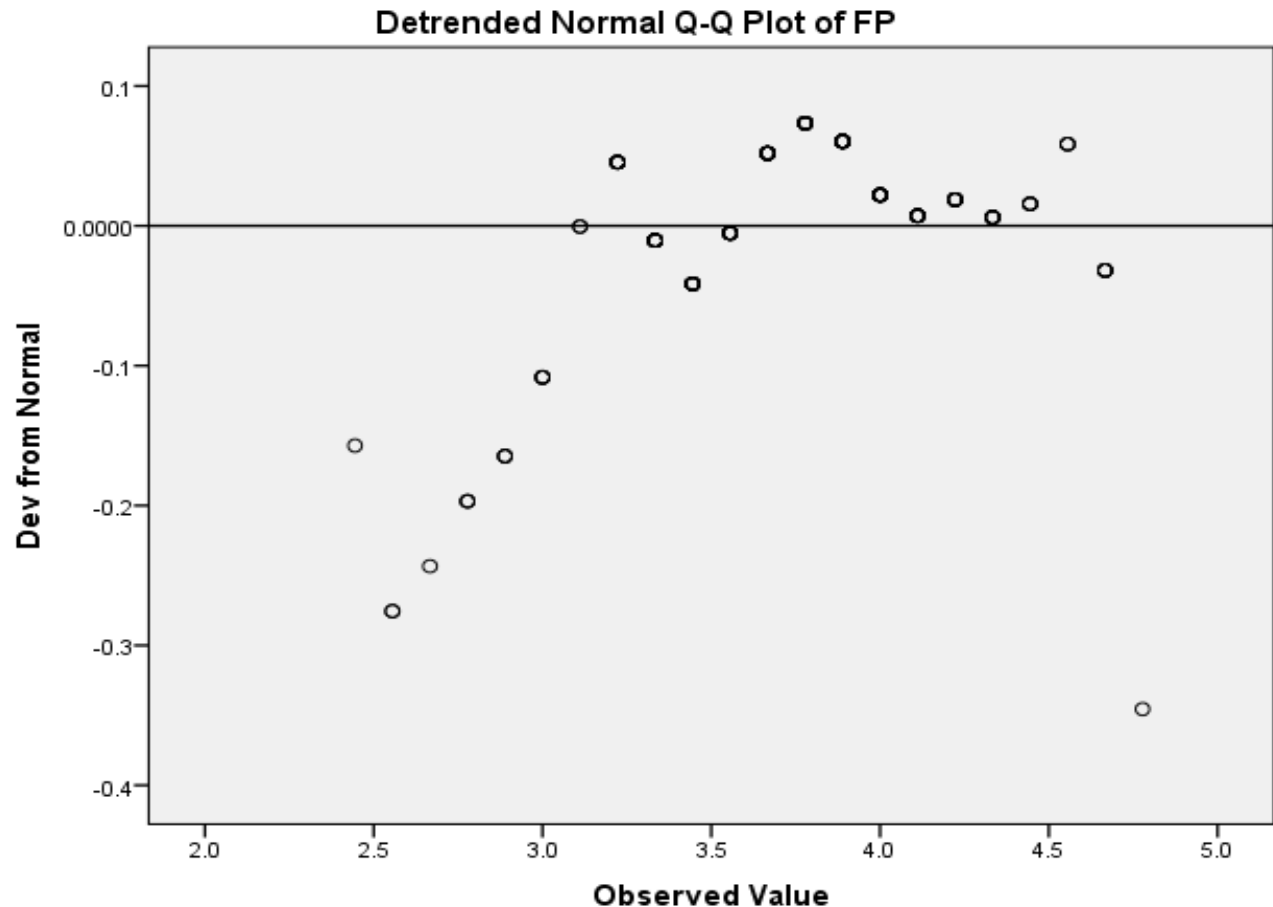


Figure 1: Graph showing normal Q-Q plot of standardized values

The normal Q-Q plot of Financial Performance shows that the observed data points closely follow the diagonal reference line. This indicates that the distribution of Financial Performance is approximately normal. Although there is a slight deviation at the super extreme values, the deviation is minimal and does not significantly affect the overall pattern of normality. Therefore, the data do not violate the normality assumption.

