IOSR Journal Of Economics and Finance (IOSR-JEF)
e-ISSN: 2321-5933, p-ISSN: 2321-5925.Volume 17, Issue 4 Ser. 2 (July. – August. 2026), PP 42-53
www.Iosrjournals.Org

Effect Of Risk Management Practices On Financial Performance Of Private Universities In Kenya

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Abstract
This study examined the effect of risk management practices on the financial performance of private universities in Kenya, a sector severely strained by a KSh 47.1 billion government funding deficit that has left 38% of institutions in financial distress. Grounded in Organizational Learning, Resource-Based View, and Stakeholder theories, the research utilized a positivist philosophy and a correlational research design. Data was collected via structured questionnaires from a stratified random sample of 239 management staff across 29 private universities. Focusing specifically on the second objective establishing the direct effect of risk management on financial performance the inferential analysis revealed a significant positive relationship. The regression models demonstrated that risk management practices significantly influence financial performance (β = .210–.192 range, p < .05) showing strong and consistent positive effects across multiple risk dimensions. The study concludes that systematic risk management practices are critical drivers of institutional financial outcomes. To overcome persistent cash flow deficits and reduce overreliance on tuition fees, the study recommends that university administrators fully integrate comprehensive risk management protocols into their core systems and aggressively enhance internal control structures to secure long-term financial sustainability.

Keywords: *Risk Management Practices, Financial Performance, private universities in Kenya*

Date of Submission: 07-07-2026 Date of Acceptance: 17-07-2026

I. Introduction

Historically, the formalization of risk management practices began in the mid-20th century, transitioning from narrow financial and insurance-based functions to broader systems designed to proactively handle operational, strategic, and reputational uncertainties (Hopkin, 2017). Over time, specialized industry tools like Value at Risk (VaR) were introduced to measure market risks (Hubbard, 2009), while modern institutional frameworks evolved to utilize risk audits, internal controls, scenario analysis, and risk matrices to track and evaluate risk mitigation success (Tufano, 1996).

In the context of developing higher education landscapes, risk management has transitioned into a core survival mechanism. Within Kenya, Mwangi and Othuon (2016) note that private universities face unique operational vulnerabilities, including shifting regulatory frameworks, aggressive competition, and financial instability driven by fluctuating student enrollment numbers. Consequently, robust risk management practices have become crucial for maintaining financial sustainability, improving internal oversight, and enhancing overall institutional resilience against erratic cash flows. This objective is further supported by the empirical findings of González (2020) and Saeidi et al. (2021), who established that integrating Enterprise Risk Management (ERM) frameworks within organizational systems directly improves both financial and non-financial performance outcomes, offering a clear rationale for assessing these practices in the private university subsector.

Theoretical literature

The study is anchored on three complementary theories that explain the governance-risk-performance nexus within Kenyan private universities. Organizational Learning Theory (OLT), advanced by Argyris and Schön (1978), underscores how institutions adapt through single-loop (error correction) and double-loop (modifying underlying norms) learning. While critiques note that OLT can overemphasize internal processes over external pressures (DiMaggio & Powell, 1983), it explains how universities institutionalize lessons from past

financial and regulatory crises to build governance resilience. The Resource-Based View (RBV), conceptualized by Wernerfelt (1984) and refined by Barney (1991), posits that a sustained competitive advantage stems from internal resources that are valuable, rare, inimitable, and non-substitutable (VRIN). In this context, corporate governance and proactive risk management operate as vital intangible capabilities that optimize resource allocation and safeguard institutional sustainability (Hillman & Dalziel, 2003; Barney, 2001). Further, Stakeholder Theory (Freeman, 1984) shifts focus from pure shareholder wealth to balancing the interdependent needs of students, faculty, regulators, and donors. Although balancing conflicting stakeholder demands introduces operational complexity (Jensen, 2002), ethical governance and stakeholder-sensitive risk frameworks build the trust and institutional legitimacy essential for long-term financial stability (Donaldson & Preston, 1995).

Agency Theory and Enterprise Risk Management (ERM) framework are excluded. Agency theory's narrow focus on profit-driven principal-agent conflicts overlooks the collaborative, multi-stakeholder nature of higher education. Meanwhile, ERM remains heavily procedural, failing to capture how organizational learning, strategic resources, and relationship management dynamically mediate the link between governance structures and financial performance.

