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INFLUENCE OF CREDIT RISK MANAGEMENT PRACTICES ON FINANCIAL PERFORMANCE: A CASE OF SMALL AND MEDIUM ENTERPRISES IN KISII TOWN, KENYA

Omweno, J. N.,[*1] & Muturi, W.[2]

[*1] Master Candidate, Jomo Kenyatta University of Agriculture & Technology [JKUAT], Kenya
[2] Professor, Ph.D, Jomo Kenyatta University of Agriculture & Technology [JKUAT], Kenya

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ABSTRACT
The objective of the study was to examine the effects of credit risks management practice on financial performance. Specific objectives included; to investigate the effects of product diversifications on financial performance of small and enterprise in Kisii town, and to determine the effect of market risk on financial performance of small and medium enterprises in Kisii town. The study used cross-sectional design. The cross-section design is the method of collecting information from different samples from large population. Self-administered research questionnaire was ensured by the researcher. The target population consisted of 857 respondents. Stratified sampling was used. The sample of 86 respondents was used by applying 10% of the target population. Stratified sampling technique was used to categorize SMEs in Kisii town under study to give a chance for every enterprise to participate. Managers, account clerk and owners provided information required by filling the questionnaire for primary data. The study analyzed the collected data by descriptive statistics such as percentage, mean and standard deviation. Inferential statistics such as correlation and regression analysis examined the association between variables. The study findings were presented by tables then discussions and conclusion was drawn. From the results, it was indicated that usage of product diversification led to appropriate management, product diversification considered quality of client looking for credit facilities while borrowed amount was convenient to the business and flexible products usage improved credit management. It was recommended that product diversification should be considered with quality of client is looking for credit facilities through variety of products.

***Key Words:** Product Diversifications, Market Risk, Small and Medium Enterprises*

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INTRODUCTION

Many enterprises face several challenges risk in daily operation. Credit risk management in an enterprises start with sales and cannot be avoided until full payment is received. It is the important area of customer deals in closing stock sales. In regard, sale can be theoretically a sale if there is no cash collected in the process. The principles of sales on credit will be anxious by ensuring borrowers are able to pay schedule payment in full in a given time. The profits can earn interest by decrease of wiped bad debts if the customer defaults. Credit risk management deals with debt management and debt financing. It safeguards the enterprise investment in both debt management and maximizes cash inflows. The policy and procedure of managing debt is granting credits to customer, collect payment and limit nonpayment risks (Alshatti 2015)

Credit risk management practices are ways of mitigating losses of the business. The effective management of credit can improve performance by controlling risk. This is influenced by decision making concurrently by ensuring customer credit is paid on scheduled time. Earlier studies have been conducted to describe how risk factors affect financial performance indifferent countries and found out that risk management practices are a global challenge. Studies from American accountant association described risk as the term used to interchange uncertainty of variability of gains from expected assets which states that risk is the opportunity of unexpected business loss or profit. They further argued that more variability leads to more risk which in turn increase gain or reduce advantage but in practice risk management is still persisting in the international market of finance as it been experienced in European countries. The decision of the firm to invest business based on different considerations to different expected returns, however this factor is of different risk in different nations. Risk management practices involves risk consideration which deals with international diversities in effective manner than in domestic risk diversification to decrease risk of the business in relations to gains expected due to variability of economic trends between many countries (Howel 2016).

The design of defect product is inherent to risk due to defective. The customer cannot use even if how careful manufacturing is. This demonstrates by indication that product can fail to meet customer expectations or what is safe products or risk that product offset the benefit. In credit risk management there is need to involve customers to return defected product under considerations. It is defined that globally credit is competitive concern that is normal in return. The stages of increasing opportunities by adding more product to the market is known as product diversification which can be achieved by new prices. Product development can also improve new market niche through many products.

Product diversification can be in the form of concentric, conglomerate and horizontal strategies. By diversification enterprise can change and implement various investment on the specific period of operating the business. The firm can wish to invest more Business Enterprises in other countries abroad from domestically to generate more returns due to efficiency factors in the firm in Pakistan (Bekani 2011).

