Influence of Risk Assessment on Performance of SME Projects in Machakos County, Kenya

Peninnah Mbithe Mbuva, PhD Candidate
Prof. Charles, M. Rambo
School of Open and Distance Learning, University of Nairobi, Kenya
Prof. Timothy Oketch
Chandaria School of Business,
United States International University-Africa, Kenya

Doi:10.19044/esj.2018.v14n19p181 URL:http://dx.doi.org/10.19044/esj.2018.v14n19p181

Abstract

Small and medium enterprise projects play a major role in most economies in economic growth and development by creating employment opportunities to many people and as a source of technological innovation to create new products and eradication of poverty. Although their contribution in economic growth is indisputable, provocative argument on factors influencing their performance has remained unsolved to date. The purpose of this study was to determine the extent to which risk assessment influence performance of SME projects in Machakos County. The study applied pragmatism philosophical approach and descriptive survey research design. It tested the hypothesis at 95% confidence level which stated that risk assessment does not significantly influence performance of small and medium enterprise projects in Machakos County. The study used multiple regressions model against a sample size of 265 selected from a population of 5311 small and medium enterprise projects in Machakos County using stratified and convenience sampling approach as guided by the Yamane (1967) formula. A structured questionnaire was used to collect data whereby drop and pick approach was used. The study finding revealed that majority of the risk assessment components were positively supported by the respondents and their response mean was above 3.50, composite mean. Inferential statistics depicted that risk identification, prioritization and managing change significantly influenced financial performance with β=.102(p=0.016) and β=.092(p=0.012) respectively whereas organizational goals and objectives had insignificant influence with β=.031(p=0.366). Further, risk identification and prioritization significantly influenced non-financial performance with β=.104(p=0.017) whereas organizational goals and objectives and managing change had insignificant influence with β=.020(p=0.574) and β=.054(p=0.184)

respectively. Management of SME projects should ensure the significant contribution by risk identification and prioritization towards performance in general is upheld with further endeavors to improve on the risk assessment components which have insignificant impact on performance. Further investigation is necessary to establish cause of risk assessment components influence disparities on both financial and non-financial performance perspectives.

Keywords; Small and Medium Enterprise Projects Internal Control System Risk Assessment Performance of SME Projects

Introduction

Project undertaken by enterprises of small and medium nature have employees between 10 and 250 (ILO report, 1972). Small and medium enterprise projects in both emerging and the developed economies such as United States of America and Sweden are characterized by their creation of employment to the citizens and providing a platform for technological advancement in innovation and new markets (Wolff and Pett, 2006). As a result, these firms impact the economic growth and development through positive change in gross domestic product. In overall, these firms play the role of eradication of poverty in most local economies in the world. For instance, in Kenya it a major step towards the realization of Kenya Vision 2030 through job creation, adoption of appropriate technology in SME project development whereby both skilled and unskilled labor is utilized, capital formation and wealth creation is made possible, hence increasing revenues and promotion of gender empowerment (Government of Kenya, 2007). Hence, almost 10% to 20% of the changes observed in Gross Domestic Product (GDP) in Kenya are associated with small and medium projects. According to Economic Survey (2009) report, these projects have absorbed about ¾of the workforce connected to SME project performance. This implies a notable role of this subsector.

The extent to which an SME project perform is determined by many factors such as internal control system, which is a hybrid of the five key components namely; control activities, information system, control environment, risk assessment and monitoring. Risk assessment refers to the evaluation of factors that may have an inherent possibility of adversely affecting the attainment of the SME project objectives. Risk assessment is estimated based on whether organizational goals and objectives are achieved, risk identification and prioritization is carried out 0n whether there are aspects of managing change. The risk assessment process enables the organization to actively analyze all the relevant risk facing the SME project (Karagiorgos, Drogalas, Gotzamanis and Tampakoudis, 2009). Within most SME projects,

the management is mandated with the responsibility of ensuring that only acceptable risk faces the project. It is the management responsibility to design internal control system that will ensure efficiency and effectiveness is attained. Furthermore the internal control system ensures reliability on the financial reporting of the institution in line with regulatory and compliance requirements. This is ensured through periodic review and evaluation of the control systems.

Adjustment of firm risk assessment techniques is important when key changes occur in the immediate environment or changes in business conditions especially when new products enter the market which results to most SME projects suffering risk of major losses. According to Karagiorgos, *et al.* (2009), majority of those SME projects which fail to adjust their convectional internal control system to suit the changes in their business environment such as entrance of new complex products as compared to previously simple ones, result to losses. The facet of risk assessment is key in guiding the management of SME projects to rely on the operations and processes of the organization.

Statement of the Problem

Small medium enterprise projects are key drivers of economic growth and poverty eradication in most of the economies in the world. In Sweden, almost 100% of all businesses are SMEs. More specifically, in Sweden, in the manufacturing sector 93.8% are SME projects. In Thailand, 80% to 99% in all sectors are SMEs formations. In Jordan, manufacturing sector records 98% SME projects. In the context of emerging economies such as Kenya, 96% of established firms are SME projects (Economic Survey, 2009). This implies that up to date, SME projects are the major contributors to economic growth all over the world and their accomplishment is critical for their persistence. Their survival is determined by many factors whereby some are internal such as internal control system which points the right direction, monitors and measures the SME project resources available. Even though it is commonly known that both large and small and medium enterprise projects taps several benefits from internal control system, this function is generally lacking or is not strong enough in most of the SME projects (Wai, 2008). For example only 45% of SME projects in Vhembe District, South Africa had established effective internal control system (Oseifuah and Gyekye, 2013). In USA, it was established that 30% SME projects failed due to establishment of less effective ICS. Also according to Anduuru (2005), external auditors find it difficult to form an audit opinion by relying on a weak internal control system of SME project. This implies that, each component of ICS is significant in achievement of the SME project objectives such as wealth maximization and enhancement of productivity. Therefore, with full functioning of all the parts of ICS, it is assumed that the ICS is effective with sound operational control environment.

