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## EFFECT OF RISK AVOIDANCE ON PERFORMANCE OF DEVOLVED GOVERNMENTS IN KENYA

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## Effect of Risk Avoidance on Performance of Devolved Governments in Kenya

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### Abstract

**Purpose:** Risk avoidance are critical techniques in the elimination of threats, undertaking and submissions that can negatively influence an institution or government gains and investment decision worldwide. By halting the activity that can lead to likely problems, the chance of incurring and loss is eliminated. However, devolved system of government studies on risk avoidance are scanty in Kenya. The main purpose of the study was to investigate the effect of risk avoidance and how it influences performance of devolved governments in Kenya.

**Methodology:** The study was anchored on the agency and stakeholder theory. A correlational research design was used based on the nature of data collected. The study was analytical and hence it took a pragmatic philosophical reasoning. The study targeted 423 respondents in the 47 devolved governments departments in Kenya. A sample size of 381 respondents from the devolved governments departments was drawn from the targeted population using stratified sampling technique. The study used primary data from the use of questionnaires. Data was analyzed using Statistical Packages for Social Sciences version 24 utilizing inferential statistics which involved testing of the hypothesis at 95% confidence level and also descriptive statistics (frequencies, percentages, mean and standard deviation). Data was presented by use of tables.

**Findings:** The outcomes indicated that risk avoidance indicator had a standardized Beta coefficient of 0.341, an absolute t-value of 5.609 and  $p < 0.05$  (0.03) which indicated that risk avoidance had a statistically considerable effect on performance of devolved governments in Kenya.

**Unique Contribution to Theory, Practice and Policy:** The study suggests that devolved governments and key stakeholders should upgrade, embrace and ensure that risk avoidance techniques are in place in the devolved governments so as to improve on performance of devolved government.

**Keywords:** Risk Avoidance, Performance, Devolved Governments

## INTRODUCTION

Imran and Yusnidah (2019) defines risk avoidance as the elimination of threats, undertaking and submissions that can negatively influence an institution gains and investment decisions. Risk avoidance is a means of completely eliminating a threat. Risk avoidance is a very vital tool as regards operation of devolved governments as with this locals or people are able to see the fruits of a decentralized government. Risk avoidance entails taking some action hence minimizing the firm's submission (Tsiga and Tsiga, 2018). For example, a firm should have reserves as a flash drive may fail. Avoidance completely eliminates a risk. Risk avoidance means looking at alternatives which can be done away with, if major changes turn rounds are needed in a devolved system of government in order to avoid risks. Risk avoidance might be reduced through business strategy, investing wisely, and usage of information security in the performance of devolved governments in Kenya.

Nurlis, Indriawati and Ariani (2022) defines business strategy as a plot of action designed by a firm to assess and decide how their operations will be run so as to meet their main goals. Having a business strategy ensures a certain level of effectiveness in an organization by investing in the wealth needed to expand the main potential of the organization and if the benefit is viable, it will realize organizations goals (Yuliansyah, Gurd & Nafsiah 2017). Business strategy includes cost leadership, differentiation strategy, extending the functioning time and developing the assets magnitude of their businesses (Nguyen, Thu, Han, Nguyen, Mai & Thao, 2020).

Investing is so momentous as a tool of risk avoidance as it brings into a specified state rules and regulations, habits or plan of action blueprint to guide an investor's choice of an investment portfolio (Claudin, 2020). Some investors will prefer to minimize risks while others will be in between hence help in investing holdings (Balfoussia & Gibson, 2016). Kenya today is viewed as an investment hub for organizations across the word. Kenya's future economic growth is the vision 2030 blue print.

Information security is having diverse information protection solutions and devising systematic defense solutions and planning routine estimates directed at safeguarding their detailed assets against prospects and peril in order to boost their information security activities hence leading to success of their activities (Alzahrani & Seth 2021). It relates to the undertaking which fact is secured against internal or external threats or perils thus information security is continuously developed (Perez-Gonzales, Preciado & Solana- Gonzales 2019). Organizations are investing in information security to align with business goals and manage risks where it is viewed as one of the utmost valuable assets of a firm (Diesch, Pfaff & Krcmar 2020).

