

Effect of investment risk management practices on financial performance of microfinance institutions in Kenya: a case of Kenya women finance trust in Kisii town

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Abstract

Investment risk management is a fact used to consider investment decision of company. The aim of the study was to assess the effects of investment risk management practices on financial performance in Kenya women finance trust in Kisii town. In particular the researcher focused on the following specific objectives to evaluate the effects of risk diversification on financial performance of microfinance institutions, and to find out the effect of Investment risk Analysis on financial performance of microfinance institutions. The study adopted descriptive research design because it explained how, why and when and what according to the situation. The target population was financial statements from 2011-2015. Data was collected, edited and coded in excel for analysis. Data was presented by use of tables and figures. The researcher found out that the higher the risk diversification measures the higher the profitability of the organization, risk analysis is positively correlated to financial performance of micro finance institutions, risk monitoring has a significance effect on the profitability of an organization and risk control has a significant effect on financial performance of microfinance institutions. The researcher concluded that in microfinance institutions risk diversification is a vital consideration if profits have to be generated, risk analysis is viewed as a mechanism of appraising the costs and the benefits associated with each investment activity undertaken, risk monitoring is a post investment process that keeps a check on the proceedings and risk control is an imperative process that should be exercised by all institutions in order to manage the occurrence of risks which would translate to losses either of profits or value of the existing asset base. The researcher recommended that microfinance institutions should at all times utilize various optimal risk diversification measures to minimize risks and maximize return, risk analysis is a procedure that should be emulated and adopted by all rational investors, risk monitoring should be constantly adopted to determine the trends for earlier initiation of any corrective measures in case of negative extremes and management of microfinance institutions should enforce diverse risk control measures geared towards mitigating the likely losses to the institutions.

Key Words: *Investment risk management; Financial performance; Microfinance institutions; Kenya*

1.0 Background to the study

The declining of micro financial institutions has moved towards investments risk like that of banks which has created several challenges for investor's decisions. Management of many business needs to focus on what investors can do better; managing a microfinance portfolio, seeking opportunities to increase its financial enclosure footprint, adding value to its current investors, and increasing the financial performance of the entity to ensure its long-term

sustainability. Financial accounting, reporting or remediation may not be the core competence or part of primary investment importance to a manager but even be an area the manager focus to outsource to a third party (Fang, 2012).

Risk diversification addresses the notion of performance variability, or risk. The first being: socially performing firm's exhibit different overall risk compared to conventional companies with regard to total risk, the assessment is broken down into risk based on accounting measures and investment measures.

Conversely, when taking risk factors, such as capital structure and income variability into account it appears that ethically performing firms enjoy both higher leverage and increased net income volatility. The higher leverage ratio can be explained by the argument that socially responsible stocks enjoy lower cost of capital (Diagne and Zeller (2001). The assets in the Investment can include stock, bonds, financial options, savings, real estate, and business production facilities, or any profits that is expected to retain its value.

An investment manager has to respond quickly through implementation of new policies to respond to future status quo. This call for investor risk profile is growing in East Asian because of financial crisis with the investor new rule to invest. Even though this, the investors 'effort moves towards a stable financial status which needs to protect financial risk. The implication of investment risk management depends on investment regulations. The investment risk management is emphasized to control investment risk in order to increase quality of investment risk disclosures as it addressed. Investment contributors have accepted that the more investment risk, the more profits (Gkemitzis, 2013).

Investment risk management is characterized by challenges faced with the business with possible risks such as risk aversion, and desire of risk assumptions. Indifference to invest risk profiles means that investor prefers less risk investment to different financing of the owner's structure. Investors have been affected with various risks valuations since they cannot get future risk predictions by cash flow movement in New Zealand (Margaritis 2006).

Investment risk profiles include all process of analyzing risk while investment choice lies upon the hand of risk seeker who believe to invest more to earn more returns. The choice of investment depends on the nature of risk or less investment risks. Most investor expects high financial returns as they seem to demand for riskier investments but do not think of risk profiles. The investments risk profiles are indifferently associated which cannot dictate the type of investment to choose in future projects

as it has been observed in Turkey. This type of investment risk does not care cash flow to invest.

