Effect of Risk Management on Financial Performance of Private Hospitals in Mombasa County

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DOI: https://dx.doi.org/10.47772/IJRISS.2024.807024

Received: 14 June 2024; Accepted: 26 June 2024; Published: 27 July 2024

ABSTRACT

Effective risk management practices play a crucial role in enhancing the financial performance, operational stability, and overall resilience of organizations, ensuring they can effectively navigate uncertainties and challenges. Regardless of their importance, many private hospitals have yet to fully optimize their risk management strategies to mitigate financial uncertainties and stay competitive in the healthcare sector. This paper sought to examine the effect of risk management on the financial performance of private hospitals in Mombasa County. The study applied a descriptive research design. The study gathered data through questionnaires which were administered both physically and online. Data collected was analyzed through both descriptive and inferential analysis. Results revealed a β of 0.652 and a p-value of 0.001, between risk management and financial performance of private hospitals. The study concluded that risk management had a positive and significant effect on the financial performance of private hospitals in Mombasa County. The study recommends that private hospitals in Mombasa County should enhance their risk management practices by implementing robust systems for identifying and assessing potential risks proactively. Additionally, private hospitals in Mombasa County should prioritize risks based on their potential impact and likelihood. Lastly, the study recommends that private hospitals within Mombasa County should strive to improve monitoring and reporting mechanisms to help maintain a proactive approach to risk management, ultimately, enhancing financial performance.

Key Words: Risk Management, Financial Performance, Private Hospitals, Mombasa County

INTRODUCTION

Financial performance is widely recognized as an important indicator of a company's managerial efficiency and effectiveness in employing available resources to support operations and earn profits in the future. It consists of several indicators including revenues, net income, return on assets (ROA), return on equity (ROE), and earnings per share (EPS), which allow for getting a complete picture of the company's financial standing. These metrics assist stakeholders in assessing the suitability of management plans and operational productivity enhancements (Barauskaite & Streimikiene, 2021). The company must assess financial performance for internal use of decision-making as well as for external use in attracting investors and financing by proving value and potential for profitability. In addition, it helps the organizations to compare their performance with others set achievable targets and monitor organizational development. A company that has a favorable financial report is often more capable of diversifying, introducing new products, and surviving competition in the markets. Therefore, in the contemporary business world, sound financial performance signals the future sustainability and profitability of the company (Zhou, Liu & Luo, 2022).

Risk management's goal is to ascertain and minimize any risks that the firm is exposed to that may lead to a decline in its financial standing. Risk management also has a high level of association with financial performance, the best practices of risk management cushions enhance companies' from suffering huge losses and provide closer to more predictable financial results. Through the management of risks including, markets risks, credit risks, operations risk and regulatory risks, firms can guard themselves through risk management

(Hacini, et al., 2021). By achieving more stable financial results, it is possible to better plan the strategies and allocate the resources, which leads to an improved performance of the organization. However, poor management of risks exposes the company to financial vulnerability and decreases investors' confidence and business reputation in the long run (Akande & Salawu, 2019).

Globally, health institutions employ various risk management strategies to protect their financial performance and ensure long-term success. For example, Cleveland Clinic in the United States utilizes advanced risk management frameworks to effectively handle clinical and operational risks, contributing to its strong financial stability. In Japan, the Tokyo Medical University Hospital implements comprehensive risk management practices to mitigate risks associated with supply chain disruptions in medical supplies, ensuring consistent operational efficiency and financial performance. In Europe, Charité – Universitätsmedizin Berlin in Germany integrates risk management into its core business strategy to manage financial and operational risks, thereby maintaining stable financial outcomes despite market volatility. These examples illustrate how leading global health institutions prioritize risk management to enhance their financial performance and maintain a competitive edge in the international healthcare marketplace (Malik, et al., 2020).

In Africa, health institutions are increasingly acknowledging the importance of risk management in achieving strong financial performance. For instance, Lagos University Teaching Hospital in Nigeria has implemented extensive risk management strategies to safeguard its financial performance. By diversifying its healthcare services and employing robust financial controls and risk mitigation practices, the hospital has achieved strong revenue growth and financial stability despite the volatile economic environment in Nigeria (Fernández-Vidal, et al., 2023). Similarly, Netcare Group in South Africa implements robust risk management frameworks to manage market and operational risks across its extensive network of hospitals, contributing to its financial resilience and market leadership. These examples demonstrate that African health institutions are leveraging effective risk management to enhance their financial performance and ensure long-term sustainability. By mitigating potential risks, these institutions can focus on growth opportunities and improve their competitive positions in the regional and global markets (Boso et al., 2019).