According to systems theory of Bertalanffy (1968), risk assessment has to work in harmony with the other four ICS components to improve performance of SME projects and anything short of this will result to a catastrophe. Risk assessment is an arm of internal control system and evaluates factors that may have an inherent possibility of affecting the attainment of the SME project objectives such as performance in a declining manner. The risk assessment process enables the organization to actively analyze all the relevant risk facing the SME project so that the management takes the right course of action to avoid losses. This study, therefore, sought to establish the influence of risk assessment on performance of SME projects in Machakos County, Kenya.

Purpose of the Study

The purpose of this study was to establish the extent to which risk assessment influence performance of small and medium enterprises projects in Machakos County, Kenya.

Objective of the Study

The study was guided by the following research objective

i) To establish the extent to which risk assessment influence performance of small and medium enterprises' projects in Machakos County.

Research question

The study answered the following research question:

i) To what extent does risk assessment influence performance of small and medium enterprise projects in Machakos County?

Research Hypotheses

The study tested the following null hypotheses:

H_0: Risk assessment does not significantly influence performance of small and medium enterprise projects in Machakos County.

Conceptual Framework

The relationship between the risk assessment and performance of SME projects in Machakos County is diagrammatically represented by the conceptual framework as shown

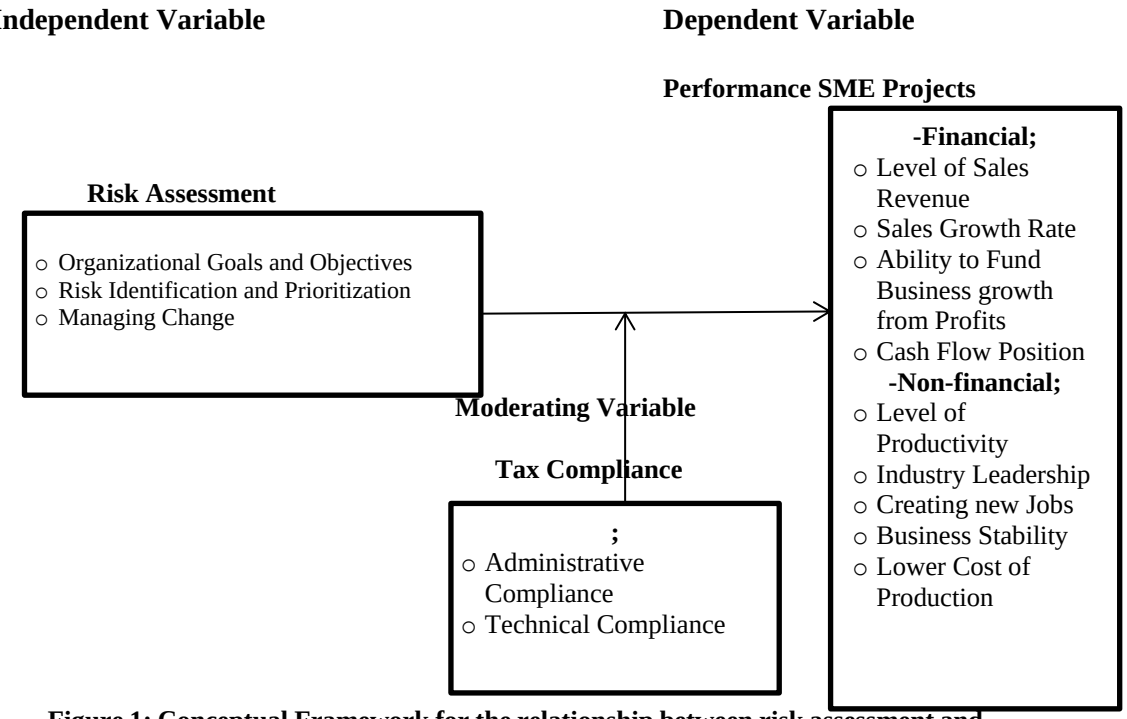

Figure 1: Conceptual Framework for the relationship between risk assessment and Performance of SME Projects

Literature Review

Most small and medium enterprise endurance is influenced by both internal and external forces. The internal factors include risk assessment which is one of the key aspects of internal control system which most of these firms find it difficult to establish (Frazer, 2012). Risk assessment refers to the evaluation of factors that may have an inherent possibility of affecting the attainment of the SME project objectives. The risk assessment process enables the organization to actively analyze all the relevant risk facing the SME project (Karagiorgos, *et al.* 2009). Within most SME projects, the management is mandated with the responsibility of ensuring that only acceptable risk faces the project. It is the management's responsibility to design risk assessment function that will ensure efficiency and effectiveness is attained. Furthermore the internal control system ensures reliability on the financial reporting of the institution in line with regulatory and compliance requirements. This is ensured through periodic review and evaluation of the control systems.

Adjustment of firm risk assessment techniques is important when key changes occur in the immediate environment or changes in business conditions especially when new products enter the market which results to most SME projects suffering risk of major losses. According to Karagiorgos, *et al.* (2009), majority of those SME projects which fail to adjust their convectional

risk assessment function to suit the changes in their business environment such as entrance of new complex products as compared to previously simple ones, result to losses. The facet of risk assessment is key in guiding the management of SME projects to rely on the operations and processes of the organization.

Stoner (2003) defined performance of SME project as the capability of maintaining effectiveness in operations, generation of profits and upholding positive changes of growth of the SME and continuous reaction to opportunities and threats in the immediate environment. Dissimilar approaches are used as proxy for the different dimensions of performance (Neely, 1999). For instance, growth rate of sales, cash flows, returns associated to investment in common stock, profit margin in gross terms, profit margin in net terms, coefficient of net profits to revenue, returns to total investment ratio and the ability to facilitate project growth are measures of financial facet (Covin, 1991). Whereas, level of productivity, industry leadership ranking, rate of creating new jobs, level of business stability, rate of profitability and level of cost of production, the extent of involvement in community development and growth rate of business are non-financial proxies (Blackman, 2003).

The risk assessment function is important for it focuses on identification of internal and external sources of risks that could have detrimental implications on the operational effectiveness and efficiency of reporting performance matters and degree to which laws and regulations could be (Inusah and Abdulai, 2015). However, SME projects are faced by many challenges such as time pressure and access to suitable guidance which make such firms operate without such a function (O'Hara, Dickety and Weyman, 2005).