Empirical Literature

Ogundele and Nzama (2025) examined the relationship between risk management practices and financial performance among commercial banks in Nigeria. The study focused on credit risk, liquidity risk, and market risk management practices and how these risks influence bank profitability. Using a longitudinal research design, the authors analyzed secondary panel data obtained from audited financial statements covering the period from 2012 to 2023. The study was grounded in portfolio theory and information asymmetry theory, which explain how effective risk diversification and disclosure enhance firm value. Panel regression and generalized method of moments (GMM) techniques were employed for data analysis. The findings revealed that credit risk had a significant negative effect on return on assets, while liquidity risk management positively influenced financial performance. The study concluded that effective risk management frameworks are critical for improving profitability and ensuring long-term financial stability in the banking sector.

Al-Nimer, Warrad, and Omari (2021) investigated the effect of enterprise risk management (ERM) on financial performance among non-financial firms listed on the Amman Stock Exchange in Jordan. The study aimed to determine whether business model innovation mediates the relationship between ERM practices and financial performance. A quantitative research design was adopted, using structured questionnaires administered to senior managers. Structural equation modeling (SEM) was used to analyze the data. The study was anchored on enterprise risk management theory, which emphasizes holistic risk identification and control. The findings showed that ERM practices had a significant positive effect on financial performance, both directly and indirectly through business model innovation. The authors concluded that firms that integrate risk management into strategic decision-making achieve superior financial outcomes and competitive advantage.

Almulhim, Aljughaiman, Al-Naim, and Alosaimi (2024) examined the role of risk governance structures on financial performance of financial firms in Saudi Arabia. The study focused specifically on the existence, size, and independence of board risk committees. Using a longitudinal panel research design, the authors analyzed secondary data from annual reports of listed firms for the period 2010 to 2022. The study was grounded in agency theory, which posits that governance mechanisms reduce agency costs and improve firm performance. Ordinary least squares (OLS) and generalized method of moments (GMM) were used for analysis. The findings indicated that firms with independent and active risk committees experienced improved financial performance, while excessively large committees negatively affected efficiency. The study concluded that effective risk oversight enhances shareholder value.

Mberia, Omare, and Ronoh (2025) assessed the influence of risk evaluation practices on financial performance of construction firms in Nairobi City County, Kenya. The study examined practices such as risk identification, risk prioritization, and risk monitoring. A descriptive cross-sectional research design was adopted, and primary data were collected using structured questionnaires administered to project managers and finance officers. Multiple regression analysis was employed. The study was guided by risk management theory, emphasizing systematic identification and mitigation of organizational risks. The findings revealed a moderate but statistically significant positive relationship between risk evaluation practices and firm financial performance. The authors concluded that construction firms that regularly assess and monitor risks achieve better cost control, project completion rates, and profitability.

Feirouz, Mathuva, and Mwenda (2024) investigated the effect of risk management practices on financial performance of private hospitals in Mombasa County, Kenya. The study focused on operational risk, financial risk, and compliance risk management. Using a descriptive research design, primary data were collected from hospital administrators and finance managers through questionnaires. Inferential statistical analysis, including regression analysis, was applied. The study was anchored on risk management framework theory, which argues that proactive risk identification enhances organizational performance. The findings demonstrated a strong

positive and significant relationship between risk management practices and financial performance indicators such as revenue growth and cost efficiency. The study concluded that effective risk management is essential for sustainability in the healthcare sector.

Jesslyn, Ramadana, and Anita (2024) examined the relationship between enterprise risk management and financial performance of firms listed on the Indonesia Stock Exchange. The study employed a quantitative research design using secondary data obtained from annual reports. Partial least squares (PLS) structural equation modeling was used for analysis. The study was grounded in enterprise risk management theory and corporate governance theory. The findings revealed that ERM implementation had a significant positive effect on return on assets and firm value. The authors concluded that firms that integrate ERM into governance structures are better positioned to manage uncertainties and improve financial outcomes, especially in emerging markets.

Berishvili and Mamedova (2025) explored the impact of risk management disclosure on financial performance of manufacturing firms in Georgia. The study used a cross-sectional research design and relied on secondary data extracted from published annual reports. Ordinary least squares regression analysis was applied. The study was anchored on enterprise risk management disclosure theory, which links transparency to firm performance. The findings indicated that risk management disclosure positively influenced profit margins, though its effect on return on equity and return on assets was not statistically significant. The study concluded that transparency in risk management enhances stakeholder confidence but may not immediately translate into improved accounting returns.