In Kenya, health institutions like Aga Khan University Hospital and Nairobi Hospital have placed significant emphasis on risk management to maintain financial stability and drive performance. Aga Khan University Hospital utilizes advanced risk management strategies to mitigate operational and financial risks inherent in the healthcare industry, enabling it to navigate economic fluctuations and maintain a stable financial performance (Onsongo, Muathe, & Mwangi, 2020). Nairobi Hospital integrates comprehensive risk management practices into its operations to manage clinical and financial risks, enhancing profitability and reinforcing its position as a leading healthcare provider. These practices have allowed both institutions to achieve consistent financial outcomes and strengthen their market positions. The focus on risk management underscores its important role in driving financial performance and ensuring long-term success in the Kenyan healthcare environment (Horvey & Ankamah, 2020).

In the healthcare sector, particularly among private hospitals, effective risk management is crucial for ensuring financial performance and operational efficiency. Private hospitals face a myriad of risks, including regulatory compliance, patient safety issues, and financial uncertainties. Poor risk management can lead to significant financial losses, compromised patient care, and reputational damage. For instance, private hospitals in Kenya, such as Aga Khan University Hospital and Nairobi Hospital, implement comprehensive risk management strategies to handle financial and operational risks. Despite these efforts, the sector faces challenges such as high operational costs and regulatory pressures, impacting financial performance (Kiptoo, et al., 2021).

Recent statistics reveal significant challenges in the financial performance of the healthcare sector, particularly in private hospitals. A survey by, Kenya Medical Research Institute (KEMRI) (2022) revealed that private hospitals in Kenya reported profit margins as low as 5-11%, compared to the global average of 12-24% for similar institutions. Additionally, a survey by African Population and Health Research Center (APHRC) (2023), revealed that the average occupancy rate in private hospitals is around 49%, significantly below the 80-90% threshold typically needed for financial sustainability. Moreover, a report by the Kenya Healthcare Federation (KHF) (2021) indicated that 47% of private hospitals experience cash flow issues, with an average accounts receivable period of 90 days, double the recommended period of 45 days. Moreover, a survey by Kenya Medical

Training College (KMTC) (2023) through its Research and consultancy department, indicated that operational costs in Kenyan private hospitals have risen by approximately 32% over the past five years, outpacing revenue growth, which has only increased by 13% over the same period. These statistics underscore the financial strains and inefficiencies within the private healthcare sector, emphasizing the urgent need for improved risk management and strategic financial planning to ensure sustainability and quality service delivery. By studying risk management within private hospitals, particularly in Mombasa County and Kenya at large, stakeholders can identify gaps and develop strategies to enhance financial performance and ensure the delivery of quality healthcare services.

While the role of risk management in companies’ financial performance is well-documented (Mwangi, 2021; Kimani & Njeri, 2018), few studies have sought to examine the effect of risk management on the financial performance of private hospitals. Most studies have focused on the influence of risk management in internal control systems and performance in general. For instance, Muli and Githinji (2022) examined the influence of risk management in Small and Medium Enterprises (SMEs) in Rwanda. This study presented both contextual and geographical research gaps since SMEs operate in totally different market dynamics compared to private hospitals and also Rwanda has a different operational environment compared to Kenya. It is against this backdrop that this study sought to explore the influence of risk management on the performance of private hospitals in Mombasa County, Kenya. The conclusions from this study offers recommendations on the various strategies that can be implemented to enable private hospitals in Mombasa County to achieve their goals of quality healthcare provision.

THEORY AND LITERATURE REVIEW

Enterprise Risk Management Framework

The Enterprise Risk Management (ERM) Framework, while not attributed to a single individual, evolved through the collective contributions of risk management scholars and practitioners over several decades. A significant milestone in the formalization of ERM was the publication of the Committee of Sponsoring Organizations (COSO) ERM Integrated Framework by the COSO of the Tredway Commission in 2004. This comprehensive framework was developed to provide organizations with a structured approach to managing risk, addressing the need for an integrated system that incorporates risk management into the strategic and operational fabric of an organization. The development of the COSO ERM framework marked a pivotal moment, bringing a structured methodology to risk management and setting a standard for organizations worldwide (Olson & Wu, 2023).