Studies for both global and emerging economies were dominated by conceptual associations that exist for risk management and performance of SME projects. For instance, Roque and de Carvalho (2013) sought to investigate the impression of management associated risks on Brazillian Vendor company performance. The main purpose of the study was to investigate the extent to which risk assessment function impacted on performance of the IT projects and in addition, sought to establish the effect levels of diffusion of assessment of risk on Brazil Vendor company projects. 415 projects were selected from diverse IT sectors in Brazil to represent the study sample using survey methodology.

It was revealed that a direct connection exist between risk assessment and planning activities and performance of projects. The justification of this research finding was that the workers in the project were able to trace sources of risks and take precautions in good time. This action would mitigate such risks hence avoid misappropriation of project resources leading to performance enhancement. It was revealed that identification of uncertainty

circumstances during the lifespan of the project, the utilization of the risk management skills and conceptualization of the surrounding environment are key triumph factors which resulted to major positive contribution to project survival through improved performance. The relationship was also found to be statistically significant with r= 0.002 and P<0.05 and ß coefficient of 0.413.

To determine whether strategies associated to risk assessment would influence performance of SME projects, Kinyua, Ogollah and Mburu (2015) used data of firms affiliated to information communication technology sector. The research design utilized was descriptive and the target population was 48 ICT small and medium enterprises located in Nairobi, Kenya. An appropriate sample was selected from the population using random sampling methodology. Structured questionnaires were used to collect primary data from sampled employees working in the ICT SMEs which entailed the process of drop and pick. To carry out the analysis, the data was further processed through summarizing, coding, and tabulating the raw information. To test the set hypothesis, a multiple regression methodology was used.

Further, Kinyua, Ogollah and Mburu (2015) sought to determine whether strategies associated to risk assessment would influence performance of SME projects which were affiliated to information communication technology sector. It was exposed that project risk assessment directly influenced project performance in a statistically significant way with *r*=0.883, t=2.93, P=0.03 which was less than the critical value of 0.05. In addition, it was concluded that the activity of project risk identification had a direct link with project performance of those SMEs operating in ICT sector which was significant with *r*= 0.717, and t was 2.803 whilst p= was 0.04 which was less than 0.05.

It was concluded in the aforementioned study that risk management practice in ICT projects takes a Centre stage hence it is a pivotal guide to attain process victory. It was noted that the management of such firms applied risk management skills to maximize performance. This was evident by SME firms which showed that in their daily operations, efficient and effective risk management practices was a common affair and led to increased marginal rate to save, increased productivity, high chances of success of newly initiated projects and well informed decision making processes.

The studies by Roque and de Carvalho (2013) aimed at single sector SME projects in ICT and how risk assessment influence performance. These studies delineated risk assessment and ICS components hence resulted to misrepresentative outcome on performance. This study considered SME projects in diverse sectors and used multiple regressions to determine the influence of risk assessment on financial and non-financial performance of SME projects. The studies by Kinyua, Ogollah and Mburu (2015) showed a positive relationship between risk assessment and performance of SME

projects which was contrary to Abeyrathna and Kalainathan (2016) study finding.

In the study of Abeyrathna and Kalainathan (2016) they cross examined the extent to which financial risk and quality of financial risk management aspects influenced the performance of SMEs located in Anuradhapura district. On average, there were about 5,000 registered SMEs in the aforementioned district under divisional secretarial office and chamber of commerce branch. From a population size of 5,000, 30 SMEs were selected by using purposive sampling method. The explanatory variables were, insolvency risk, capital structure risk, liquidity risk and quality of financial risk management whereas response variable was performance of SMEs. The secondary data was collected from financial statements. Financial risk scores were computed using the secondary data and on the other hand qualitative data was collected using structured questionnaire so as to assess quality of financial risk management. Correlation and regression analysis was performed to determine the interrelationships between variables of concern and the degree of significance of the relationship variables respectively.

The research outcome of Abeyrathna and Kalainathan (2016) exposed that financial risk management and performance of SMEs had no significant association. The study ignored the two dimensions of performance, namely; financial and non-financial perspective. The key focus of this study was then to evaluate the connection between risk assessment which is a component of ICS and performance of SME projects whereby the dependent variable (performance) was in two dimensions, that is financial and non-financial perspective.

Theoretical Framework

The section highlights in details the theoretical foundation that supports the conceptual framework on the link between risk assessment and performance of small and medium enterprises.

The Systems Theory

The hypothetical argument of internal control system is that it is an integral perspective of components working in harmony to achieve a common goal. Hence a system is assumed to be a whole object (Bertalanffy, 1968). This concept of system was developed by several scholars, that is, Ludwig von Bertalanffy, William Ross and Ashby between 1940 and 1970s. The idea was borrowed from science oriented disciplines such as Physics, Biology and Engineering. Later these science principles were extended to business and psychological affiliated subjects such as Organizational theory, Management, Psychotherapy and Economics (Weinberg, 1975).

A system is a combination of interlinked and mutually dependent parts that work together for a common purpose. Those parts are also referred to as sub-systems and their intertwining makes them work together in harmony, otherwise disruption on one of them such as risk assessment lead to total collapsing of the whole system. In the same vein, an organization is placed in the class of a system which is complex and it is broken into smaller units known as sub-systems which represent in an organizational structure, the organizational units, divisions, departments or sessions which require another system of controls to guide its functions. The broad classifications of a system are open and closed systems. The closed system does not accept matter from the outside environment and also does not equally donate its matter to the surrounding. On the other hand, open system is open ended and allows inputs from outside environment and also releases matters to the environment around it (Bertalanffy, 1968).

The five components of internal control system are established by the management to play a functional role of detecting and preventing anomaly activities. These objectives are achievable through adoption of control practices, separation of duties and ensuring continuous flow of information (Grieves, 2000). The ICS is a representation of the sub system of the whole system which is the SME project and aids in achieving the overall goal of the organization. The focus of this study was to evaluate how the ICS components work towards improved performance of the SME project. The hypothetical argument that the five components significantly influence performance of SME projects was a thematic concern of this study. Therefore the study questioned the validity of interrelationship of system components and performance of SME projects.