Jamilu (2024) investigated the influence of enterprise risk management objectives on financial performance of listed insurance companies in Nigeria. The study focused on strategic, operational, reporting, and compliance risk objectives. A panel research design was adopted using secondary data from annual reports covering the period 2018 to 2022. The study was grounded in the COSO ERM framework. Regression analysis was employed to test the hypotheses. The findings showed that strategic and compliance risk objectives positively influenced financial performance, while operational risk objectives had mixed effects. The study concluded that aligning risk management with corporate strategy improves profitability in insurance firms.

Mwangi and Kariuki (2023) examined the effect of financial risk management practices on performance of pension fund management firms in Kenya. The study focused on credit risk, liquidity risk, and investment risk management. Using a quantitative research design, panel data were obtained from pension fund financial statements. Regression analysis was conducted. The study was anchored on modern portfolio theory, which emphasizes diversification and risk-return tradeoffs. The findings revealed that effective financial risk management practices significantly improved return on assets and fund sustainability. The authors concluded that pension funds with robust risk frameworks are better able to protect contributors' funds and enhance long-term performance.

Nguyen and Tran (2022) investigated the relationship between risk management practices and financial performance of commercial banks in Vietnam. The study employed a longitudinal research design using secondary data covering the period 2011 to 2020. The study was grounded in financial intermediation theory. Panel regression analysis was applied. The findings revealed that credit risk and liquidity risk significantly influenced bank profitability. Banks with stronger risk management frameworks exhibited higher financial performance. The study concluded that risk management is a critical determinant of bank efficiency and competitiveness in emerging economies.

Khan, Rahman, and Saeed (2021) examined the impact of risk management practices on financial performance of manufacturing firms in Pakistan. The study adopted a cross-sectional survey design and collected primary data from senior managers. Multiple regression analysis was employed. The study was grounded in enterprise risk management theory. The findings revealed that firms with structured risk identification and mitigation practices reported higher profitability and operational efficiency. The study concluded that risk management practices play a significant role in enhancing firm performance in volatile business environments.

Mensah and Antwi (2020) explored the effect of operational risk management on financial performance of small and medium enterprises in Ghana. Using a descriptive survey design, the study collected primary data from SME owners and managers. The study was grounded in risk management theory. Regression analysis revealed that operational risk management practices such as internal controls and contingency planning positively influenced firm profitability. The study concluded that SMEs that proactively manage risks are more resilient and financially stable.

Zhang, Li, and Zhou (2023) examined the relationship between enterprise risk management, ESG practices, and financial performance of Chinese listed firms. The study adopted a longitudinal research design using panel data from 2012 to 2021. The study was grounded in stakeholder theory and systemic risk theory. Econometric modeling was employed. The findings revealed that ERM positively influenced financial performance and that ESG practices partially mediated the relationship. The study concluded that integrated risk and sustainability management enhances firm value.

Adegboye and Alabi (2022) investigated the impact of risk management practices on financial performance of non-financial firms listed on the Nigerian Exchange. Using a panel research design and secondary data, the study was grounded in agency theory. Regression analysis revealed that firms with formal risk management committees and policies reported superior financial performance. The authors concluded that risk governance structures enhance monitoring and reduce agency costs.

Suleiman and Muturi (2026) examined the effect of strategic risk management on financial performance of private universities in East Africa. Using a mixed-methods research design, the study combined survey data with secondary financial records. The study was grounded in resourcebased view and enterprise risk management theory. The findings indicated that strategic risk planning and governance significantly improved revenue diversification and cost efficiency. The study concluded that risk management is a critical driver of financial sustainability in private higher education institutions.