The ERM framework centers around the identification, assessment, management, and monitoring of risks across an organization. It emphasizes a holistic approach, ensuring that all types of risks, strategic, operational, financial, compliance, and reputational are considered and managed in a coordinated manner. The key argument of ERM is that by embedding risk management into organizational processes, companies can better anticipate potential threats, mitigate adverse effects, and capitalize on opportunities. This integrated approach ensures that risk management is not an isolated function but a core component of decision-making, ultimately enhancing value for stakeholders by aligning risk management with strategic objectives (Saeidi et al., 2019).

Criticisms of the ERM framework often focus on its complexity and the challenges associated with its implementation. Critics argue that ERM can be resource-intensive, requiring significant changes to an organization's culture and processes. Additionally, some contend that ERM's comprehensive nature can lead to bureaucratic inefficiencies, with the risk of becoming more of a compliance exercise rather than a tool for strategic management. Despite these criticisms, ERM is widely accepted as a best practice for risk management, particularly in large and complex organizations. Its comprehensive nature, while challenging, is also its strength, providing a robust structure for managing risks in an interconnected business environment (Shad et al., 2019).

The link between ERM and risk management is intrinsic, as ERM is fundamentally a risk management approach. It provides a structured process for organizations to manage risks proactively, rather than reactively. By identifying potential risks early and assessing their potential impact, organizations can develop strategies to mitigate or transfer these risks. This proactive stance on risk management helps organizations minimize losses, avoid disruptions, and take advantage of opportunities that align with their strategic goals. Thus, ERM is not just about avoiding negative outcomes but also about positioning the organization to exploit positive opportunities through informed risk-taking (Abdel-Basset et al., 2019).

ERM framework is particularly applicable and relevant to this study because it provides valuable insights since private hospitals operate in a highly regulated and competitive environment, where risks related to patient safety, regulatory compliance, financial stability, and reputational integrity are paramount. By adopting the ERM framework, these hospitals can systematically address these risks, ensuring that they are managed in a way that supports overall organizational objectives and enhances financial performance. This structured approach to risk management is crucial in the healthcare sector, where the consequences of unmanaged risks can be severe and far-reaching (Amusawi, et al., 2019).

The ERM framework, therefore, provides a robust theoretical foundation for studying the impact of risk management on financial performance. Its comprehensive approach to identifying, assessing, managing, and monitoring risks ensures that organizations can better anticipate and mitigate potential threats, thereby improving stability and performance. For private hospitals in Mombasa County, implementing ERM can lead to more effective risk management practices, aligning managerial actions with strategic goals and ultimately improving financial outcomes. This makes ERM a highly relevant and practical framework for understanding the complex dynamics between risk management and financial performance in the healthcare sector, providing valuable insights and guidance for improving organizational resilience and success.

Empirical Literature Review

Naibaho and Mayayogini (2023), conducted a study aimed at investigating the influence of risk management, specifically focusing on operational risk, credit risk, and liquidity risk on the financial performance of firms, with corporate governance serving as a moderating variable. The study utilized secondary data collected from 48 companies across the Southeast Asia region, all of which fall under the Consumer Durable and Apparel, Consumer Service, and Consumer Staples industry categories listed in S&P Capital IQ, covering the period from 2017 to 2021. A purposive random sampling method was employed to select the sample for this study. The findings revealed that operational risk and credit risk do not significantly impact firm performance, while liquidity risk has a negative effect. Additionally, the study established that corporate governance mitigates significantly the adverse effects of liquidity risk on firm performance, while it enhances the impact of operational risk and credit risk. These results suggest that companies should develop robust corporate governance practices to optimize risk management and that investors should consider these risks when evaluating companies.

Makkawi (2021) investigated the role of risk management in enhancing business performance. This investigation employed a literature review to grasp the key aspects of managing business risks to boost company performance. The reviewed literature indicated that risk management significantly contributes to improving business performance, as evidenced by increased company profits, reduced business costs, and enhanced economic efficiency. Consequently, effective risk management positively impacts business quality by improving the company's financial status, boosting profits, and lowering costs. The study offers several recommendations for decision-makers in the insurance sector, urging them to recognize the critical influence of risk management on business success. It is suggested that they focus on reducing production costs, increasing profits, and enhancing the financial health of their companies. Additionally, decision-makers should continuously develop risk management practices to further increase profits, reduce costs, and strengthen the financial position, thereby improving overall business performance.