Since the points closely align with the reference line, the assumption of normality is satisfied and the dataset is

considered suitable for further parametric analysis, including regression analysis

b) Linearity test

Figure 2 shows a random scatter of standardized residuals around zero with no obvious pattern of funnel effect. This indicates that the assumptions of linearity and homoscedasticity were satisfied, suggesting that the regression model was appropriate for analyzing the relationship between risk management and financial performance among SMEs in Kabale Municipality.

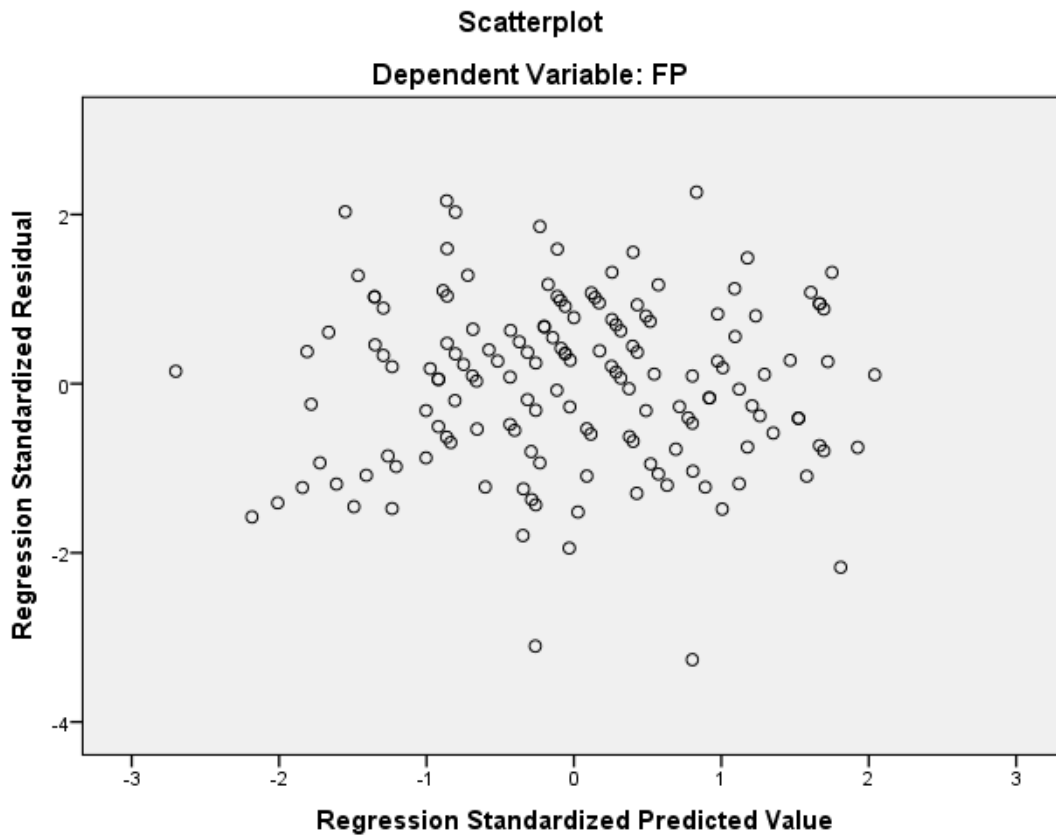


Figure 1: A scatterplot of standardized residuals against standardized predicted values

Before conducting regression analysis, the assumptions of linearity and homoscedasticity were examined using a scatterplot of standardized residuals against standardized predicted values. The residuals were randomly distributed around zero without exhibiting a discernible pattern, indicating that the relationship between the study variables was linear and that the variance of the error terms was relatively constant across levels of predicted values. Since

there no extreme outliers were observed, as the standardized residuals largely fell within the acceptable range, the assumptions of linearity and homoscedasticity were met, justifying the use of multiple regression analysis in examining the influence of Risk Management practices on the Financial Performance of SMEs in Kabale Municipality, Uganda

Table 8: Model Summary of the Effect of Risk Identification and Risk Assessment on Financial Performance

Model Summary

Model	R	R Square	Adjusted Square	RStd. Error of the Estimate	ofChange Statistics				
					R Change	SquareF Change	df1	df2	Sig. F Change
1	.915 ^a	.837	.835	.19873	.837	381.929	2	149	.000

a. Predictors: (Constant), RA, RI

A multiple regression analysis was conducted to determine the effect of Risk Identification and Risk Assessment on the Financial Performance of SMEs in Kabale Municipality. The results in Table 8 indicate a

positive relationship between the independent variables and financial performance ($R = 0.915$).