Market risk refers to unforeseen losses arising market price movement. The risks in business entail the likelihood of the company or business not meet obligations by owner's utilizations. The approaches used to encourage first payment from different investors' expectations in risk management practices encompasses inflation risk which all the business investors encounter, high inflations in united states is notably devastating the returns from firm's equity to fixed returns from different investors upcountry (Dondo, 2012). Aburinme (2005) observed risk

management practices on performance and noted that global asset management are affected most from United Kingdom noted that short maturity of inflations risk is correlated to the bonds performance good than those of long-term maturity risk not performed to equities and fixed income from cash invested.

Market risk includes equity risk that is stock or stock indices ie prices or the implied volatility will change, interest rate risk the risk that interest rates, currency risk the risk foreign exchange rates, the risk that commodity prices, margining risk results from uncertain future cash outflows due to margin calls covering adverse value changes of a given position. Kamau (2010) observed the risk management practices from micro Business Enterprises in Kenya by the study of Nairobi city. it was noted that the government is attempting to support business investors by assuming risk practices by forcing risk turns to reduce lending credit risk in order to improve savings to investors between people, but Kamau (2010) posited that it obvious to object interest rate risk balance and returns in order to increase market ratio to owners of the enterprise. Risk management practices in relations to interest rate to risk control of profit margin in internal rate of return of investment business.

Product diversification is the way of expanding the original market for a product while in product liability insurance protecting against claims of personal injury or property damage caused by products sold or supplied in the business. It is designed to help protect the business by ensuring that if this happens, it doesn't have to pay any legal or court costs. Michele (2013) observed the reduction on credit risk affect investment depending on the particular risk hedge due to mutual fund used to low profitability. Managers use different portfolio ratios to analyze the organizations returns by involvement of risk from various factors of productions. Financial investors try to price to earnings rations in the investment must be attempted to predict long term risk in pricing stock in selling and distributions at discounting rate of returns to arbitrate short term risk of investment companies by asset distributions. The evaluation of risk is a continuous concept in preference to risk of returns liability to market conditions on financial performance in optimal financial risks in selecting the business. The risk management factors entails to business policy statement, choosing the business and monitoring reports requirement to explain goals of controlling risk in optimal portfolio which refers risk as a probability to note that firm's returns may come out with alternatives results. Despite the previous studies of risk management factors it obvious that most of the study concentrate on income generating activities leaving behind the challenge of credit risk management which the study will focus. Business enterprises are financial institutions to give loans and other financial services to different stations country wide operating in Kisii town (Ngumi 2014).

Statement of the problem

Small and medium enterprises in Kisii town fail with 40 percent of the failure being within the first year of operation. This has been influenced by poor product diversification, product liability insurance, market risk and customer's credit relationship. Longenecker (2010) emphasized that Medium enterprises are facing challenges of cash collection from credit sales due to financial problem resulted from bad debt which as affected credit relations. Delayed payment has increased or eroded to incur loss.

The customers covered by insurance cannot pay credit from insurance and banks due to inability to guarantee against credit. The enterprise cannot extend its credit to customers who are not able to settle due to high credit defaulting risk where repayments result to interest earning. SMEs are required to manage credit risk that can enhance financial performance by identification of existing credit risks. Therefore, lack of support in terms of

credit risk management's knowledge and services for business forms part of motivation for study.

Ngumi (2014) posited observed that credit provision to customers is important practices in credit risk management in the institution, attached with attractive vital to measure credit amount and at the same time advancing credit in a fair and undiscriminating manner so as to continue offering service to their members. Weak credit risk management is a primary cause of many business failures.