Research Methodology

The study used descriptive cross-sectional survey research design. A sample size of 265 SMEs were drawn from a target population of 5311 operating in Machakos County using Yamane (1967) formula (Yamane, 1967). The study used both stratified and convenience sampling methodology. Structured questionnaire were used to collect the data which was analyzed using both descriptive and inferential approaches. For the descriptive, the study used frequencies, percentages, mean and standard deviation whereas inferential statistics used were F, R^2 and t-test.

Questionnaire Return Rate

A sample size of 265 firms were selected and questionnaires distributed to the respondents who were owners, partners, managers or reliable employees through drop and pick methodology. Use of bank managers/or SME bank officials dealing directly with the SME clients fostered the

efficiency of data collection for most banks use the "know your customer policy". Hence the filling of the questionnaires in the presence of the bank manager/official was more reliable. According to Babbie (2003), a questionnaire can be relied upon for analysis purposes if the return rate is at least 50% and above up to 100% for such a response is assumed to be sufficient. Also a return rate of 60% was postulated to be good and 70% was assumed to be excellent for the same purpose. Chen (1996) posited that a lower non-response error was due to a corresponding large rate of return of the questionnaires.

The total number of questionnaires returned filled was 223 which translated to 84% return rate which was reasonably high and acceptable. This could be associated to the direct involvement of the bank officials where it was possible. Therefore, the implication of 84 percent rate in this study was an assurance of the appropriateness of data analysis. The results of questionnaire return rate are presented in Table 1.

Table 1: Questionnaire Return Rate

Response	**n.**	**%**
Filled Questionnaires	223	84%
Unfilled Questionnaires	42	16%
Total	**265**	**100%**

Demographic characteristics of SME Projects

To analyze the demographic characteristics of the SME projects, diverse criteria were relied upon which enabled the researcher to either accepts or rejects the potential respondents from participating in data collection. These classifications were, namely; ownership structure, type of sector the projects were operating in, distribution of employees and the number of years an SME project was in operation since its inception. Failure to meet the set thresholds resulted to disqualification. The demographic approach was paramount to the researcher for it introduced other aspects of the SME projects not captured in the main links between ICS and performance for comprehensive conclusions.

Ownership Structure of SME Projects

Classification of the SME projects based on ownership structure would help the researcher to assess the correlation between other factors not included in the conceptual framework model and performance of the SME projects. The personality involved in operating the SME project has success implications. The output of the ownership structure was as demonstrated in Table 2

Table 2: Ownership Structure of Small and Medium Enterprise Projects

Position in the organization	Frequency	Percent
Sole Owner	102	46%
Partner	44	20%
Manager	67	30%
Other	10	4%
Total	**223**	**100%**

The ownership arrangement of the firms that were targeted for data collection was analysed. The results as per Table 2 showed that 102(46%) of the respondents were sole owners of the company, 44(20%) were partners and 67(30%) were managers. Only 10 (4%) were other employees in the firm such as accountants. The 46% of operators of the SME projects were the majority and being the owners of these firms, the probability of recording high profitability levels through increased sales levels and sales growth rate was high. For they maximize on the revenue generation activities available hence they fully utilize the available firm resources. They are also characterized by being quick in decision making for they have no other persons they need to consult. Hence taps quickly profitable opportunities that come their way. This would positively contribute to increased performance of the SME projects.

The research finding portrayed that 44(20%) partners running the SME projects still indicated that the firms could be moderately performing well financially for partners may partly serve the interest of the other members. Whereas, the 30% of the respondents which were made up of managers could register high performance for there is a high chance of those managers to serve the interest of the owner of the business such as investing the firm resources in venture which benefit them. The category of 'others' was the lowest in representation and may not materially influence the performance of those SME projects.

Sector of Operation of SME Projects

The SME projects under study cut across various industries. This aspect was important to the researcher for firms in diverse sectors are faced by different business and social environment which can either favour or make the firm to go under. Most of the firms in the same industry have many aspects in common hence the researcher can identify cases of anomalies in performance for the expected outcomes are known. The industry categories where the small and medium enterprise projects were operating in are as summarized in Table 3

Table 3: Sector of operation

Sector/Industry of operation	Frequency	Percent
Service industry	112	50%
Merchandised products (Deals with already manufactured goods)	44	20%
Construction Industry	37	17%
Manufacturing Industry	30	14%
Total	**223**	**100%**

On cross examining the firms, half of them, 112 (50%) were from the service industry, 14% from the manufacturing industry, 17% from construction industry while 20% dealt with already manufactured products. The 50% category of SME projects operating in the service industry portrayed financial sustainability of such firms for this is the largest industry in Kenya. Such SME projects are characterized by increased productivity and high sales levels. The 20% category representing firms dealing with already manufactured products which also had a key role to play in the economy's positive changes although such firms having a smaller market share as compared to those firms in the service sub-sector.

Therefore there were still such firms having a chance of moderately contributing to performance. The other two groups of construction and manufacturing industry (representing 31% of all SME projects in Machakos County) portrayed low outputs in the economy. Such SMEs also have a positive contribution to productivity and general economic growth of a country.

Distribution of Employees per SME Project Categories

The number of workers engaged by an organization within a period of one year is an indicator of the extent to which the firm has grown as compared to other firms in the same industry. The larger the number of employees the firm has recruited in a certain period of time, the more the firm has grown in size holding other factors constant. The study focus was on the number of employees the firms engaged on average within a period of one year. The employment statistics are as shown in Table 4

Table 4: Distribution of Employees per SME Project Categories

Number of employees	n.	%
10-50 employees	148	66.4
51-250 employees	75	33.6
Total	**223**	**100.00**

As shown in Table 4, 66.4 % of the SMEs employed between 10 and 50 employees and 33.6 % employed more than 50 employees but not exceeding 250 in total. Based on the number of employees, the data revealed

that majority of the SMEs in the sample were small enterprises with prospects of growing beyond the classification of SME projects to big organization. This generally implied that those small firms had the potential of performing well in the future.