In Kenya, Nyang' au (2017) in his study on supply chain risk management strategies on performance of food and beverage processing firms in using census survey method with a population of 187 food and processing firm's data. The study established that the most vital supply

chain risk management strategy on performance was the avoidance strategies on food and beverage processing firms where accomplishing world class performance depends on managing supply chain risks.

In the US, Verbaarendse, Dittman and Obernberger (2016) also examined the effect of executive compensation dispersion and risk avoidance on organization performance. They examined the association between Chief Executive Officer's (CEO) pay cut-the fragment of total compensation of the top 5 executive that is captured by the CEO - and organization performance and the association between risk avoidance and the firm performance. They used US registered organizations only and the sample was drawn from the years 1997-2012. The outcomes indicated a negative relationship between risk avoidance and CEO's pay cut.

In accordance with Papanikolaou and Wolff (2015) in their study leverage and risks in United States (US) commercial banking in the light of the current financial crisis using a panel data set that consists of the largest US commercial banks. They established that clear distinctions among different excessive leverage types, which rendered large banks unsafe to financial shocks thus dotting to the weakness of the whole banking industry.

The research by Bhatia and Ingolf (2016) examined empirical implications of the risk avoidance measure. A multi-disciplinary investigation in corporate finance, corporate and behavioral finance tested the variables risk avoidance on return on assets (ROA), return on equity and Tobin's Q using estimation methods with clustered standard errors at the organization level found consistent correlation in relation to firm performance.

According to Thuku (2011) who did a study on the relationship between risk management practices and organization performance of universities in Kenya using a descriptive research design established that the use of competent personnel, highly certified personnel, training and holding of seminars on risk management and advancement of management structures greatly contributed to increased performance in student enrolment. It recommends that universities and other institutions invest on risk management practices to counter the effects of operational risks.

Previous studies on risk avoidance have not focused on the effect of risk avoidance on performance of devolved governments for example, Bhatia and Ingolf, (2016), Kinyua, Ogolla and Mburu, (2015) and Nyang' au, (2017)) using descriptive research design and multiple regression investigated the influence between risk avoidance and performance and established that there exists a positive relationship between risk avoidance and performance (P) of firms, small medium enterprises and processing firms respectively. In comparison to the aforesaid opinions, some studies found negative relationship between the risk avoidance and performance (Papanikolaou and Wolff, (2015); and Verbaarendse et al., (2016). However, a few studies established that there is no difference between risk avoidance and performance (Thuku, (2011); Mwangi, (2012)). Kenya has been included in a number of descriptive studies, there is no study that has specifically

determined the effect of risk avoidance on performance (P) of devolved governments in Kenya using a large sample of devolved governments.

## **LITERATURE REVIEW**

### **Theoretical Review**

#### **Agency Theory**

The agency theory of linking Risk avoidance to performance refers to the relationship between the agents and the principal where in return the principals get the benefits. Agency theory recognizes the agency association where one party, the principal assigns work to another party, the agent and gives the agent authority and mandate to act on the principal's benefits. Agency theory is a beneficial structure for plotting controls and governance in firms, accounting officers in various departments are acting as agents on behalf of the people or locals who are the principals. Agency theory is based on the outreach as a way of reducing risks. It emphasizes the need for risk controlling in the firm to line up the concerns of managers and shareholders and to donate to the P of the organization. The classical version of the hypothesis goes back to Jensen and Meckling (1973, as cited by Kahaso & Oluoch, 2018) who puts forward a 'principal' with specific aims and 'agents' who are requisite to carry out activities to attain those aims. The theory fits well with devolved governments as they use risk avoidance which are a driver of performance. The theory was used to explore the 'agency association', which relies on authority positions and data flows between the agents and principals. Therefore, devolved governments should be in line with the goals of the locals or people want achieved and the locals can control the interests of the agents.