Velnampy (2016) observed that financial status of the company is affected by risks and noted that companies are going bankruptcy in their business expectation in poor risk management factors, despite this study there is unclear findings which contradict the determinant of financial management practices to risk management practices which create a gap to carry out a study of the effect of risk management practices in Kenya. Michele (2013) conducted a study of portfolio management and financial performance in centum investment and found out that individual portfolio risks are not related to rate of interest risk expectations in individual variability but the study did not argue risk management practices in relationships to medium Enterprises. Therefore, this the study will focus on risk management gaps created by these studies of Velnampy (2016) and Michele (2013) who concentrated on other risks in general enterprises thus leaving out Small and medium enterprises which call for this study of credit risk management practices. Thus, the study sought to examine the effects of credit risk management practices on financial performance of small and medium enterprises

Objectives of the study

The study sought to examine the effects of credit risk management practices on financial performance of small and medium enterprises in Kisii Town, Kenya. The specific objectives were to;

- To investigate the effects of product diversifications on financial performance of small and enterprise in Kisii town
- To determine the effect of market risk valuation on financial performance of small and medium enterprises in Kisii town

LITERATURE REVIEW

The efficient Market Theory

The theory was proposed by Hakanson (1978) to describe how market efficiency is affected by risk factors in organizational growth. It is related to this study in that it focused heavily on market risk which is influenced by financial risk indicators of financial performance.

The theory assumes that the increase of option of firm to engage changes with prices and stock resulting to risk, it claims that different of understanding of market conditions. The price of the market reflects openly information available economic conditions. The strength of efficient market theory argued that price. The theory reflects on changing prices can influence on financial performance. Most enterprise believes that market risk can influence financial performance of stock portfolio falls under different prices.

It limitation is that market prices can reflect risk but they are factors that are not involved in financial performance. The approach of buying stock can influence the efficiency of market cannot calculate the all prices in the market to measure risk. The efficient market can enhance risk analysis by increasing returns. To the portfolio, different option cannot management credit risk management practices. Financial transaction on assets can be held in the market even if credit risk is managed. The risk offset prices in most financial markets changes.

Market conditions is developed financial derivative instruments. The study related to this portfolio management is managed by risk (Hakanson 2018).

Cox (2016) and Ross (2013) supported that management of risk enhances financial performance. The results can be used to measure efficiency market through increase in number of business growth. The aim of the study will apply this theory to explain how enterprise can enhance market efficiency.

Risk Aversion Theory

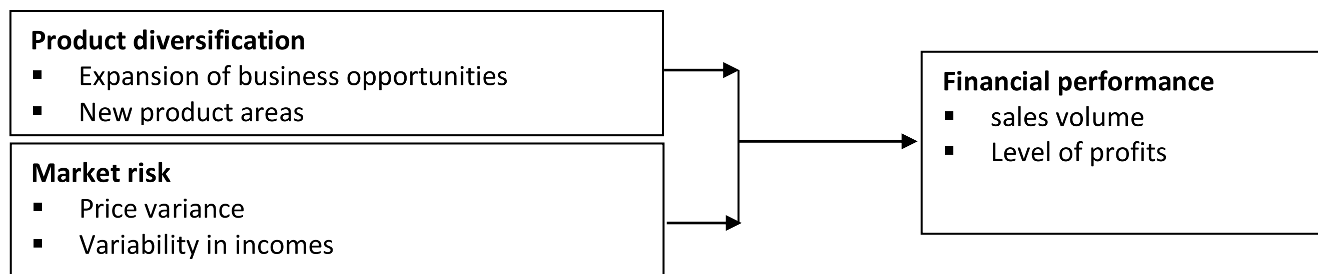
The theory was developed by Fischer in 1972. It states that economic and finance is about the behavior of consumers and to investors who can be exposed to the uncertainty and try to reduce that uncertain events. It involves that hesitation in which the enterprise accept a situation of unknown payoffs than any situation predictable for more by investment expected.

The risk averse investors may decide to invest cash into the bank accounts with the notion of low return but can have interest rates guaranteed rather than to the stock of highly expected returns where the it included much loss of cash values. It assumes in that, Investors in SMEs is characterized by the desire to make most of their returns with least risk potential. When the Business Enterprises faces risk opportunity to related returns, good investor will desire investment of more in higher returns

Theory is based on the assumptions that the market risk is selected. The risk return from market securities should avoided the investor's belief to invest more with high risk from different varieties to minimize cost, compromising business risk.