The coefficient of determination ($R^2 = 0.837$) shows that Risk Identification and Risk Assessment jointly explain

83.7% of the variation in Financial Performance among SMEs. This implies that 16.3% of the variation in Financial Performance is explained by other factors not included in the model. The adjusted R^2 value of 0.835 further confirms that the model has substantial explanatory power and is suitable for predicting Financial Performance.

The findings suggest that effective risk management practices play a critical role in enhancing the profitability,

liquidity, and market share of SMEs in Kabale Municipality. This finding agrees with Sajid et al. (2023) who found that enterprise risk management practices explain a substantial proportion of variations in organizational financial performance. Likewise, Adam et al. (2023) reported that organizations implementing comprehensive risk management systems experience significant improvements in financial outcomes as a result of better preparedness against uncertainties.

Table 9: Analysis of Variance

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	30.169	2	15.084	381.929	.000 ^b
	Residual	5.885	149	.039		
	Total	36.053	151			

a. Dependent Variable: FP

b. Predictors: (Constant), RA, RI

ANOVA results show that the regression model is statistically significant ($F = 381.929$, $p < 0.001$). This implies that Risk Identification and Risk Assessment jointly have a significant effect on Financial Performance among SMEs in Kabale Municipality.

Since the p-value ($p = 0.000$) is less than the conventional significance level of 0.05;

The null hypothesis (H_{01}), “Risk identification has no significant effect on the financial performance of small

and medium enterprises in Kabale Municipality.” is rejected, and the regression model provides sufficient evidence that Risk Identification significantly predict Financial Performance among SMEs.

The null hypothesis (H_{02}), “Risk assessment has no significant effect on the financial performance of small and medium enterprises in Kabale Municipality” is also rejected, and the regression model provides sufficient evidence that Risk Assessment significantly predict Financial Performance among SMEs

Table 10: Regression coefficients

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.254	.127		1.997	.048		
	RI	.512	.031	.603	16.365	.000	.807	1.239
	RA	.412	.032	.472	12.818	.000	.807	1.239

a. Dependent Variable: FP

Risk identification was found to have a positive and significant influence on financial performance ($\beta = 0.603$, $t = 16.365$, $p < 0.001$). This implies that an improvement in Risk Identification practices is associated with an increase in Financial Performance. Specifically, a one unit

increase in Risk Identification results into a 0.512-unit increase in Financial Performance, holding other factors constant.

Similarly, Risk Assessment was found to have a positive and significant effect on financial Performance ($\beta = 0.472$,

$t = 12.818$, $p < 0.001$) suggesting that effective Risk Assessment contributes significantly to improvements in profitability, liquidity and market share. A one unit increase in Risk Assessment leads to a 0.412-unit increase in Financial Performance, assuming other variables remain constant.

The standardized beta coefficients show that Risk Identification ($\beta = 0.603$) has a stronger influence on Financial Performance than Risk Assessment ($\beta = 0.472$). This suggests that, among the risk management dimensions examined, Risk Identification is the strongest predictor of Financial Performance among SMEs in Kabale Municipality which clearly agrees with Adeoye et al. (2024), who found that proactive identification of business risks significantly enhances profitability and organizational survival among SMEs in Nigeria. Similarly, Annah (2022) established that Ugandan enterprises with proactive risk identification systems

recorded more stable cash flows and sustainable profitability. This suggests that early identification of risks enables businesses to implement preventive measures before risks develop into significant financial losses.

The positive effect of risk assessment on financial performance is also consistent with Ghazieh and Chebana (2021), who found that organizations employing formal risk assessment systems achieved superior financial performance due to improved strategic decision-making. Likewise, Amponsah et al. (2024) reported that SMEs conducting regular risk assessments were better able to manage liquidity challenges and improve profitability. However, the stronger influence of risk identification observed in the present study suggests that for SMEs operating in Kabale Municipality, recognizing risks at an early stage may be more critical than evaluating risks after they have already been identified.