Across contexts, the reviewed studies converge on the finding that risk management practices and ERM frameworks are positively associated with financial performance in banks, insurance firms, manufacturing firms, SMEs, hospitals, pension funds, and listed companies (e.g., Ogundele & Nzama, 2025; Jesslyn et al., 2024; Mwangi & Kariuki, 2023), with some longitudinal and panelbased studies (e.g., Nguyen & Tran, 2022; Almulhim et al., 2024) providing stronger causal inference than cross-sectional surveys (e.g., Khan et al., 2021; Mensah & Antwi, 2020), which are limited by common method bias and weak causal claims. While a few studies extend the analysis by introducing mediators such as business model innovation and ESG practices (Al-Nimer et al., 2021; Zhang et al., 2023), most adopt a direct-effects lens, overlooking the mechanisms through which governance structures translate into financial outcomes via risk management capabilities. Comparatively, studies in banking and listed firms are theoretically and methodologically more rigorous employing agency, portfolio, and ERM theories with panel data and GMM than those in SMEs, construction, and healthcare, which rely heavily on perceptual measures and descriptive designs, raising concerns about external validity and measurement robustness. Contextually, despite growing evidence from Nigeria, the Middle East, and Asia, there is limited and fragmented empirical work within East Africa, and even fewer studies focusing on private universities, whose risk profiles (enrolment volatility, regulatory pressures, and funding constraints) differ markedly from commercial sectors. Theoretically, the literature remains siloed, applying agency, ERM, RBV, and stakeholder theories in isolation without an integrative framework to explain how corporate governance shapes financial performance through risk management practices. Empirically, inconsistencies in performance metrics (ROA, ROE, profit margins, revenue growth) and limited application of mediation models constrain comparability across studies, underscoring the need for a context-specific, methodologically robust mediation analysis of corporate governance, risk management practices, and financial performance in private universities in Kenya.

II. Methodology

This study adopts a quantitative paradigm grounded in positivist philosophy and a correlational research design to examine relationships among corporate governance, risk management, and financial performance (Creswell & Creswell, 2018; Sekaran & Bougie, 2016). The target population comprises 594 senior and business-level management personnel across 29 HELB-beneficiary private universities in Kenya. Utilizing stratified random sampling and Yamane's (1967) formula, a representative sample size of 239 respondents was established (Kothari, 2004).

Primary data will be gathered using structured questionnaires (Creswell & Creswell, 2018). Instrument reliability was validated through a pilot study, achieving an acceptable Cronbach's alpha of 0.729 across 53 items (Sekaran & Bougie, 2016), while expert review ensured content validity. Data analysis will employ descriptive statistics alongside advanced inferential methods including Pearson correlation, multiple regression, and Structural Equation Modeling (SEM) to systematically evaluate direct, indirect, and mediating effects (Field, 2013; Hair et al., 2010).

To determine the impact of Risk Management Practices (*RMP*) on financial performance (Y_i), the study utilizes regression models testing both composite and individual risk dimensions. The multiple regression model isolates five primary risk metrics operational risk (RMP_1), financial risk (RMP_2), reputational risk (RMP_3), strategic risk (RMP_4), and compliance/regulatory risk (RMP_5)

III. Findings

Response Rate

This section presents the response rate achieved during data collection. The study targeted respondents drawn from different management categories in private universities in Kenya, including Deputy Vice Chancellors, Directors, Deans, Finance Officers, Procurement Officers, Human Resource Managers, and Registrars. The response rate was assessed to determine the adequacy and reliability of the collected data for analysis. The findings are presented in Table 1.

Table 1: Response Rate

Response Category	Frequency	Percentage
Returned Questionnaires	232	97.1
Unreturned Questionnaires	7	2.9
Total	239	100.0

Source: data 2026

The findings in Table 4.1 show that out of the 239 questionnaires distributed to respondents, 232 were successfully completed and returned, representing a response rate of 97.1%, while 7 questionnaires, representing 2.9%, were not returned. The high response rate indicates that the respondents were highly cooperative and willing to participate in the study. This response level was considered adequate for statistical analysis and enhanced the reliability of the findings. The strong return rate further suggests that the respondents had sufficient interest and understanding of issues relating to corporate governance, risk management practices, and financial performance within private universities in Kenya.

Demographic Data

This section presents the demographic characteristics of the respondents who participated in the study. The information was important in providing an understanding of the background of the respondents and determining whether the participants possessed adequate knowledge and experience relevant to the study variables. The demographic characteristics examined included gender, occupation, and work experience. The results are presented in Table 2.