It also assumes that possibility of the investor experience losses is due to determinants that influence overall performance of financial market involved. The portfolio weight is managed to securities such as stock, bond and debenture is conducted.

The limitation is that risk aversion is not straightforward but can increase or decrease in relative aversions. The persons can motivate to focus in credit risk investment but does not occur in the portfolio formation for risk assets and risk free assets. The business can experience wealth increase which can be unchanged with the amount of credit given. The risk assets can be held to the portfolio in absolute aversions with decreasing returns. The enterprise can avoid using credit function by increasing stock from unlikely implications.



Independent variables **Dependent variables**

Figure 1: Conceptual framework

Empirical Literature

Weichieh and Tsang (2014) found that challenges firms face increase with their product diversification levels because different product markets possess different sociopolitical issues. He argued that secondary stakeholders, as represented by various nonprofit or non-governmental organizations, serve as agents mitigating the external constraints embedded within sociopolitical environments. Firms should therefore maintain relationships with different secondary-stakeholder scopes commensurate with their product diversification levels in order to

enhance financial performance. Analyzing a sample of U.S. Fortune 500 firms during the period from 1996 to 2003, it found that secondary stakeholders play a positive moderating role in the relationship between product diversification and financial performance. Furthermore, this moderating effect was stronger in the case of unrelated diversification than in related diversification.

Studies have also established that diversification and business performance have no relationship between them. Adamu *et al* (2011) conducted a study on the product diversification on financial performance of selected construction firms. They found that undiversified construction firms performed much better using various performance measures like Return on Total Assets and Profit Margin. This was attributed to be mainly inadequate efficiency in the asset utilization by the organizations having well diversified in generating profits.

Nyagah (2014) carried a study on the effects of products diversification on financial management. The study aims to evaluate how production diversified affect financial management. Thus, the study used descriptive statistics research design. The target population was all 19 pension fund management firm. The primary collection data was used with research questionnaires. It was exposed on the variance affect financial performance. The *F*-test of 38.3 was significantly at 0.05, implied to have relationships between Product diversification and financial performance. The coefficient results showed that fund increases assets without incurring losses. Hypothetically, deposits of funds have generally much shorter maturity than loans of Product diversification to cover predictable deposit or withdrawals. Product diversification is efficient hold liabilities for funding.

Ngumi (2014) conducted a study of Product diversification risk on financial performance. The study had objective to examine the relationship between Product diversification and profitability of bank deposits. The study was conducted in Kenya by use of secondary data from 23 Business Enterprises in Kenya. The study used regression analysis model to analyze by analysis of variance. The study used correlations also to find the relationship between Product diversification and bank deposits. The findings it was found out that was negative significantly relationships between product diversification and bank deposits. The study recommended that firms must manage their Product diversification on deposited cash variability and improve financial performance. Despite the study of liquidity management, there was not clear information to confirm risk management on financial performance which will be addressed here.

Stiglitz (2014) carried a study of Product diversification risk practices on financial performance. The findings implied that high rate of interest was negatively related to liquidity risk. The most liquidity risk operates with low returns from expected increase of portfolio risk in New Jersey. The study increases Product diversification at a loss to companies. Objective was to examine how interest rate affect liquidity management by correlations. The findings indicated that there is no Product diversification and financial performance of firms. However, the study concentrated on financial risk than liquidity risk management.

Boldbaatar den (2016) studied the effect of Product diversification on financial growth. The aim of the study was to find the influence of liquidity management and financial growth. The study was conducted by population of 56 respondents from Lorong University in Malayzia. The study was conducted via a case study design with descriptive statistics. The study found out that there exist positive relationships between liquidity management and financial instruments in Business Enterprises. Therefore creates a gap of liquidity risk as it accelerated by financial risk. Liquidity is the level which affects convertible assets in the firm's

operation with cash management. The increases of Product diversification risk lead to the increase of loss.