Shahzad, et al. (2020) conducted a study to explore how risk management mediates the relationship between perceived business risk and organizational performance. Data for the proposed model was collected from managers with at least five years of experience in the finance or risk management departments. The study employed a stratified sampling technique, distributing 384 questionnaires and receiving 204 completed responses. Structural equation modeling (SEM) was used to test the hypotheses and examine the mediating role of risk management. The findings indicated that perceived business risk significantly and positively influences the formalization of risk management practices, internal controls, and organizational performance. Additionally, the study found that formal risk management methods and robust internal controls mediate the relationship between perceived business risk and organizational performance. This implies that respondents believe higher organizational performance is associated with well-established risk management practices and strong internal controls in response to perceived business risks. These results may apply to other companies listed on the Pakistan Stock Exchange (PSX).

Dewi (2021) undertook an investigation and evaluated the effects of credit risk, market risk, operating efficiency, capital, and liquidity on the financial performance of banks. Adopting a quantitative research methodology, the study utilized secondary data from private banks listed on the Indonesia Stock Exchange (IDX) over the next three years. Multiple linear regression was employed for the technical analysis. The findings revealed that market risk and operating efficiency significantly influence bank financial performance. In contrast, credit risk, capital, and liquidity do not have a significant impact on the financial performance of the banks.

Temba (2020) assessed the impact of various key risk management practices (RMPs) on the financial performance of selected microfinance institutions (MFIs) in the Kumasi metropolis, Ghana. The financial performance indicators utilized were Return on Asset (ROA) and Return on Equity (ROE). The RMPs examined included risk identification, risk appraisal, risk control, risk monitoring, and commonly practiced risk management. A five-point Likert scale questionnaire with closed-ended questions was distributed to ten selected microfinance institutions (MFIs). The findings indicated that the average ROA and ROE for the selected MFIs were 3% and 35%, respectively. Additionally, the results demonstrated a moderate to substantial extent of usage of risk identification, risk appraisal, risk control, risk monitoring, and occasionally practiced risk management. The ranking of the frequent usage of these RMPs, based on a benchmark, was as follows: risk identification, risk monitoring, risk appraisal, and risk control. It was recommended that Managers and Directors should ensure the continuous application of these risk management practices to enhance profitability.

Saad, et al. (2024) examined the complex relationship between effective risk management and the performance of publicly listed companies in Malaysia. Using a quantitative approach, the study analyzed a comprehensive dataset comprising 1,216 year-observations over four years, from 2018 to 2021, focusing specifically on publicly traded companies. Firm performance is measured using Tobin's Q, while the effectiveness of risk management is assessed by examining key risk categories: strategy risk, operational risk, reporting risk, and compliance risk. The study also incorporated control variables such as company size and leverage. The results revealed that all key risk categories, indicative of effective risk management, had a significant impact on the performance of Malaysian publicly listed companies. This research not only adds empirical depth to the existing literature on risk management but also provides valuable insights into how effective risk management practices influence the performance of public companies in Malaysia. The findings are particularly useful for investors, executives, and academicians interested in understanding the intricate link between risk management effectiveness and corporate performance in Malaysia's publicly listed sector.

DATA AND METHODS

Research Design: This study adopted a descriptive research design, as it aimed to uncover characteristics, frequencies, trends, and categories. This approach allowed for a thorough exploration of the background of the research problem before delving into further investigation serving as the primary goal of portraying current situations, employing both qualitative and quantitative methods. The descriptive research approach provided a comprehensive portrayal of population characteristics enabling the researcher to investigate the effect of risk management on the financial performance of private hospitals in Mombasa County. The study targeted 16 private hospitals in Mombasa County in levels four and five as the unit of observation while 143 employees sampled from these hospitals served as the unit of analysis.

Sample and Sampling Methods: This study opted for the probabilistic sampling method, specifically utilizing a stratified random sampling technique in addition to Taro Yamane’s formula to come up with an adequate and representative sample size. The Taro Yamane formula, which is expressed as;

$n = N / (1 + N * e^2)$ ……………………………………………………………………equation (i).