1.1 Statement of the problem

Kithinji (2010) stated that the ultimate concern over credit risk management is to have measures in place to ensure sustained commercial banks' profitability given that the commercial banks' main income source is through the activities of lending. According to the Central Bank of Kenya (1997) and Ragan (2002) argued that, sound credit policy would help improve oversight of asset quality, establish a set of minimum standards and apply a common language and methodology. Bessis (1998), defines Loan portfolio diversification as the act of banks limiting the amount lent to any borrower/customer in a given industry or economy. The concept of diversification in finance, which is now called modern portfolio theory (MPT), was first presented by a renowned scholar- Markowitz (1952). Part of his propositions was an approach to measure the risk of securities which could later be put in relation to its return. The same principles therefore should apply while applying (MPT) on a banks' commercial credit portfolio. Kithinji (2010) further captures Kenya commercial banks risk management in four distinguishable phases as; the conservative risk management (before 1980's), lenient credit risk management (1980's), stringent credit risk management (1990's) and customized global credit risk management standards (year 2000's).

Altman (2003) identifies; new emphasis on sophisticated risk management and the changing regulatory environment for commercial banks, enormous defaults and corporate bankruptcies, refinements of credit scoring techniques, large credible databases, loans offer as securities, insufficient portfolio strategies, offensive credit risk products (derivatives, credit insurance etcetera), lack of credit culture, losses from credit assets threatening the financial system, insolvency if many banks and investment firms among others to be the factors affecting credit risk management. According to the GOK (2012) the credit information sharing (CIS) mechanism which was launched in 2010 continues to be

used by commercial banks and that it has strengthened credit appraisal. However, this does not necessarily mean that the level of credit risk is reduced to negligible levels.

Micro financial institutions have been identified to be the major sources of finance to the economic development. They have a large extent helped the development of Kenyan community by reducing unemployment in the rural areas improving marketing services, providing microloans, enhancing saving mobilization and facilitating financial training which in turn will ensure improved economic life. Vigenina and Kritikos (2004), financial services provide a prolific source of employment, income, and government revenue and poverty reduction. The sector comprises 98% of all businesses in the country, employs more than 4.6 million people (30%) and accounts for 18.4% of the country's gross domestic product

Jasmin (2010) argued that investing was the principal business activity for most institutions. As such, it was one of the greatest sources of risk to an organizations safety and soundness. However, developing investments with limited investment activity, gaining modern investment risk was very challenging. Investors were straining by means of investing more; this was because investors and companies face financial friction on portfolio management, asset allocations, and risk management analysis. This study did not discuss investment risk management practices on performance.

Nousheen (2014) studied the effect of investor's reaction in implementation of corporate governance performance. The objectives of microfinance were to empower societies from an economic and social perspective by providing access to financial services, such as investment risk, savings and insurance facilities. Impact investments were investments made in companies, organizations and funds with the intention to generate measurable social and environmental impact alongside a financial return but microfinance and impact investment do not reach their desired goals and objectives at one given time. Following the criticism in the microfinance industry in recent years, stakeholders required

more transparency about the impact of microfinance and impact investments.

Measuring impact was a complex and tedious process, and the results were often incomparable between comparable microfinance and microfinance investment vehicles. Nyabwanga (2011), showed that investment risk is unpredictable mostly in banking sectors by regulatory interest rates risk without Kenya women finance trust, which was found obvious in investment risk. From the studies little focus was laid on the effect of investment risk management practices on the financial performance. This study sought to establish the effect of investment risk management practices on the financial performance in Kisii County, Kenya.

1.2 Objectives of the Study

The study assessed the effect of investment risk management practices on financial performance of microfinance institutions in Kenya. Specifically the researcher focused on the following specific objectives:

- i. To evaluate the effects of risk diversification on financial performance of microfinance institutions
- ii. To find out the effect of Investment risk Analysis on financial performance of microfinance institutions

1.3 Research Hypotheses

- (i) H_{01} : Risk diversification has no significant effect on financial performance of microfinance institutions
- (ii) H_{02} : Risk analysis has no significant effect on financial performance of microfinance institutions

2.0 Literature review

Risk Management Theory

David (1997) developed this theory aiming to study why risk management was required, and outlines theoretical underpinning under contemporary bank risk management; its emphasis is on

market and credit risks. The theory indicates that market and credit risks would have either direct or indirect effect on banks survival (Eichhorn, 2004). One would expect the credit risk indicators to influence banks profitability if

there is no effective and efficient credit risk management (Ngugi, 2001). This theory identifies major source of value loss as Market risk being a change in net value of asset due to change in interest rate, exchange rate, equity and commodity prices (Wu & Olson,2010).Regulators are concerned with overall risk and have minimum concern with individual risk of portfolio components as managers are capable of window dressing the bank position. The need for total risk show that measurement of risk cannot be centralized as risk of a portfolio is not just a sum of component as per Markowitz theory. This implies that portfolio risk must be driven by portfolio return which is invariant to changes in portfolio composition (Beverly,2015). Regulatory requirements and alternative choices require managers to consider risk return trade off, Measurement of risk is costly thus bank managers compromise between precision and cost (Sovan,2009). Trade off will have profound effects on any method adopted by the bank. They have one risk measurement goal knowing to a high degree with precision and the maximum loss that the bank will likely experience (Muhammad & Bilal, 2014).