Table 2: Demographic Information

Variable	Category	Frequency	Percentage
Gender	Male	164	70.7
	Female	68	29.3
	Total	**232**	**100.0**
Work Experience	Less than 2 Years	46	19.8
	3–5 Years	66	28.4
	6 Years and Above	120	51.7
	Total	**232**	**100.0**

Source: data 2026

The demographic findings show that the majority of respondents were male, accounting for 70.7%, while female respondents represented 29.3%. Regarding work experience, more than half of the respondents had worked for six years and above, representing 51.7%, while 28.4% had worked between three and five years, and 19.8% had less than two years of experience. These findings suggest that the study obtained information from respondents who held key managerial and administrative positions and who possessed adequate experience and institutional knowledge relevant to governance, risk management, and financial performance in private universities.

IV. Findings

Risk Management Practices and Financial Performance

This section presents findings on the effect of risk management practices on financial performance of private universities in Kenya. The study examined five dimensions of risk management practices namely operational risk, financial risk, reputational risk, strategic risk, and compliance/regulatory risk.

Overview of Risk Management Strategies

The responses were measured using a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). Means for each item and construct were computed by averaging respondents' scores, while standard deviations were calculated to determine the extent of variation in responses. A low mean implied weak implementation of the specific risk management practice, while a higher mean indicated stronger implementation and agreement among respondents. Standard deviation values closer to zero reflected greater consistency in responses, whereas larger values suggested wider variation in respondents' views. The findings are presented in Table 15.

Table 3 Overview of Risk Management Strategies

Construct/Statement	Mean	SD
Operational Risk		
The university has effective systems to manage operational risks that may disrupt teaching, research, and administrative activities.	1.94	1.27
Operational risks related to facilities, ICT systems, and service delivery are regularly identified and assessed.	1.97	1.30
Contingency and business continuity plans are in place to address disruptions such as student unrest, strikes, or disasters.	2.11	1.33
Operational risk management practices support continuity and quality of academic programmes.	2.02	1.31
Overall Mean for Operational Risk	**2.01**	**1.30**
Financial Risk		
The university has effective mechanisms to manage financial risks affecting revenue, expenditures, and cash flows.	2.10	1.31
Internal financial controls minimize the risk of losses, fraud, or misallocation of funds.	1.90	1.24
Financial risk assessments inform budgeting, investment, and resource allocation decisions.	2.06	1.30
Financial risk management practices enhance the institution's financial stability and sustainability.	2.13	1.32
Overall Mean for Financial Risk	**2.05**	**1.29**
Reputational Risk		
The university proactively manages risks that may affect its public image and credibility.	2.02	1.29
Communication strategies are in place to manage reputational risks arising from academic, administrative, or student-related issues.	2.10	1.31
Ethical standards and codes of conduct are enforced to protect the university's reputation.	2.00	1.29
Reputational risk management supports student enrolment, partnerships, and stakeholder trust.	1.96	1.27
Overall Mean for Reputational Risk	**2.02**	**1.29**
Strategic Risk		
Strategic risks related to enrolment trends, competition, and programme relevance are regularly assessed.	2.03	1.32
Risk considerations are integrated into the university's strategic planning and decision-making processes.	1.85	1.23
Strategic risk management supports achievement of the university's long-term academic and financial goals.	2.16	1.35
The institution adapts its strategies in response to changes in the higher education environment.	1.94	1.27
Overall Mean for Strategic Risk	**2.00**	**1.29**
Compliance/Regulatory Risk		
The university complies with regulatory requirements set by CUE, HELB, and other statutory bodies.	2.08	1.34
Compliance risks are regularly monitored to prevent sanctions or operational disruptions.	2.04	1.29
Policies and procedures are updated to reflect changes in higher education laws and regulations.	2.05	1.31
Compliance risk management safeguards the institution's accreditation status and operational legitimacy.	2.32	1.40
Overall Mean for Compliance/Regulatory Risk	**2.12**	**1.34**
Grand Mean	**2.04**	**1.30**

Source: data 2026

The findings on operational risk management indicate that universities struggle to maintain robust systems capable of buffering teaching, research, and administration from disruptions. Respondents expressed notable disagreement regarding the fundamental effectiveness of these systems (M=1.94, SD=1.27) and pointed to a clear deficit in the proactive identification and assessment of daily risks related to infrastructure, facilities, and ICT systems (M=1.97, SD=1.30). While the existence of contingency and business continuity plans to mitigate acute disruptions like student unrest, strikes, or disasters scored slightly higher (M=2.11, SD=1.33), the overall baseline remains low. Consequently, there is limited confidence that current operational risk practices are strong enough to consistently preserve the continuity and quality of academic programmes (M=2.02, SD=1.31). The high standard deviations across all items underscore inconsistent institutional experiences, implying that operational preparedness varies wildly between universities.