This theory is relevant to this olely because risk avoidance is one of many established processes employed in enterprises to tackle the agency snag by lowering agency costs that influences the overall P of the association as well as the advantages of the principal (Ahmed & Ng'anga, 2019). Inner control intensifies the reservation of supplementary data to the principal (shareholder) about the conduct of the agent (management) reduces data inequality and drops low revenue and investor risk.

For this purpose, agency theory offers a strong help for risk avoidance as a reply to discrepancy amongst devolved governments motive and the locals or people's interests. It emphasizes the need for risk avoidance in the devolved governments to coordinate the concerns of managers and the people to accord to the performance of the devolved governments.

#### **Stakeholder Theory**

Stakeholder theory centre of attention clearly on equality of stakeholder interest as the focal determinant of corporate policy. Stakeholder theory was proposed by Freeman (1984) as a law-making tool has since progressed into a theory of the organization with high informative future. It offers a new understanding into probable thinking for risk avoidance. This theory takes into

consideration that participation by stakeholders is vital to avoid risks in the county governments, and improved performance. The stakeholders are the people or locals who want to see value for the taxes that they are paying to the national government trickle down to them.

### **Empirical Review**

Kinyuasi, Ogolla and Mburu (2015) in their study effect of risk management strategies on project performance of small and medium information communication technology enterprises in Nairobi where the independent variables were risk management strategies with avoidance being one of them while the dependent variable was the project performance of the small medium enterprise's in Nairobi, Kenya using a descriptive research design, target population of 48 Information Communication Technology (ICT) SME's found that there existed a positive ( $p < 0.05$ ,  $r = 0.758$ ,  $t = 3.640$ ) relationship between risk management strategies affecting project performance and ICT project performance.

Tsiga and Tsiga (2018) in their study risk management practice in the Nigerian petroleum industry using descriptive research design and multiple regressions established out that lack of skilled workers, supply demand, price risk, risk operation cost and interference of military groups on oil are the major risks and prefer to use risk threat avoidance method, reduction of threat probability and insurance as their preferred choice of answering to risk.

Silva, Silva and Chan (2019) studied the effect of enterprise risk management and firm value: evidence from Brazil using multiple linear regressions, with Tobin's Q ratio as the dependent variable on 649 firm year observations that were listed in the IBrx100 index on the Brazilian stock exchange during 2004-2013. They established a considerable significance ( $p < 0.05$ ) between firm value and the use of enterprise risk management approach which affiliates oneself with most global studies.

Usman, Yusnidah and Arpah (2018) studied risk management in the Malaysian public private partnership projects. The study established that nonetheless literature on risk management process of different types of public private partnership projects is lacking and literatures does not provide a robust measurement to study public private partnership risk management as a variable in the field of risk management. The research indicates existence of some form of risk management in public private partnership projects where the agreement and design concept form a important role in risk management.

Luppino, Hosseni and Rameezden (2014) in their study risk management in research and development projects: the case of South Australia with a target population of 104 session managers' using unstructured interviews with experts established that risk failure mode and effect analysis method would be effective ( $p < 0.05$ ) for project managers in dealing with risk management issues.

Previous studies have investigated the effect between risk avoidance and performance at different

periods of time and in different geographical contexts as well established that there exists a considerable ( $p < 0.05$ ) association between risk avoidance and performance (for example, Kinyuasi, Ogolla & Mburu, 2015; Silva et al., 2019; Tsiga & Tsiga, 2018 and Usman, et al., 2018) using descriptive research design and multiple regression. In equivalence to the aforesaid opinions, some studies such as Luppino et al., (2012). Using unstructured questionnaires established a negative relationship between risk avoidance and performance. As a result, this study intended to examine the effect of risk avoidance on performance.