Regulators may set capital requirements to be greater than estimated maximum loss to ensure non-failure. Risk management theory has two principle approaches to measurement of risk, scenario analysis and value at risk (Sovan,2009). Scenario analysis approach does not require distribution assumption of the risk calculation and it's very subjective and assumes that future results will resemble those of the past(Wilfred,2006).15Value at risk (VAR) uses asset return distribution to estimate the potential losses. Monte-Carlo simulation and analytical VAR method are two principle method of estimating VAR and they enable managers to estimate forecast. They have advantage of computational efficiency and tractability though they may show non-normal distribution experiencing fat tails reflecting inconstancy of return volatility. This method incorporates sound economic theory that incorporates market structure (Muhammad & Bilal, 2014). Where there is non-normal distribution student t is appropriate, it's useful for fat tails distribution

since it's aimed at describing the behaviour of portfolio returns. Analytical value at risk uses standard portfolio theory; the return distribution is described in terms of variance and covariance representing risk attributes to a portfolio over horizon (Sovan,2009).

Risk diversification

Investors were risk takers. Risk related to investment projects are known as occurrence of variability commonly considered in investment returns. Investors expect risk in their investment approaches on occurrence of future investments. Ivan (2013) conducted a study on the effect risk management in liquidity performance. The study employed descriptive statistics to analyze data from the randomly selected populations. The study used secondary data from various investors in European central banking. The same analysis was done by Shantatus (2015) who noted that risk analysis was used to assist investments with that of liquidity management in India. The study established that risk management was the concern in banking performance. The study concluded that investors improve profitability by various investments in financial growth.

Investors of two types; risk averter and risk seeker, Risk averter like less risk investment and risk seeker they need more risk as they prefer smaller investment risky. Fang (2012) carried a study on the effect of portfolio risk on financial growth. The study targeted Wharton school population as the respondents and used stratified sampling techniques in categorizing employees Pennsylvania, Beruch and city university of New York. Cristina (2012) studied that the effects of investment risk in profitability of the firm. The objective of his study was to determine the relationship between investment risk and profitability by stock investment. The study diagnosed performance of various firms in Romania and analyzed by secondary data by descriptive statistics. The findings of her study found that there was a relationship between investment risk and profitability. The study concluded that stock risk analysis must be done without comparing risk with other industries. The researcher recommended that the firm risk analysis was by business plan development. The study did not argue on the relationship between

risk management practices and financial performance which this study focused on.

Berlici (2011) noted that risk was the life of business enterprise which operated in variability conditions in Paris, the study said that most financiers are more advantaged for the firm to provide financing loans but mostly from equity financing. The risk of borrowing cost was constantly deductible for the business. In his study the position of the investment was affected by its investment risk outputs constantly with expenses turnovers. The analysis of risk in business investors observed that they were economic rates which affected return on investment followed by various trends of increased equity efficiency. The method of risk analysis was comparable to investment return. The number of risk analysis was measured by the level of risk inherent conditions standard deviation in cash flow and coefficient of variations if the company assumed possible result with probability of the results in it states of pessimistic 300 and moderate success 600, they expected risk value was determined by average of their risk outcome.

Fang (2012) in his study of liquidity risk on business governance in Wharton school of higher education in New York. The study found out that they were existing differences among economic returns and cost of capital invested. The similar study also argued by Nyabwanga (2011) who found out that in every institution there exist financial leverage which in turn bring about risk analysis in the financial profiting. The study observed that the use of financial loans was the only financial debts to maximize risk ratio. The effects of risk analysis were used in respect to investment risk to increase financial support for overall performance. The study concluded that investment risk influences debtless capacity to control risk of huge investment. The study also added that risk analysis had effect on the investment decision to improve profits under the investment.

Dyan Minor et al (2015) conducted a study on the influence of selecting good investment risk in investment managers to determine corporate performance. The study aimed to investigate the link between managers and financial performance.