Perceptions of financial risk management reveal critical systematic vulnerabilities, particularly concerning the internal safeguarding of institutional resources. Respondents expressed the deepest concern regarding the capacity of internal financial controls to minimize losses, fraud, or the misallocation of funds, which yielded the lowest score in the category (M=1.90, SD=1.24). This indicates that while universities may have formal mechanisms to oversee revenues, expenditures, and cash flows (M=2.10, SD=1.31) or to inform budgeting decisions (M=2.06, SD=1.30), the execution of these controls is weak. Because defensive controls against fraud are compromised, respondents remained skeptical that current risk practices can reliably enhance long-term

financial stability and sustainability (*M*=2.13, *SD*=1.32). This raises serious concerns about fiscal resilience within a highly volatile higher education market.

The management of reputational risk reflects a reactive rather than a proactive institutional stance. The data highlights a distinct gap in how risk management actively supports student enrollment, external partnerships, and general stakeholder trust (*M*=1.96, *SD*=1.27), alongside perceived weaknesses in the enforcement of ethical standards and codes of conduct (*M*=2.00, *SD*=1.29). Although universities perform marginally better at maintaining general public image initiatives (*M*=2.02, *SD*=1.29) and deploying communication strategies to handle crises arising from academic or administrative issues (*M*=2.10, *SD*=1.31), these scores still sit well within the disagreement threshold. Given that public credibility is a primary driver for attracting tuition revenue and development partners, these weak protections leave institutions highly vulnerable to market volatility.

Strategic risk indicators point to a severe disconnect between institutional planning and risk integration. The lowest score in this category and one of the lowest in the entire study reveals that risk considerations are rarely integrated into the university's actual strategic planning and core decision-making processes (*M*=1.85, *SD*=1.23). Furthermore, institutions demonstrate a slow response rate when adapting their overarching strategies to rapid shifts in the broader higher education environment (*M*=1.94, *SD*=1.27). While there is a moderate conceptual appreciation that strategic risk management is vital for achieving long-term academic and financial goals (*M*=2.16, *SD*=1.35), the routine assessment of enrollment trends, market competition, and programme relevance remains weak (*M*=2.03, *SD*=1.32). This creates an environment where universities are managed reactively rather than strategically.

In comparison to other risk dimensions, compliance and regulatory risk management showed a slightly stronger posture, though clear implementation gaps persist. Respondents noted that compliance risk management does play a recognizable role in safeguarding the institution's formal accreditation status and operational legitimacy (*M*=2.32, *SD*=1.40). However, actual conformity with day-to-day statutory requirements set by bodies like the Commission for University Education (CUE) and the Higher Education Loans Board (HELB) remains low (*M*=2.08, *SD*=1.34). Similarly, the regular monitoring of compliance risks to prevent sanctions (*M*=2.04, *SD*=1.29) and the updating of internal policies to match evolving higher education laws (*M*=2.05, *SD*=1.31) hover near the baseline. This suggests that while universities acutely understand the severe existential threat of losing legal accreditation, their internal systems for consistently monitoring and updating regulatory frameworks are under-resourced and fragile.

Effect of Risk Management Practices on Financial Performance

The main objective of the study sought to determine the effect of risk management practices on financial performance of private universities in Kenya. The study examined five dimensions of risk management practices namely operational risk, financial risk, reputational risk, strategic risk, and compliance/regulatory risk. Composite scores for each variable were obtained by averaging responses from the Likert-scale items under every construct. Financial performance was treated as the dependent variable, while the five risk management dimensions served as the predictor variables. Multiple linear regression analysis was employed to establish the combined and individual contribution of the risk management practices toward financial performance. The regression model was considered suitable because it enabled the study to examine how several independent variables simultaneously influenced one dependent variable. The findings are presented through the model summary, ANOVA results, and regression coefficients as shown in Table 3.