Chandra (2015) supported risk management practices by investment analysis in portfolio management practices and found out that investment analysis affect risk management practices. Risk management raised by the firm's investment return, they further argues that firms expect high returns from high risks of investment decision hence the need to analyze risk management practices and financial performance.

Benstein Anata (2010) studied the influence of valuation of asset in the level of economies in performance. The study analyzed data by regression analysis and correlations was employed to test the study findings. The study indicated that 54% of valuation of asset had impact on level of financial performance while 46% of the asset valued belong risk investment. Therefore the study agreed that there is a negative relationships between risk of asset valuation and economies of scale in Cambridge, hence there is no indication that risk management practices had impact on financial performance

Gardner (2015) analyzed stability of Product diversification in Kenya. The purpose of the study was to determine the effect of financial stability of Product diversification by 34 in Nairobi projects. The study used regression model and found that most Product diversification management are affected by distributions of Product. These confined to different Product diversification in relations to lending risks on financial performance. The study recommended that companies should adopt Product diversification from each firm. Therefore the study did not analyze the effect of managing product on financial performance.

Deakins (2017) explored the effect of market risk assessment on financial performance of bank in India. The study showed that the increase in credit appraisal in the market improves financial performance. The study indicates that positive relationships exist between credit appraisal and market risk. The increase in market risk can enhance performance. Banks can control market risk through credit management on financial performance.

Edward (2013) analyzed market risk management on organizational performance of Poland banks. The study purposes to examine market risk and financial performance in the Poland bank. The study showed that market risk can enhance organization performance. The credit collection policy is the main market risks. There are many challenges in improving credit risk management with market risk. The study despite the growth has a lot of difficulty in improving market performance. The results showed that credit risk management can recovered through market risk.

Turnbull (2014) explored the influence of market risks on financial growth of commercial banks in South Africa. The objective will be to establish the control of market risk on financial growth of banks. Both descriptive statistic and inferential was employed. The study showed that market risk is essential for credit risk management. The study promotes that high interest are charged in the market which later decreases financial growth of banks. Market risk involvement in financial performance concerning loan can be critical by default rate in credit appraisal regularly enhanced in credit management. The study indicated that in market risk in credit repayment which enhances financial growth.

Eppy (2015) investigate the influence of market risk on the performance of firms. The study aimed to investigate the influence of market risk on the performance of firms. The study adopted descriptive research design while using descriptive statistics. The study showed that customer credit relationship is important in cash management strategy. This has also influenced collateral in offering credit. The failure to appraise customer capacity to pay debt results to defaults which can be considered in the character of

seeking credit facilities with competent personnel for market risk in credit management.

Fan (2014) examines the impact of market risk on financial growth of companies listed in Kenya. This aims to examine the effectiveness of market risk management on how it affect financial performance of companies listed in Kenya.. The study used correlation analysis. The results showed that proper market risks management can decrease financial resources by more debt management but influenced by bad debts. In addition, the selling cost in the market risk in recovery of borrowed money. The increase in cost charges can influence financial performance. The credit recovered in cost affects unpaid finance of the business. The current payment in interest charges in profit. However, market risk has effective credit management. The cost of marketing risk affects financial performance when there is high price list.

Turnbull (2014) found that firms are ready to control market risk through credit risk management in their operations. It can lead to losses on financial performance through less sales from bad debts. The rate bankruptcy is very high in managing credit risk. The management of credit requires that bad debt in controlling losses from incurred. Cost of operation can be enhanced through market risk and repayment rates are frequently earlier than late. The late of credit management visible to cost effect and measured by mixed results. The borrowing of goods borrowed in case controlling market risk reduced by borrowing cost savings in form bills of exchange and charges.