Risk analysis and financial performance

The study by Kalui and Kiawa (2015) noted that risk analysis and assessment comprises identification of the outcomes, determination of the probability of those outcomes and estimation of the magnitude of the consequences Tanui et al. (2015) added to this sentiments by opining that investment risk analysis is mostly aimed at generating profitable loan that do not expose the lender to excessive amount of risk. In support of this statement, Ngwa (2010) indicated that the main objective of risk assessment task is to enable the management to understand what is at risk and what events could potentially cause harm or benefits. In most cases, risk is normally assessed in terms of the severity of the impact, likelihood of occurring and controllability (Gray & Larson, 2006), and this is instrumental in helping the bank to know the chances that the risk might occur, and if it occurs, the impact it can have on the bank and how they can possibly control it.

USAID (2012) identified the 5C's which lending institutions follow in their effort to make decisions on whether or not to advance investment risk. These are; character, capital, capacity, conditions and collateral. According to the study, character is a subjective measure of both the borrower's willingness and ability to repay the loan, while capital is the money which the borrower has personally invested in the business. This is important in decision making because it helps the bank to determine whether the borrower is able to withstand financial difficulties. The third "C" represents capacity. This represents the borrower's financial ability to repay the loan. The fourth "C" represents conditions, which is a measure of the intended purpose for which the loan is advanced. The Last "C" represents collateral. This is the security which the borrower gives the lender so that, should the borrower be unable to repay the loan, the lender can sell it to recover the loan balance.

Williams (2007) asserted that a bad debt occurs not only due to poor investment risk analysis and judgment together but also due to poor control. Hassan Al-Tamimi & Mohammed (2007) found out that risk assessment and analysis play a very great role in determining the

risk management practices adopted among the UAE banks. Bank of America (2015) found out that most investment firms had opted to use environmental, social and governance factors (ESG) in all its investment decisions simply because they realized that these ESG factors improved an investment manager's ability to undertake investment risk analysis and carry out risk management evaluation more efficiently. According to this study, ESG-related criteria helps to broaden traditional financial analysis by increasing an investor's ability to assess risks that are not evident in the balance sheet, but are influential to the financial performance of the financial institutions.

The works of a study by Yegon, Sang and Cheruiyot (2014) on the effects of investment risk management on firms profitability in Kenya, praised risk analysis by stating that it is useful in decision making concerning the use of economic financial potential or investment decisions, in developing business plans, and also to inform partners about the enterprises' performance level. The study further stated that, analysis of investment risk and leverage effect poses a significant impact in optimizing the investment risk and viability of any business. Mengich and Njiru (2015) investigated the effect of risk management practices on the financial growth of Savings and Investment risk Cooperatives in Nakuru County. The study aimed to determine the effect of risk function and risk analysis on the financial growth of Firms. Using a survey design on a sample of 61 respondents drawn from investment risk, finance and management staff, the study realized that risk analysis is significant in influencing the financial growth of firms while risk function profile had a positive though insignificant effect on the financial growth of firms. In view of this, the study recommended that Firms should continue analyzing the levels of risk of prospective borrowers.

Hayan (2015) studied investment Metrics in Five Countries in this study presents a research of the Investment risk and its connection with Financial Performance (Investment risk) in Colombia. The primary data was collected using (questionnaires context in Bogotá. The finding was processed by simple

linear regressions to assess each dimension of investment risk impact on the financial performance. Next, each of these dimensions (intelligence generation; intelligence dissemination; response planning; and response implementation) are taken as independent variables. Furthermore, Net Sales and Operating Profit, and their ratio to assets, along with performance managers' financial perception, are used as dependent variables. Finally, the results revealed that all five tested models are not statistically strong enough to conclude that Financial Performance is directly impacted by the investment risk construct, given that the former results did not show an adjusted R value greater than investing. The investment risk had small and medium influence to improve financial performance.

Argo (2011) argued on the influence of investment risk on financial performance on payout policy in Oliver Lukas on university of Tartu. The study targeted population involved Estonian firms. The findings indicated that Investment risk is the issue for investments performance. The study adopted literatures from other listed firms and demonstrated that they are factors that facilitate the company payout. The study analyses the effect of financial performance by targeting payout from Estonian sample of companies which covers financial performance due to crisis in 2008 to 2009 calendar years. The result indicated that earlier financial performance shows are deprived predictors in future payout ratio to the value of Investment risk. The study established that they are relationship between Investment risk, are seem to own predictive authority.