Number of Years the SME Projects has been in Operation

The study sought to establish the number of years an SME project was in operation. This is because the longer the small and medium enterprise has been in operation, the higher the probability of that firm being financially stable hence perpetuity is assured. Therefore, the researcher could assess the sustainability of those organizations. The study findings therefore were represented as presented in Table 5

Table 5: Number of Years the SME Projects has been in Operation

Years of operation	Frequency	Percent
5 years	23	10%
6-10 years	76	34%
11-15 years	57	26%
16-20 years	24	11%
21-25 years	7	3%
26 and above years	36	16%
Total	**223**	**100%**

As per Table 5, 23(10%) of SME projects were in operation for 5 years only, while 76(34%) out of the total 223 SME projects had been in operation for 6-10 years. Another 57(26%) were in operation for a period between 11-15 years. Another 24(11%) SME projects ranged between 16-20 years in operation, and then between 21-25 years was 7(3%) firms. The last category in terms of lifespan was the category of SMEs in operation for 26 years and above, which were 36(16%) of the total SME projects investigated.

In summary, the firms with a range of lifespan of between 6 to 25 years of operation was 74% (164 SME projects) which were the majority for all the industries covered which would imply that most firms were financially stable and chances of imminent failure were low. In addition, the probability of having a sound management team with reliable decision making systems was high for such firms which also increased chances of having a reliable internal control system in place. Similarly, the remaining category with more than 25 year of operation implied that those firms were at their peak. This implied that, such firms were stable financially.

Risk Assessment and Performance of Small and Medium Enterprise Projects

Estimation of risks associated with existing or new products is important for it helps the firm to reduce inherent potential losses. This study sought to assess the influence of risk assessment on performance of the SME projects in Machakos County. The respondents were asked to indicate their views on this matter on whether they agree or disagree using a likert scale of: Strongly Agree (SA) =5, Agree (A) =4, Neutral (N) =3, Disagree (D) =2 and Strongly Disagree (SD) =1. The outcome was as depicted by Table 6

Table 6: Risk Assessment and Performance of SME Projects

Risk Assessment Statements	n.		SA	A	N	D	SD	Mn	Std. Dev.
Organizational Goals and Objectives									
The firm unit is formally furnished with broad statement of the firm mission and core values	216	Frq.	88	106	17	2	3	4.27	0.76
		%	40.7	49.1	7.9	0.9	1.4		
Key and minor factors contributing to the achievement of the firm as stated in the mission statement are identified and resources assigned in the order of significance	215	Frq.	89	99	25	2	0	4.28	0.70
		%	41.4	46.0	11.7	0.9	0.00		
Reporting on finances, acceptance aspects and operations are linked to the correct and reasonable objectives	214	Frq.	71	119	20	3	1	2.46	0.70
		%	33.2	55.6	9.3	1.4	0.5		
The mission of the firm and objectives entails measuring benchmarks which are periodically appraised	213	Frq.	75	103	31	2	2	4.16	0.77
		%	35.2	48.4	14.6	0.9	0.9		
Workers of all categories are engaged in objective launching through their own reps	215	Frq.	73	105	30	3	4	4.12	0.83
		%	34.0	48.8	14.0	1.4	1.8		
The organization has detailed financial plan prepared reps from diverse units based on expected outcomes which aid mission courses of actions	215	Frq.	93	70	16	32	4	2.42	0.82
		%	43.3	32.6	7.4	14.9	1.8		
Risk Identification and Prioritization									
There is a system to check risky effects of economic, sponsor, learner, societal needs, laws or technology unfavorable changes on unit general objectives	217	Frq.	14	54	32	88	29	2.71	1.17
		%	6.5	24.9	14.6	40.6	13.4		
There is a system to check risky effects of newly hired staff, newly set up IT, manager responsibility changes or newly altered learning or study database on unit general objectives and strategies	216	Frq.	50	76	33	38	19	3.46	1.26
		%	23.1	35.2	15.3	17.6	8.8		
Level of risk has been categorized as either bearable or need action and the probability of it happening and the	220	Frq.	47	87	20	51	15	3.45	1.25
		%	21.4	39.5	9.1	23.2	6.8		

imminent fiscal effect or otherwise has been evaluated									
The firm has established a system to detect and correct errors to reduce risk exposure	211	Frq.	71	114	21	3	2	4.18	0.74
		%	33.7	54.0	10.0	1.4	0.9		
Managing Change									
For every significant positive change noticed, management encourages perpetual rewarding through contributions and views	216	Frq.	38	78	37	40	23	3.31	1.26
		%	17.6	36.1	17.2	18.5	10.6		
Machineries exist to control daily activities that impact on the general goals through identification and prioritization process	217	Frq.	44	65	58	32	18	3.39	1.20
		%	20.3	30.0	26.7	14.7	8.3		
Machineries exist for identification and response to changes in economic factors	214	Frq.	31	89	47	33	14	3.42	1.11
		%	14.5	41.6	22.0	15.4	6.5		
Machineries exist for identification and response to changes in rules and regulations (retention of members of societies in charge of rules or participation in varsity meetings)	216	Frq.	50	71	53	22	20	3.50	1.22
		%	23.1	32.9	24.5	10.2	9.3		
Machineries exist for identification and response to changes in technical knowhow and functionality needs of a department	213	Frq.	28	83	54	34	14	3.36	1.10
		%	13.1	39.0	25.4	16.0	6.5		
Composite mean and Standard Deviation								3.50	.90

Table 6 shows that 194(89.8%) of the respondents were in agreement that the firm unit was formally furnished with broad statement of the firm mission and core values. Another 5(2.3%) of respondents disagreed with that opinion and 17(7.9%) others were undecided. The 4.27 mean value generated was more than the composite mean score and the SD=0.76. This suggested that the continuous reminder of the firm mission and core values to workers enhanced departmental productivity leading to increased profitability of the SME projects in Machakos County. This also meant that when the management has enforced rehearsing of the vision statement, it becomes part of the worker's single-mindedness and therefore he or she will perform with an objective in mind to achieve which ends up giving better results.

Further, 188(87.4%) majority respondents agreed on the view that key and minor factors contributing to the achievement of the firm goals as stated in the mission statement were identified and resources assigned in the order of significance. 2(0.9%) respondents disagreed and 25(11.7%) were undecided. The 4.28 mean gotten was higher than the worked out composite score and SD was 0.70 respectively. This finding implied that the organizational goals and objectives in connection to key and minor factors were adhered to by the firms

which could have reduced risk levels the firm is exposed to hence leading to improved performance.