In this formula, 'n' represents the desired sample size, 'N' is the total population, and 'e' is the desired level of precision or margin of error in sampling. For this study, an error margin of 5% or a 95% confidence level was

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS |Volume VIII Issue VII July 2024

considered. The calculation to derive the sample size involves applying these values to the formula, n=143/ [1+143(0.05* 0.05)] = 105.34, which was considered as 105 participants.

Data Collection Instruments and Methods: The study utilized semi-structured questionnaires to gather primary data that were distributed through both physical and electronic means. The instrument was subjected to pilot tests through a thorough evaluation of both face and construct validity and reliability involving the use of the Kaiser-Meyer-Olkin (KMO) and Bartlett tests with a predefined KMO threshold of 0.7 and p-value at a chosen significance level of 0.05.

Data Analysis: Primary data gathered was analyzed through both descriptive and inferential analyses. Descriptive analysis included measures of central tendency (mean, frequency, and percentage) and measures of dispersion, such as standard deviation. Concurrently, inferential analysis was conducted with a significance level of 0.05, to determine the effect of risk management on the financial performance of private hospitals in Mombasa County. The regression model utilized was expressed as follows;

$Y = \beta_0 + \beta_1 X_1 + \varepsilon$……………………………………………………..…………equation (ii).

Where Y was the financial performance of private hospitals in Mombasa County, $\beta_0$was the constant, β_1 was the coefficient for risk management, X_1 was risk management and ε was the error term.

RESULTS AND DISCUSSIONS

Response Rate: The researcher administered 105 questionnaires both electronically and physically. However, the researcher was able to obtain 92 questionnaires that were filled with no missing data representing a response rate of 87.62%.

Descriptive Statistics

Descriptive Statistics on Risk Management

Table 1 revealed that participants agreed with the statement that their private hospital effectively identified potential risks before they took place (mean=3.96). Additionally, participants agreed with the statement that their private hospital had the ability to effectively assess risks (mean=4.07). Moreover, participants agreed with the statement that their private hospital prioritized risks based on their potential impact and likelihood (mean=3.78). Lastly, participants agreed with the statement that they were satisfied with their hospital's monitoring and reporting of risks (mean=4.23). A study by Makkawi (2021) concurred with the study's findings in an exploration of the role of risk management in enhancing business performance through a comprehensive literature review. The study found that effective risk management significantly improves business performance by increasing company profits, reducing business costs, and enhancing economic efficiency. It highlighted that risk management positively impacts business quality by boosting financial status, profits, and cost efficiency.

Table 1: Descriptive Statistics on Risk Management

Statement on risk management	SD	D	N	A	SA	Mean	Std. Dev
Our private hospital effectively identifies potential risks before they take place	6.5%	2.2%	8.7%	54.3%	28.3%	3.96	1.026
our private hospital has the ability to effectively assess risks	4.3%	7.6%	4.3%	44.6%	39.1%	4.07	1.067
our private hospital can prioritize risks based on their potential impact and likelihood	4.3%	7.6%	16.3%	48.9%	22.8%	3.78	1.025
I am satisfied with our hospital's monitoring and reporting of risks	1.1%	1.1%	9.8%	50.0%	38.0%	4.23	0.757

Descriptive Statistics on Performance

Table 2 revealed that participants agreed with the statement that revenues had increased indicated by a mean of 4.00. Additionally, participants agreed with the statement that net profits had increased as indicated by a mean of 4.07.

Table 2: Descriptive Statistics on Performance

Performance measure	**SD**	**D**	**N**	**A**	**SA**	**Mean**	**Std. Dev**
Revenues have increased	3.3%	0%	13.0%	60.9%	22.8%	4.00	0.812
Net Profits have increased	3.3%	12.0%	0%	44.6%	40.2%	4.07	1.087

Descriptive Statistics on Secondary Data

Table 3 revealed a significant variability over the observed period. The mean net profit was Kshs. 1,211,245.40 with a standard deviation of Kshs. 414,216.782, indicating substantial dispersion around the mean, suggesting that different hospitals reported widely varying profits. Similarly, the mean revenue stood at Kshs. 3,633,736.20, with a standard deviation of Kshs. 1,242,650.346, reflecting considerable variation in revenue. The range of net profits spanned from a minimum of Kshs. 526,452 to a maximum of Kshs. 1,897,735, while revenues ranged from Kshs. 1,579,356 to Kshs. 5,693,205. This wide range underscores the diverse financial landscapes in which these hospitals operate.