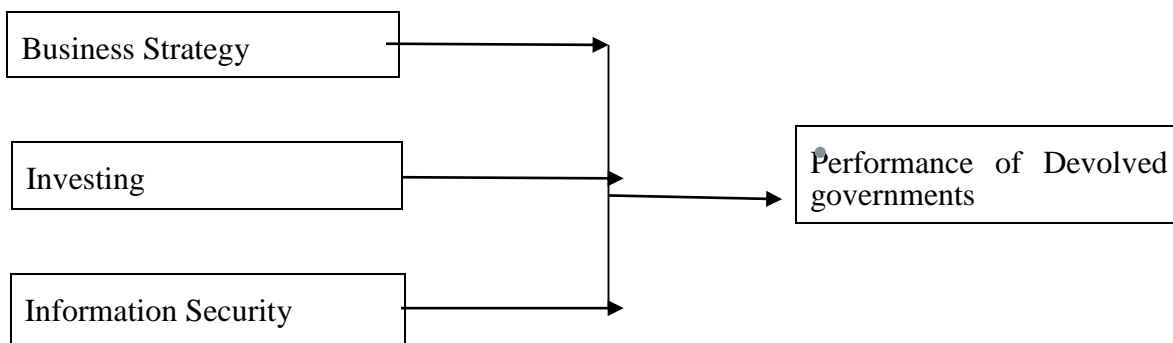
### Research Gap

From the empirical literature, evidence shows that there are mixed results among the extant writings. The methodological approaches have been adopted widely in the existing empirical literature have a major focus on descriptive analysis. Though Kenya has been included in a number of descriptive studies, there is scanty data about the effect of risk avoidance on performance of devolved governments using 47 county governments in Kenya. Therefore, this study sought to find out the effect of risk avoidance on performance of devolved governments in Kenya.

### Conceptual Framework

#### Independent Variable

#### Risk Avoidance



#### Dependent Variable

Figure 1: Conceptual Framework

### RESEARCH METHODOLOGY

The research adopted a correlational research design. Cooper and Schindler (2003) suggest that correlational research design tests for statistical relationship between variables (risk avoidance and performance of devolved governments), where the researcher begins with the idea that there might be a relationship between two variables. The design was considered best suitable for the study because it aims at analyzing the effect of risk avoidance on performance of devolved governments in Kenya. According to Creswell, 2014 a study can follow a qualitative and or a quantitative paradigm. This research uses a quantitative paradigm, where it delves the effect of risk avoidance on performance of devolved governments in Kenya.

This study was conducted on 47 devolved governments in Kenya due to time, financial constraints and the wide area to be covered. Kenya is in East Africa bordering the Indian Ocean between Somalia and Tanzania. The area lies approximately between latitude of  $1.2667^{\circ}$  South and longitudes of  $36.8000^{\circ}$  East. In terms of land mass, it covers an area of  $582,650 \text{ Km}^2$  out of which  $569,250 \text{ Km}^2$  is dry land and  $13400 \text{ Km}^2$  is covered by water. As a country, it has a population of approximately 47.6 million people today. Being an underdeveloped nation, it has 47 devolved governments (Constitution of Kenya, 2010).

The target population was 423 respondents from 47 devolved governments. The respondents were the 94 internal auditors, 47 human resource managers, 47 procurement officers, 47 ICT managers, 47 revenue officers, and 141 accounting officers in the devolved governments. These officers are responsible for risk management processes in the public sector (Gombe, 2016).

In order to arrive at the number of respondents in Kenya that was sampled Cochran (1963) formulae was used:

$$n = (z^2 pq) / e^2$$

Where:

$n$  = is the sample size when the target population is  $> 10,000$

$z$  = is abscissa of the normal curve that cuts off an area that equals the desired confidence level of 95% which is 1.96.

$p$  = the proportion in the target population.

In this study, a 50:50 basis will be assumed which is a probability of 50% hence 0.5.