The resulting regression model is expressed as;

$$FP = 0.254 + 0.512(RI) + 0.412(RA)$$

The equation above indicates that improvements in Risk Identification and Risk Assessment leads to corresponding improvements in Financial Performance.

Table 11: Collinearity diagnostics

Collinearity Diagnostics^a

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions		
				(Constant)	RI	RA
1	1	2.977	1.000	.00	.00	.00
	2	.013	15.415	.03	.53	.87
	3	.011	16.696	.97	.47	.12

a. Dependent Variable: FP

Collinearity diagnostics were performed to assess the presence of multicollinearity among the independent variables. The tolerance values for Risk Identification and Risk Assessment were 0.807, which was above the recommended threshold of 0.10. Similarly, the variance

inflation factor (VIF) value was 1.239, which was well below the critical value of 10. These results indicate that multicollinearity was not a concern in the model and that both variables could be included simultaneously in the regression analysis without affecting the reliability of the estimates.

Table 3: Hypothesis testing

Hypothesis	Relationship	β	p-value	Decision
H ₀₁	Risk Identification → Financial Performance	0.603	0.000	Reject H01
H ₀₂	Risk Assessment → Financial Performance	0.472	0.000	Reject H02

H₀₁: Effect of Risk Identification on Financial Performance

Results obtained indicate that risk identification has a positive and statistically significant effect on financial performance ($\beta = 0.603$, $p < 0.05$). Therefore, the null hypothesis (**H₀₁**), which stated that risk identification has no significant effect on the financial performance of SMEs in Kabale Municipality, is rejected.

This finding is consistent with Nkundabanyanga et al. (2020), who found that proactive risk identification positively influences organizational performance by enabling firms to anticipate and respond to uncertainties. It also supports the findings of Rehman and Anwar (2019), who concluded that structured risk identification contributes significantly to improved SME performance.

H₀₂: Effect of Risk Assessment on Financial Performance

Results obtained indicate that risk identification has a positive and statistically significant effect on financial performance ($\beta = 0.472$, $p < 0.05$). Therefore, the null hypothesis (**H₀₂**), which stated that risk assessment has no significant effect on the financial performance of SMEs in Kabale Municipality, is rejected.

Therefore, Risk Identification had a stronger influence on financial performance than Risk Assessment among SMEs in Kabale Municipality because it had a larger Standardized beta coefficient i.e. $\beta = 0.603$ for RI means risk identification is the stronger predictor of financial performance whereas $\beta = 0.472$ for RA means risk assessment also contributes significantly, but its effect is weaker than that of risk identification.

The finding also agrees with Adam et al. (2023) and Ghazieh and Chebana (2021), who found that organizations conducting systematic risk assessments achieve better financial performance due to improved planning, efficient resource allocation, and enhanced preparedness for uncertainties.

5. Conclusion and Recommendation

5.1 Conclusion

The study examined the effect of risk management on the financial performance of small and medium enterprises (SMEs) in Kabale Municipality, Uganda. The findings revealed that both risk identification and risk assessment have a positive and significant effect on financial performance. SMEs that effectively identify and assess risks are more likely to improve their profitability, liquidity, and market share. Risk identification was found to have a stronger influence on financial performance than risk assessment. Therefore, the study concluded that effective risk management is an important factor in improving the financial performance and long-term sustainability of SMEs in Kabale Municipality.

5.2 Recommendations

According to the findings of this study, the following recommendations are made;

1. SME owners and managers should establish regular risk identification practices to detect business risks early and take appropriate preventive measures before they affect business performance.
2. SMEs should conduct regular risk assessments to evaluate the likelihood and impact of identified risks, enabling informed decisions to improve profitability, liquidity, and market share.
3. Government agencies and business development organizations should organize regular training and capacity-building programs to equip SME owners and managers with practical risk management skills.
4. Financial institutions should encourage SMEs to adopt formal risk management practices by providing advisory services and financial products that support effective risk management.
5. Future researchers should examine other risk management practices, such as monitoring, risk control, and risk response, and assess their influence on the financial performance of SMEs in other SMEs or sectors.

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