Table 3: Descriptive Statistics on Secondary Data

Statistics	**Net profit**	**Revenues**
Mean	1211245.40	3633736.20
Std. Deviation	414216.782	1242650.346
Minimum	526452	1579356
Maximum	1897735	5693205

Regression Analysis

Table 4 revealed an R-square of 0.555 implying that 55.5% of the changes in the financial performance of private hospitals were explained by risk management. Other variables not included in this study explained 44.5% of the changes in the financial performance of private hospitals in Mombasa County. Further, the results revealed an F-statistic value of 112.057 with an associated p-value of 0.001, which suggests that the linear regression model applied by the study was a significant fit in predicting the financial performance of private hospitals.

The table also indicates a beta coefficient of 1.582 and a p-value of 0.001 which indicates that the constant in the model was statistically significant in the prediction of the financial performance of private hospitals in Mombasa County. Additionally, results revealed a beta value of 0.652 and a p-value of $0.001<0.05$ between risk management and the performance of private hospitals which implied that risk management significantly influenced the performance of private hospitals in Mombasa County since the calculated p-value of 0.001 was less than critical chosen value of 0.05. A previously conducted study by Shahzad, et al. (2020) supported the findings of this study in their investigation of how risk management mediates the relationship between perceived business risk and performance. Findings revealed that perceived business risk significantly and positively influences the formalization of risk management practices, internal controls, and organizational performance. The study also found that formal risk management methods and robust internal controls mediate the relationship between perceived business risk and organizational performance. These findings suggest that higher organizational performance is linked to well-established risk management practices and strong internal controls.

INTERNATIONAL JOURNAL OF RESEARCH AND INNOVATION IN SOCIAL SCIENCE (IJRISS)
ISSN No. 2454-6186 | DOI: 10.47772/IJRISS |Volume VIII Issue VII July 2024

Table 4: Regression Analysis

Model Summary				
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	.745[a]	.555	.550	.470

ANOVA[a]						
Model		**Sum of Squares**	**Df**	**Mean Square**	**F**	**Sig.**
1	Regression	24.709	1	24.709	112.057	.000[b]
	Residual	19.845	90	.221		
	Total	44.554	91			

Coefficients						
Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
		B	**Std. Error**	**Beta**		
1	(Constant)	1.582	.265		5.974	.000
	Risk Management	.652	.062	.745	10.586	.000

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Risk Management

CONCLUSIONS AND RECOMMENDATIONS

The study concluded that private hospitals in Mombasa County effectively identified potential risks before they took place. Additionally, the study concluded that private hospitals in Mombasa County could effectively assess risks. Further, the study concluded that private hospitals in Mombasa County prioritized risks based on their potential impact and likelihood. Moreover, the study concluded that respondents from private hospitals in Mombasa County were satisfied with their organization's monitoring and reporting of risks. Besides, the study concluded that there was a significant variability in net profit among private hospitals in Mombasa County. The study also concluded that there was considerable variation in revenue. Lastly, the study concluded that risk management significantly and positively influenced the financial performance of private hospitals in Mombasa County.

The conclusions of the study, therefore, align with the ERM framework which centers on the identification, assessment, management, and monitoring of risks across an organization. The theory emphasizes a holistic approach, ensuring that all types of risks; strategic, operational, financial, compliance, and reputational are considered and managed in a coordinated manner. The theory suggests that by embedding risk management into organizational processes, organizations can better anticipate potential threats, mitigate adverse effects, and capitalize on opportunities. This integrated approach ensures that risk management is not an isolated function but a core component of decision-making, ultimately enhancing value for stakeholders by aligning risk management with strategic objectives.

The study recommends that private hospitals in Mombasa County should enhance their risk management practices by implementing robust systems for identifying and assessing potential risks proactively. Additionally, the study recommends that private hospitals in Mombasa County should prioritize risks based on their potential impact and the likelihood of allocating resources effectively. Furthermore, the study recommends that private hospitals within Mombasa County should strive to improve monitoring and reporting mechanisms to help maintain a proactive approach to risk management, thereby enhancing financial performance and overall

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS |Volume VIII Issue VII July 2024

organizational resilience.

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