$q$  = the balance from  $p$  to add up to 100%, that is  $1-p$ , which in this case will be  $1-50\%$  which is 0.5.

$e$  = is the desired level of precision that is 95% confidence level the which is 0.05

Using the above formulae, the number of respondents that was sampled in Kenya was:

$$n = (1.96^2 \times 0.5 \times 0.5) / (0.05)^2 = 384.$$

If the sample size is small, modification of the sample size calculated in the above formulae can be done using this equation:

$$n_f = n / (1 + n/N)$$

Where:

$n_f$  = is the sample size when the target population is  $< 10,000$

$n$  = is the sample size when the target population is  $> 10,000$

$N$  = is the target respondents



$$n_f = 384 / (1 + 384 / 423) = 381$$

Data was gathered using questionnaires and analyzed utilizing inferential statistics which involved testing of the hypothesis at 95% confidence level and also descriptive statistics (frequencies, percentages, mean and standard deviation). Data was presented by use of tables.

## **RESULTS**

### **Findings on Risk Avoidance**

To collect information on risk avoidance, the researcher used a questionnaire with sub indicators linked to concepts which were regarded as vital to risk avoidance. The questionnaire was to determine; whether adopting a business strategy, practicing investing and information security lead to avoidance of risk. The sub indicators were Likert scale statements in which the respondents choose from 5- point score, strongly agree, agree, neutral, disagree and strongly disagree.

Table 1 indicates that risk avoidance leads to adopting a business strategy, investing is practiced and information security is in place in the devolved governments. This was shown by the high mean reflected by this sub indicator (mean is equal to 4.00, standard deviation is equal to .512 and standard error is equal to .029). This indicates that most of the respondents believed that risk avoidance led to enhanced performance in the devolved governments. On the other hand, the sub indicator with the least mean investing is practiced in the devolved government with a mean equal to 3.78, standard deviation equal to .655 and standard error equal to .037.

The outcomes concur with Nyang' au (2017) who established that the most vital supply chain risk management strategy on performance was the avoidance strategies on food and beverage manufacturing firms where achieving world class performance depends on managing supply chain risks. The study is also supported by Bhatia and Ingolf (2016) who found a positive significance ( $p < 0.05$ ) with performance.

The descriptive statistics on responses to risk avoidance were computed in table 1

**Table 1: Descriptive Statistics on Risk Avoidance**

	SA (%)	A (%)	N (%)	D (%)	STD (%)	Mean	SErr	SD
Devolved government adopts a business strategy	11.6	77.4	10.3	0.3	0.3	4.00	0.029	0.512
Investing is practiced in the devolved governments	11.9	55.2	32.6	0.0	0.3	3.78	0.037	0.655
Information security is there in the devolved government	11.6	74.8	13.2	0.0	0.3	3.97	0.030	0.527
Valid N (listwise)	310							

*Source: Field data (2020)*

### **Devolved Governments Adopt a Business Strategy**

The outcomes of the study show that nearly three quarters (strongly agree: 11.6%; agree: 77.4%) of the respondents hinted that within the devolved governments residents adopted a business strategy. However, 0.3% and 0.3% of them disagreed and strongly disagreed respectively that there was no evidence of adopting a business strategy within the devolved governments and another 10.3% of the respondents were non responsive on whether the devolved governments lead to adopting a business strategy.

### **Investing is Practiced in the Devolved Governments**

On whether practicing investing was in the devolved governments, it was evident from the outcomes that in most devolved governments, practicing of investing was noticed. Table 1 indicated that 32.6% of the respondents were neutral that practicing investing was in the devolved governments, more than a quarter (11.9%) of the respondents strongly agreed and another 55.2% agreed that it was evident that practicing investing was in the county governments. However, 0.3% of the respondents of the study strongly disagreed that practicing investing was in the devolved governments.