The aspect of reporting on finances, acceptance aspects and operations which are linked to the correct and reasonable objectives had a support of 190(88.8%) of the respondents who agreed while 4(1.9%) did not agree and the rest of 20(9.3%) were neutral. The 2.46 mean produced below the calculated composite mean score with a SD of 0.70. This results from descriptive statistics implied that less effective reporting on finances and acceptance and operational aspects were not linked to reasonable objectives hence this facet of risk assessment had an adverse influence on performance. The top management needs to improve this risk assessment dimension by introducing financial management reporting system that enhances accountability and transparency for this approach could improve acceptability. Also, managers need to review the practicality of the set objectives. The mission of the firm and objectives involving measuring benchmarks which are periodically appraised got positive opinion of 178(83.6%) respondents who agreed while 4(1.8%) disagreed and the rest of the 31(14.6%) were neutral. The 4.16 mean generated was more superior than the composite mean score of 3.50 and standard deviation arising from this finding was and 0.77 respectively. This suggested that the action of measuring and appraising benchmarks positively contributed to performance of SME projects in Machakos County.

Correspondingly, the issue of workers of all categories being engaged in objective launching through their own reps attracted support of 178(82.8%) respondents who agreed while those who disagreed were 7(3.2%) and the undecided respondents were 30(14%). The 4.12 mean value produced was more than the 3.50 value of the composite mean computed while the SD was 0.83. This showed that involvement of workers in establishing the firm objectives motivated them which further enhanced their productivity and by extension boosting performance. The issue of the organization having detailed financial plan prepared by reps from diverse firm units based on expected outcomes which aid mission courses of actions was supported by the majority respondents of 163(75.9%) who were in agreement while 36(16.7%) disagreed and 16(7.4%) were undecided. The 2.42 mean value was below the calculated composite mean while the SD linked to this statement was 0.82 respectively. The research outcome demonstrated that the detailed financial plans laid down by reps and the expected results were unattainable and hence negatively influenced the performance of SME projects in Machakos County. Efforts by top management are required to improve functionality of financial plans by either re-training of the workers' reps on how to develop attainable unit objectives which should be in congruence with the organization's goals.

In addition, this study sought to assess risk identification and prioritization processes of the SME projects. Existence of a system to check risky effects of events related to economic, sponsor, learner, societal needs, unfavorable changes in laws or technology on unit general objectives of the firm had 68(31.4%) of respondents who agreed while those who disagreed were 117(54%) and other 32(14.6%) were undecided. The 2.71 low mean value generated as compared to the composite score mean and the SD was 1.17 indicating that risk identification and prioritization had a negative influence to performance for the system used to check risky economic, sponsor, learner and social needs could be faulty hence lowering the effectiveness of risk identification as per Table 6.

Additionally, existence of a system to check risky effects of newly hired staff, newly set up IT, manager responsibility changes or newly altered learning or study database on unit general objectives and strategies, attracted a positive support of 126(58.3%) from respondents while other 57(26.4%) disagreed and 33(15.3%) were undecided. The mean was 3.46 and SD=1.26. This finding suggested that availability of a system responsible for checking risky effects of newly hired staff, newly set up IT, manager responsibility changes or newly altered learning did not effectively control those events as expected and this resulted to a decline in performance of SME projects in Machakos County. Further streamlining of the system is necessary to increase reliability of the risk reports generated.

The level of risk having been categorized as either bearable or need action and the probability of it happening and the imminent fiscal effect or otherwise being evaluated attracted a support of 134(60.9%) of respondents who agreed whereas 66(30%) disagreed and the rest of 20(9.1%) were neutral. The 3.45 mean gotten was lower although almost equaled the composite score and standard deviation derived at was 1.25 respectively. The outcome portrayed that categorization of risk levels on the basis of tolerance or action needed to mitigate the risk, negatively influenced performance of SME projects in Machakos County. Also the firm having established a system to detect and correct errors to reduce risk exposure, had 185(87.7%) support from respondents who agreed with this argument and other 5(2.3%) disagreed and the rest of 21(10%) were neutral. The 4.18 mean value was greater than the composite mean score while the standard deviation was 0.74 implying that detection and error rectification system were functional and prompted increased profitability of small and medium enterprise projects in Machakos County.

As it was in the previous matters discussed, this study further established that, respondents had diverse attitude on change management as well. For instance, the aspect of every significant positive change being noticed, management encouraging perpetual rewarding through contribution

of views had 116(53.7%) of respondents agreeing while 63(29.1%) disagreed and 37(17.2%) were doubtful. The 3.31 mean generated was less than the composite mean score while the SD=1.26. Hence the implication that results depicted a declining effect of performance of SME projects in Machakos County was caused by the rewarding system adopted by the management could have been unreasonable and undermined by the workers. Therefore there is need of the top management to improve on the way of motivating employees to improve on productivity.

On the other hand, the existence of machineries to control daily activities that impact on the general goals through identification and prioritization process was supported by 109(50.3%) and 50(23%) disagreed. The rest of 58(26.7%) were doubtful. The mean for the statement in question was 3.39 which were still below the realized composite score while the SD was 1.20.This implied that machineries used to control daily activities did not impact much on achieving the set goals which resulted to a decline in performance. To improve on the effectiveness of those machineries, the top management has to first review the specific mistakes committed in choosing those machineries already in use and develop a new system with functional checks.

The facet of machineries being in existence for identification and response to changes in economic factors had a support of 120(56.1%) of respondents who agreed and 47(21.9%) were in disagreement with that statement and the rest of 47(22%) were neutral. The 3.42 mean value produced through descriptive analysis was inferior as compared to the mean composite score and SD associated to this aspect was 1.11 respectively. This implied that the existing machinery for identification and reaction to changes was weak and did not positively impact on performance of SME projects in Machakos County. Further improvement of such machinery is needed to enhance performance efficiency. Also the existence of machineries for identification and response to changes in rules and regulations (retention of members of societies in charge of rules or participation in Varsity meetings) attracted a positive response of 121(56%) of those who agreed while 42(19.5%) disagreed and the rest of 53(24.5%) took no sides. In this case, both the generated mean and the composite mean were coincidentally equal (that is mean=3.50) and SD=1.22. This implied that the aforementioned machineries monitoring changes in rules and regulations were fairly effective and moderately influenced performance of SME projects in Machakos County.