Bozol (2011) argued that in case of the absence of Investment risk is not similar. It however noted that Investment risk is practical in the conditions of Investment risking the common imperfections, in the study there exist corporate taxes which asymmetric to agency cost. The agency cost is arising through conflict of concern among the claimholders which represents imperfections. Then similar study was carried out Baker (2011) who posited that cashing Investment risk assist to minimize potential problem of Investment risk in firms, price policy is written down and signed to

minimize conflict of interest among investors or bondholders to dictate various Investment risks. This study demonstrated that those transactions with flotation cost is also indicated on which investment type to hold imperfections, despite this there is no practical policy on Investment risk applied this but this study will apply the division policy to indicate how they affect financial performance in investment risk profile. Most studies have shown the behavioral characteristics to discuss why firms should manage Investment risk but it has been a continuous argument among the investors in relations to financial performance.

3.0 Research methodology

Research Design

The research study adopted descriptive research design. Descriptive research design was appropriate because it described how, when and whom to get the information under study as the situation was and explore the effects of investment risk management practices on financial performance in Kenya women finance trust investors.

Target Population

The researcher extracted secondary data from the company financial statements of Kenya Women Finance Trust specifically from the income statements and statements of financial position for the years 2011 to 2015.

Sampling Design and Sample Size

All elements of the target populations were utilized in the study that was data for the 5 year period between 2011 and 2015

Validity and Reliability of Research Instruments

Reliability according to Mugenda (2003) refers to the consistency of a measure. According to Saunders (2009) recommended the use of the piloting to improve instruments so that the respondents have a difficulty in answering the questions as well as make available for easy recording and analysis of data. Cronbach's coefficient alpha technique was also used to measure data reliability.

According to Mugenda (2003) validity refers to the degree to which a study measures what it is proposed to measure and it indicates how sound the research is. Validity was verified with the

help of the researcher's supervisor and other interim experts under the study.

Data collection instruments and procedures

Data was collected by use of secondary data from 2011 to 2015 financial reports. Document analysis guide was used to extract the requisite data from the financial statements of Kenya Women Finance Trust.

Data Analysis and Presentation

Data collected was edited, coded and keyed in to statistical programs for analysis then the coded data was analyzed using descriptive statistics such as, percentage, mean, and standard deviation. Inferential statistics was used to give final conclusion of the study.

4.0 Findings and discussion

Risk Diversification

To establish the effect of risk diversification on financial performance of Kenya Women Finance Trust a simple regression model of the form $y=a+bx$ was used. While y represented financial performance, a was a constant of y intercept and b the coefficient of risk diversification. The results are as shown in table 4.1

Table 4.1 Coefficients of Risk Diversification

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	T	Sig.
1 constant	1.68	.057		2.823	.000
RISKDIV	15.43	.000	.534	3.733	.001

Source: Field data 2018

The regression equation derived from the results was therefore $Y= 1.68+15.43X$. This means that increase in risk diversification by 1 shilling increases a firm's profitability by shs.15.43. The standardized beta value of .534 indicates that an increase in risk diversification by 1% causes an increase in profitability by 53.4%.

Testing of Hypothesis I

The calculated t value as indicated in table 4.1.1 shows a value of 3.733 while the critical table value at 5% level of significance is 3.124 .This indicates that the calculated value in higher than the critical value in the table. Therefore the null hypothesis that there is no significant effect of risk diversification on the financial performance of micro finance institution fails to be accepted. This implies that there is a significant effect of

risk diversification measures on financial performance of Kenya Women Finance Trust. Further the p-value is less than 0.05 of significance level showing that risk diversification has a significant effect on financial performance of microfinance finance institutions.

To test goodness of fit of the regression model used on risk diversification F value was used and the results as shown in table 4.2

Table 4.2 Risk Diversification ANOVA

Model	Sum of Squares	Df	Mean Square	F	Sig.
1	.208	1	.208	18.550	.001
Regression					
Residual	.536	3	.182		
Total	.744	4			

Source: Field data 2018

The F value in table 4.3 indicates a substantially high figure of 18.550 implying that the model is valid and can hold. The p-value of 0.001 is less than 0.05significance level and therefore the model is considered a good model.

Table 4.3 Risk Diversification Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.534	.285	.275	.2751355

Source: Field data 2018

Further the r square value as shown in table 4.3 shows that a change in risk diversification causes 28.5% variation in financial performance of microfinance institutions. This means that 71.5% of the variation in financial performance can be explained by other factors.