### **Information Security is there in the Devolved Governments**

It was noted from the research that in most devolved governments information security was water tight and all information were relayed to people on time and when need be. Nearly two thirds (strongly agree:11.6%; agree: 74.8%) of the respondents were in agreement that information security was water tight in the devolved governments while 13.2% were undecided that information security was in the devolved governments.

### **Regression Analysis: Risk Avoidance on Performance of Devolved Governments**

Table 2 shows the regression analysis table

**Table 2: Regression Analysis Summary-Risk Avoidance**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.530	.281	.274	.408	.281	39.786	3	306	.003

a. Predictors: (Constant), Information security, investing, business strategy

The results in Table 2 show that the coefficient of determination ( $R^2$ ) is 0.281 meaning that the model estimated elucidates 28.1% of the variations in the performance of devolved government in Kenya.

Table 3 shows the multiple regression analysis for risk avoidance.

**Table 3: Multiple Regression**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.067	.201		5.310	.000
	Risk Avoidance	.359	.064	.341	5.609	.003

a. Dependent Variable: Service Delivery

From the output box coefficient (Table 3), a look at the Beta values under unstandardized coefficients reveals that independent variable contributes differently in the model. The risk avoidance indicator had a standardized Beta coefficient of 0.341, an absolute t-value of 5.609 and  $p < 0.05$  (0.03) also showed a statistically considerable effect on performance of devolved governments in Kenya. This indicates that performance of devolved governments improves with increased use of risk avoidance techniques.

**Hypothesis testing: The effect of risk avoidance on performance of devolved governments in Kenya**

To get a respond to the research objective, the researcher probed the hypothesis, “there is no significant effect of risk avoidance on performance of devolved governments in Kenya”. The independent variable used was the scores from risk avoidance questionnaire computed by using opinions of the respondents, while the dependent variable was performance of devolved government’s scores also gotten from the opinions of the respondents. Initial analyses were performed to ensure no violation of assumptions of normality, linearity and homoscedasticity. The

outcomes of Analysis of Variance (ANOVA) indicates that the relationship between the independent variable is significant ( $F=39.786$ ,  $Sig < .05$ ), as shown by Table 4 indicating the SPSS output of ANOVA. This indicates that avoidance of risk significantly affects performance of devolved government in Kenya. Thus, the scholar failed to reject the null hypothesis. Adopting a business strategy, investing is practiced and information security are therefore statistically acceptable as useful in predicting the performance of devolved government in Kenya. Many scholarly studies have tried to understand the influence that avoidance of risk has on performance, because it assists in the devolved governments operations. The study is in accord with Biira et al. (2021) who asserted that risk avoidance and performance were positively related and hence it is vital to effectively implement risk avoidance strategies in daily operations.

**Table 4: ANOVA Table for Risk Avoidance**

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	19.914	3	6.638	39.786	.004
1	Residual	51.052	306	.167		
	Total	70.966	309			

a. Dependent Variable: performance

b. Predictors: (Constant), Information Security, Investing, Business Strategy

## Conclusion

The study analysed the effect of risk avoidance on performance of devolved governments in Kenya using a pragmatic research philosophy and a correlational research design. When a regression was done, to find the association of the variables in the model of performance, a result of ( $\beta_1$  equal to 0.341;  $p < 0.05$ ), was found which implies that risk avoidance had a statistically significant effect on performance of devolved governments in Kenya.

Based on the hypothesis, the study established that risk avoidance had a significant effect on performance of devolved governments in Kenya.

## Recommendation

The study recommends that devolved governments and key stakeholders should strengthen, embrace and ensure that risk avoidance is in place in the devolved governments so as to improve on service delivery to the people on the ground. This is because risk avoidance is the best way of dealing with risk (Biira et al., 2021).

A similar study can be conducted to investigate the effect of risk avoidance on performance of other countries that have a devolved system of government.

**Contribution to Theory, Policy and Practice**

The management of devolved governments should see to it that risk avoidance is taken into consideration in various departments so as to improve on performance hence service delivery.

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