Lastly, the dimension of having machineries for identification and response to changes in technical knowhow and functionality needs of a department had a support of 111(52.1%) of respondents who agreed while those who did not were 48(22.5%) with the rest of 54(25.4%) not being sure. The 3.36 mean value gotten was lower than the composite score while SD was

1.10. It showed that machineries used in identification of changes in technology contributed little to the departments which resulted to negative changes in performance of SME projects in Machakos County.

Hypothesis Testing

The affiliated hypothesis was expressed as follows; $4H_0$: *Risk Assessment does not significantly influence performance of small and medium enterprise projects in Machakos County.*

The prediction equation as in chapter three was; $PER = \beta_0 + \beta_1 OGO + \beta_2 RIP\ \beta_3 MC + \varepsilon$

Where;

PER is performance (which represents both financial and non-financial performance perspective)

OGO is organizational goals and objectives

RIP is risk identification and prioritization

MC is managing change

Regressions on the influence of risk assessment on both financial and non-financial performance facets were carried out to assess the degree of significance and the results were as per Table 7 and Table 8

Table 7: Risk Assessment and Financial Performance of SME Projects

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.286[a]	.082	.065	.64107

a. Predictors: (Constant), MC, OGO, RIP

ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	6.006	3	2.002	4.871	.003[b]
	Residual	67.399	164	.411		
	Total	73.405	167			

a. Dependent Variable: Financial Performance
b. Predictors: (Constant), MC, OGO, RIP

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.556	.206		17.236	.000
	OGO	.031	.034	.068	.907	.366
	RIP	.102	.040	.190	2.534	.012
	MC	.092	.038	.183	2.438	.016

a. Dependent Variable: Financial Performance

Table 8: Risk Assessment and Non-Financial Performance of SME Projects

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.221[a]	.049	.032	.68842

a. Predictors: (Constant), MC, OGO, RIP

ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	4.080	3	1.360	2.870	.038[b]
	Residual	79.618	168	.474		
	Total	83.698	171			

a. Dependent Variable: Non-Financial Performance
b. Predictors: (Constant), MC, OGO, RIP

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.696	.221		16.743	.000
	OGO	.020	.036	.042	.564	.574
	RIP	.104	.043	.182	2.410	.017
	MC	.054	.040	.101	1.335	.184

a. Dependent Variable: Non-Financial Performance

Study Findings

The research finding was for both financial and non-financial performance perspective. For financial case, the results showed that a unit change in organizational goals and objectives showed a statistically insignificant positive change of .031(p=.366) and .020 (p=.574) in both financial and non-financial performance in that order. Secondly, a unit variation in risk identification and prioritization brought about .102(p=0.012) and .104(p=0.017) statistically significant change in both financial and non-financial performance of SME projects in Machakos County correspondingly.

Third, a unit change in managing change variable led to a statistically significant positive change of .092 with (p=0.016) in financial performance and statistically insignificant positive change of .054 with (p=0.184) in non-financial performance. The management need to improve on those areas which are weak for they moderate the stronger aspects of risk management hence could render it ineffective in the long run. This can be achieved by further investigating both internal factors such as interrogating the reasons which caused some respondents remain undecided and others disagree with the opinions suggested. This should not be done at the expense of external factors which adversely affect some aspects of risk assessment which may be social or economical in nature.

The outcome of the multiple regression for the three measures of risk assessment against financial performance as the response variable was as presented in Table 7 which revealed that the F statistic for the model was 4.871(p=.003). The determined p value was lower as compared to critical value (.05) and this showed that the model was accurate in estimating the financial performance of SME projects in Machakos County for it was statistically significant at 95% confidence level. Test of best fit (R^2)was also performed which demonstrated that with the three independent measures of risk assessment (organizational goals and objectives, risk identification and prioritization and managing change) taken together explained 8.2% of variations in financial performance with the 91.8% of financial performance variations being associated with other factors which were not part of the model.

The β coefficients of the three independent variables were assessed and the outcome shown in Table 7. The implications were; one, a unit change in organizational goals and objectives showed a statistically insignificant positive change of .031(p=.366) in financial performance, two a unit variation in risk identification and prioritization brought about a significant .102(p<.05) change in financial performance which was positive. Third, a unit change in managing change variable led to a statistically significant positive change of .092 with (p<.05) in financial performance. The empirical model expressing the outcome is as follows;

FPER= 3.556 +.031OGO + .102RIP+.092MC

To determine the significance level of influence of risk assessment on performance of the SME projects in Machakos County, a further multiple regression analysis was undertaken focusing on the non-financial dimension as the dependent variable. The results were as demonstrated by Table 8

As per Table 8, the outcome of the multiple regression analysis for the three measures of risk assessment against non-financial performance as the dependent variable was that the F statistic for the model was 2.870(p=.038). The computed p value was smaller as compared to critical value of (.05) and this demonstrated that the model was proper in appraising the non-financial performance of SME projects in Machakos County for at 95% confidence level, it was statistically significant. Test of best fit (R^2)was also worked out and showed that with the three independent risk assessment proxies (organizational goals and objectives, identification and prioritization of risk and change management) taken together explained 4.9% of variations in non-financial performance with the 95.1% of non-financial performance variations being connected with other factors which were not captured by this model.

The β measurements of the three predictors were assessed. The outcome as per Table 8 demonstrated that a unit change in organizational goals and objectives showed a statistically insignificant positive change of .020

(p=.574) in non-financial performance. A unit adjustment in risk identification and prioritization resulted to a significant .104(p<.05) change in non-financial performance which was proportionate. Lastly, a unit variation in managing change variable led to a statistically insignificant positive change of .054 with (p>.05) in non-financial performance. The empirical model expressing the outcome is as follows; **NPER= 3.696 +.020OGO + .104RIP+.054MC**
Where;

NPER is non-financial performance and the rest of the variables are as described earlier in the predictive model.