Oloo, (2010) stated that financial performance is how profitable the firms are from its available resources. Financial performance is measured by investment return on asset and return on equity and sales volume. A profitable firm is good to continue with negative risks and sustain stability of financial performance in its overall financial performance in Kenya in the last decades in improving risk management, it does not indicate that all financial risks is profitable in declaring loss to occur. The study did not discuss financial performance of Business Enterprises in connection to risk management practices such as operational risk, management of interest risk and credit risk by this study.

In the last years, Business Enterprises make risks from borrowing loans to increase stocks to satisfy needs of its customers but they face low incomes from it they continue with offering credit risks have high cost involved. For Business Enterprises to measure financial performance in connections to variability of risk free is taken into considerations in ratios analysis of return on asset, sales trend analysis to its turnover (Murthy 2013). Thus, the study will be to investigate the influence of credits management risk on financial performance by risk free rates.

Robinson identified the effect of risk management on profitability by policy makers and observed that firms need to extend its risk on earnings and affected by future change in risks exposures by level of interest rates. Financial performance double the challenge which provide financial services leading to poor cost levels.

METHODOLOGY

The study adopted cross-sectional design. The target population was 857 respondents from small and medium enterprises in Kisii town. The study applied a sample of 86 respondents of 10% sample determination by Mugenda & Mugenda (2003). The questionnaire was structured to enable the respondent to provide answers directly to the researcher views**.** Data was collected by descriptive statistic with mean, frequency, and standard deviations. The correlations analysis was used determine the relationships between variables

RESULT

Product Diversification

The first objective was to investigate the effects of product diversifications on financial performance of small and enterprise in Kisii town. The results were presented in table 1.

Table 1: Product diversifications

	Mean	Std. Dev.
Diversification of new product minimizes risk and increases profit	3.5821	1.30441
Implementation of different product diversification is stated in a specific portfolio risk	3.588	1.2841
Diversification help to allocate investments among different financial instruments	3.4776	1.43926
Most enterprises sell more than one product	2.6119	1.77487
My enterprises utilizes assets to achieve more sales volume from new product	3.5821	1.30441
Our enterprise paths toward diversification to reduce risk volatility by investing in different variety of products	3.8955	1.03183
We maximize returns by investing different areas that will react with different risk	2.5970	1.26850
We expand our business opportunities through addition market of existing product	3.39254	1.166978
Diversification is one way spreading products around risk exposures to various assets	3.6866	1.31666
Enterprise balance risk and rewards in investing different portfolios by diversifying assets	3.6716	1.31872
Valid N (listwise)		

From the results, it was indicated that enterprises expands business opportunities through addition market of existing product had a mean of 3.39254 with standard deviation 1.166978, an enterprises path toward diversification to reduce risk volatility by investing in different variety of products which had a mean of 3.8955 with standard deviation 1.03183, Diversification is one way spreading products around risk exposures to various assets had a mean of 3.6866 with standard deviation 1.31666, the enterprise balances risk and rewards by investing product or assets had a mean of 3.6716 with standard deviation 1.31872, Implementation of different product diversification is stated in a specific portfolio had a mean of 3.588 with standard deviation 1.2841, enterprises utilizes assets to achieve more sales volume from new product had a mean of 3.5821 with standard deviation 1.30441, diversification help to allocate investment among different financial instruments had a mean of 3.4776 with standard deviation 1.43926,

Most enterprises sold more than one product had a mean of 2.6119 with standard deviation 1.77487, and enterprises maximize returns by investing production areas that reacted differently risk exposures which had a mean of 2.5970 with standard deviation 1.26850.

Market Risk Valuation

The second objective was to determine the effect of market risk on financial performance of small and medium enterprises in kisii town. The results were shown in table 2.