The findings revealed that risk diversification has a significant effect on financial performance of Kenya Women Finance Trust. The higher the risk diversification measures the higher is the profitability of the organization. This finding confirms the work of Dyan Minor et al (2015) who conducted a study on the influence of selecting good investment risk in investment managers to determine corporate performance. The study investigated the link between managers and financial performance. They affirmed that selecting good investment manager would imply effective risk management which

will translate to greater financial performance. Further the finding confirms the work of Fang (2012) who carried a study on the effect of portfolio risk on financial growth targeting Wharton school population. Cristina (2012) study determined the relationship between investment risk and profitability by stock investment. Upon diagnosing performance of various firms in Romania using secondary data the scholar found that there is a relationship between investment risk and profitability, a finding which is in tandem with the one in this study.

Risk Analysis

To determine the effect of risk analysis on financial performance of microfinance institutions a simple regression model of the form $y=a+bx$ was employed. While y represented financial performance, a was a constant of y intercept and b was the coefficient of risk analysis. The results are as shown in table 4.2.1

Table 4.2.1 Coefficients of Investment Risk Analysis

Model	Unstandardized Coefficients		Standardized Coefficients		T	Sig.
	B	Std. Error	Beta			
1						
constant	.151	.072			2.149	.032
RISKAN	12.840	.000	.36		5.435	.020

Source: Field data 2018

The regression equation derived from the results was therefore $Y= .151+12.84X$. This means that increase in risk analysis by 1 unit increases financial performance by Shs.12.84. The standardized beta value of .36 indicates that an increase in risk analysis by 1% causes an increase in financial performance by 36%.

Testing of Hypothesis II

The calculated t value as indicated in table 4.1 shows a value of 5.435while the critical table value at 5% level of significance is 3.061. This indicates that the calculated value is higher than the critical value in the table. Therefore the null hypothesis that there is no significant effect of risk analysis on the financial performance of microfinance institutions fails to be accepted. This means that there is a significant effect of risk analysis on financial performance of

microfinance institutions. Further the p-value is less than 0.05 of significance level showing that risk analysis has a significant effect on financial performance of microfinance institutions in Kenya.

To test goodness of fit of the regression model used on risk analysis F value was used and the results are as shown in table 4.3.2

Table 4.3.2 Risk Analysis ANOVA

Model	Sum of Squares	Df	Mean Square	F	Sig.
1	.525	1	.525	5.931	.020
Regression					
Residual	2.919	3	.973		
Total	3.443	4			

Source: Field data 2018

The F value in table 4.3.2 indicates a substantially high figure of 5.931 implying that the model is valid and can hold. The p-value of 0.000 is less than 0.05 significance level and therefore the model is a good model.

Table 4.3.3 Risk Analysis Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.360	.130	.117	.2973881

Source: Field data 2018

Further the r squared value as shown in table 4.3.3 shows that a change in investing cash causes a 13 % variation in financial performance of microfinance institutions. This means that 87% of the variation in financial performance can be explained by other factors.

The findings revealed that risk analysis is positively correlated to financial performance of microfinance institutions in Kenya. This finding concurs with the study by Kalui and Kiawa(2015) which noted that risk analysis and assessment comprises identification of the outcomes, determination of the probability of those outcomes and estimation of the magnitude of the consequences. The finding also agree with Tanui et al. (2015) who portend that investment risk analysis is mostly aimed at generating profitable loan that do not expose the lender to excessive amount of risk. The results of this study supplement the argument of Gray & Larson, (2006) risk is normally assessed in terms of the severity of the impact, likelihood of

occurring and controllability and it helps the management to know the chances of occurrence of a risk and its impact on profitability and prompt control measures before its occurrence

5.0 Summary, conclusion and recommendations

The study showed that risk analysis was viewed as a mechanism of appraising the costs and the benefits associated with each investment activity undertaken. All rational investors usually carry out risk analysis before engaging in any form of investment. It has been confirmed that undertaking risk analysis is a precautionary measure that shapes the nature of decision arrived at by the investor. Indeed this study serves to confirm this perception.

Recommendations

Micro finance institutions should at all times utilize various optimal risk diversification measures to minimize risk and maximize return. This is well in line with the concept of risk return trade off postulated by the capital asset pricing theory. In view of this microfinance institution will guarantee themselves sustainable profits into the future.

Risk monitoring should be constantly adopted by all rational investors to determine the trends for earlier initiation of any corrective measures in case of negative extremes. This will go a long way in ensuring that the investment is kept in check for optimization of returns.

Management of microfinance institution should enforce diverse risk control measures geared towards mitigating the likely losses to the institution. This will go along way in safeguarding the shareholders' interest on wealth creation and sustained growth of these institutions.

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