The F statistic value for both financial performance and non-financial facets demonstrated F values of 4.871(p=.003) and 2.870(p=.038) respectively and the conclusion was that they were statistically significant at 95% confidence level and were good estimators of the two aspects of performance each taken independently. Therefore the study failed to accept the null hypothesis which states that; H_0: *Risk assessment does not significantly influence performance of small and medium enterprise projects in Machakos County.* This implies that risk assessment statistically significantly influence performance of SME projects in Machakos County.

Conclusion

The study finding revealed that risk assessment significantly influence performance of SME projects in Machakos County. The top management has established attainable objectives for all key activities including operations, financial reporting and compliance considerations. Also the process of identifying, evaluating and mitigating risks inherent to the operations of the SME projects is effective hence minimizing financial losses. The management should advocate for the rewarding of the employees with good performance records and at the same time encouraging a streamlined feedback system between them and the employees. However, workers do not have clear job description with specific duties to be performed being well articulated and communicated. Similarly there is lack of inclusivity in decision making.

Recommendations

Top management of small and medium enterprise projects should implement the five internal control system components for it is more advantageous as compared to a case where some of them are given more emphasis. The five components based ICS improves performance for it has more significant contribution than each element in isolation and also it enhances reliability level by external auditors which translate to less audit costs incurred.

The research findings of this study advocate Vision 2030 policy makers to formulate policies that promote SME internal control systems which

will benefit the policy makers in ensuring that the objective of vision 2030 of middle income economy is achieved. The internal control system to performance link guide the vision 2030 policy makers to incorporate activities in their economic pillar to encourage establishment of effective ICS amongst small and medium enterprises. This would promote growth in gross domestic product in the country. It can also aid in developing financing policies for the SME projects for ICS establishment can be set as a parameter to measure debt repayment capabilities of such firms.

Limitations

This study sought to establish the extent to which risk assessment influenced performance of medium sized enterprise projects in Machakos County, Kenya. The main objective was not achieved without constraints. However, the researcher endeavoured to put in control such confines to avoid significant effects which could materially distort the research findings established by the study.

The limitation arising was on study conceptualization on the influence of risk assessment on performance of SME projects in Machakos County. Although the research findings were statistically significant, the outcome was limited to the cause-effect model selected and how study variables were operationalized. The research findings were anchored on the methodology used to collect and analyse data. Due to time constraints, the study used a sample of 265 from a population of 5311 and relied on multiple, stepwise and hierarchical regression models for data analysis which from the researcher's judgment were more suitable for making statistical inferences.

References:

1. Abeyrathna, G. M. &Kalainathan, K. (2016). Financial risk, financial risk management practices and performance of Sri Lankan SMEs: Special reference to Anuradhapura district, *Research Journal of Finance and Accounting*, *15*(7), 16-22
2. Anduuru, N.V. (2005). The Accounting system and its related internal control system. Nairobi: Essential Management Consultancy Services Ltd.
3. Babbie, E. (2003). Survey *Research Methods*. Belmont, California: Wadsworth Publishing Company.
4. Bertalanffy, L. V. (1968). General system theory.Foundations, Development, Application. New York: George Braziller.
5. Blackman, A. J. (2003). Entrepreneurs: Interrelationships between their characteristics, values, expectations, management practices and SME performance, Unpublished DoctoralDissertation, Griffith University, Australia.

6. Chen, H.C.K. (1996). Direction, magnitude, and implications of nonresponse bias in mail Surveys.*Journal of the Market Research Society, 3*(38), 267-277.
7. Covin, J. G. (1991). Entrepreneurial versus conservative firms: A comparison of strategies and performance, *Journal of Management Studies 28*(5), 439–462.
8. Economic Survey of Kenya, (2009).Report.
9. Frazer, L. (2012). The effect of internal control on the operating activities of small restaurants.*Journal of Business & Economics Research, 10*(6), 361-374.
10. Government of Kenya (2007) Report.
11. Grieves, J. (2000). Introduction: the origins of organization development. *Journal of Management Development, 5*(19), 345-398.
12. ILO, (1972). Employment, incomes and equity: a strategy of increasing productive employment in Kenya. Geneva: International Labor Organization.
13. Inusah, A.M. &Abdulai, S. (2015).Assessing Internal Financial Controls of the Lands Commission of Ghana. *European Journal of Business, Economics and Accountancy, 3*(3), 51-65.
14. Karagiorgos, T., Drogalas, G., Gotzamanis, E. &Tampakoudis, I. (2009).The contribution of internal auditing to management, *International Journal of Management Research and Technology, 3*(2), 417-427.
15. Kinyua, E., Ogollah, K. &Mburu, D. K. (2015).Effect of risk management strategies on project performance of small and medium information communication technology enterprises in Nairobi, Kenya.*International Journal of Economics, Commerce and Management, 2*(3), 1-30.
16. Neely, A. (1999). The performance measurement revolution: why now and what next? *International Journal of Operations & Production Management, University of Cambridge, UK: MCB University Press, 19*(2), 205-228.
17. O'Hara, R., Dickety, N. &Weyman, A.(2005).Good practice in assigning work place risk by small and medium sized enterprises.*An International Journal, 1*(7), 31-41.
18. Oseifuah, E. K. &. Gyekye, A .B. (2013).Internal control in small and microenterprises in the Vhembe District, Limpopo Province, South Africa. *European Scientific Journal, 1*(9), 241-251.
19. Roque, R.&Carvalho, Y. (2013).Impact of project risk management, assessment of risks on project performance in Brazillian Vendor companies. *International Journal of Project Management, 2*(21), 97-105.

20. Stoner, T. (2003). Alternative financing models for energy efficiency performance contracting. Econergy International Corporation.
21. Wai, L.Y. (2008). Importance of internal Auditing: Small and Medium Enterprises' (SMEs) perception. Putra Malaysian University website.
22. Weinberg, G. M. (1975). An Introduction to General Systems Thinking. – New York: Wiley.
23. Wolff, J. A. & Pett, T. L. (2006). Small-firm performance: Modeling the role of the product and process improvements. *Journal of Small Business Management, 44*(2), 268 – 284.
24. Yamane, T. (1967).*Statistics,* an introductory analysis, 2nd Ed., New York: Harper and Row.