Table 2: Market risk valuation

	N	Minimum	Maximum	Mean	Std. Dev.
Does price variation affect credit risk management	67	1.00	5.00	1.4478	.65790
Does variation in incomes affect your business	67	1.00	5.0s0	4.6716	1.43957
Buyers don't want to buy someone's property because of market risk	67	1.00	5.00	4.6418	1.57347
There is limited purchasing power of the society	67	1.00	5.00	1.7015	.98496
There is enough market for client's product	67	1.00	5.00	3.4328	.67921
There is adequate information about customer creditworthiness	67	1.00	5.00	2.6716	1.42901
Valid N (listwise)	67				

The result showed that the variation in incomes affect your business had a mean of 4.6716 with standard deviation of 1.43957, Buyers don't want to buy someone's property because of market risk had a mean of 4.6418 with standard deviation of 1.57347, There is enough market for client's product had a mean of 3.4328, There is adequate information about customer creditworthiness had a mean of 2.6716 with standard deviation of 1.42901, and was limited purchasing power of the society had a mean of 1.7015 with standard deviation of .98496.

Correlation analysis was conducted to establish to examine the effects of credit risk management practices on financial performances of small and medium enterprises. Table 3 presented the results shown;

Table 3: Correlations

		Product diversification	Market risk valuation
Product diversification	Pearson Correlation	1	.118
	Sig. (2-tailed)		.340
	N	67	67
Market risk valuation	Pearson Correlation	.118	1
	Sig. (2-tailed)	.340	
	N	67	67
Financial performance	Pearson Correlation	.114	.871**
	Sig. (2-tailed)	.360	.000
	N	67	67

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

The study showed that Product diversification had a positive association to financial performance at 1, Product liability insurance was positive correlation with r .065 but not statistically significant. This concurred with Gardner (2015) who analyzed stability of Product diversification in Kenya and found that most Product diversification management was correlated to financial performance. These confined to different Product diversification in relations to lending risks on financial performance.

Market risk valuation had a Pearson correlate coefficient of .118, credit relationship with r .089. Product liability insurance had a positive r .371** P .05<.002, Market risk valuation correlation r = .437** p .05<.000 statistically significant.

The study conducted multiple linear regression analysis in the independent variables; Product diversification, Market risk valuation, and dependent variable; Financial performance. Table 4 presented the results. Regression coefficients were conducted to establish the multiple linear regression analysis in the independent variables and dependent variables

Table 4: Regresion Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
	(Constant)	.136	.688		12.344	.000
1	Product diversification	.057	.174	.019	.330	.743
	Market risk valuation	1.479	.102	.946	14.469	.000

a. Dependent Variable: Financial Performance

The results shown from unstandardized regression coefficients in table 4 led to the regression equation below:

$Y = .136+.057\ X_1\ -.130X_2+$

Maintaining other variables constant associated with credit risk management (.136) indicated positive which implied that there is a direct relationship by 13.6% between numeric values for financial performance increase. However, the control of other independent variables showed that if there is an increase by a unity of Product diversification by .057, Market risk valuation by would lead to a variation in financial performance by 1.479. The other independent variables showed positive implied that there is significant relationship on financial performance at market risk valuation at 0.000 0.05 <0.05 statistically significant.

CONCLUSION AND RECOMMENDATION

The first objective was to investigate the effects of product diversifications on financial performance of small and enterprise in Kisii town. From the results, it concluded that product diversifications and enterprise expanded more business opportunities by existing product path to reduce risk volatility. Most enterprises sell more than one product to maximize returns by reacting toward differently risk exposures. This analysis found that most product diversification management was perfectly correlated to financial performance.

The second objective was to determine the effect of market risk on financial performance of small and medium enterprises in kisii town. The result showed that the variation in incomes affect your business, and was limited purchasing power of the society. Market risk valuation correlation had a positive correlation on financial performance and was statistically significant.

Based on the findings, it was recommended that enterprises should sell more than one product for them reduce risk as well as maximize returns by reacting toward differently risk exposures. This was also recommended that product diversification management should be managed while focusing on different credit risk exposures to increase financial performance.

It was recommended that market risk should be limited by increasing purchasing power of the society. Based on customer credit relationships on financial performance of small and medium enterprises in Kisii town, it was recommended that credit relationship should be the main source of more customers' sales and thus enterprises have to embrace on safe credit relationships. Further study can be conducted on the effect of credit risk management on financial performance.

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