Table3: Effect of Risk Management Practices on Financial Performance

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.643[a]	.414	.401	.56006	.414	31.904	5	226	.000

a. Predictors: (Constant), Compliance/Regulatory Risk, Reputational Risk, Operational Risk, Strategic Risk, Financial Risk

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	50.036	5	10.007	31.904	.000[b]
	Residual	70.888	226	.314		
	Total	120.923	231			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Compliance/Regulatory Risk, Reputational Risk, Operational Risk, Strategic Risk, Financial Risk

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.554	.139		3.992	.000
	Operational Risk	.210	.045	.279	4.626	.000

	Financial Risk	.069	.047	.089	1.461	.146
	Reputational Risk	.192	.049	.244	3.955	.000
	Strategic Risk	.124	.051	.145	2.432	.016
	Compliance/Regulatory Risk	.172	.059	.156	2.901	.004
a. Dependent Variable: Financial Performance						

Source: data 2026

The regression findings revealed that risk management practices had a statistically significant effect on financial performance of private universities in Kenya. The model produced an R value of .643, indicating a strong positive relationship between risk management practices and financial performance. The coefficient of determination (R^2 = .414) showed that 41.4% of the variation in financial performance could be explained by operational risk, financial risk, reputational risk, strategic risk, and compliance/regulatory risk collectively. This suggests that risk management practices play a major role in influencing institutional financial outcomes. The adjusted R^2 value of .401 further confirmed that the model retained substantial explanatory power even after adjusting for the number of predictors included in the analysis.

The ANOVA results indicated that the regression model was statistically significant, $F(5, 226) = 31.904$, $p < .001$. This means that the combined risk management variables significantly predicted financial performance and that the model was appropriate for explaining the relationship under investigation. The low significance value confirms that effective risk management practices are important determinants of institutional financial performance among private universities in Kenya. The standard error of estimate (.56006) also suggests that the regression model provided a reasonably accurate prediction of financial performance based on the selected risk management variables.

The coefficient results showed that operational risk management had a positive and statistically significant effect on financial performance ($\beta = .279$, $p < .001$). This implies that institutions with stronger systems for handling operational disruptions, ICT risks, continuity planning, and service delivery challenges are more likely to achieve improved financial outcomes. Reputational risk management also had a significant positive effect on financial performance ($\beta = .244$, $p < .001$). This finding suggests that universities that actively protect their public image, maintain ethical standards, and strengthen stakeholder trust are more likely to enhance enrolment, partnerships, and financial sustainability. Strategic risk management similarly showed a positive and significant influence ($\beta = .145$, $p = .016$), indicating that institutions that align risk considerations with long-term planning are better positioned to improve financial performance.

The findings further revealed that compliance/regulatory risk management significantly influenced financial performance ($\beta = .156$, $p = .004$). This suggests that universities that consistently comply with accreditation standards, regulatory requirements, and legal obligations are more likely to maintain operational legitimacy and financial stability. However, financial risk management was found to have no statistically significant effect on financial performance ($\beta = .089$, $p = .146$). This may imply that although financial control systems exist within many institutions, they may not be sufficiently effective or consistently implemented to directly influence financial outcomes. The findings therefore demonstrate that operational efficiency, institutional reputation, strategic adaptability, and regulatory compliance contribute more strongly toward financial performance than traditional financial control practices alone.

The regression equation derived from the model was:

$$Y = 0.554 + 0.210X_1 + 0.069X_2 + 0.192X_3 + 0.124X_4 + 0.172X_5$$

The equation indicates that when all risk management variables are held constant, financial performance would remain at 0.554. A one-unit increase in operational risk management would increase financial performance by 0.210 units, while a one-unit increase in financial risk management would increase financial performance by 0.069 units. Similarly, a one-unit improvement in reputational risk management would increase financial performance by 0.192 units, strategic risk management by 0.124 units, and compliance/regulatory risk management by 0.172 units. Among all the predictors, operational risk management had the strongest influence on financial performance, highlighting the importance of effective operational systems and continuity planning in enhancing institutional sustainability and financial success.

The findings of the study are consistent with existing empirical literature that links effective risk management practices with improved financial performance across different sectors and institutional contexts. The study established that risk management practices significantly influence the financial performance of private universities in Kenya, with operational risk, reputational risk, strategic risk, and compliance/regulatory risk emerging as significant predictors of financial outcomes. These findings reinforce the argument advanced in enterprise risk management (ERM) literature that organizations that proactively identify, assess, and mitigate risks are more likely to achieve financial sustainability and operational efficiency.

The significant positive effect of operational risk management on financial performance in the current study aligns with the findings of Mensah and Antwi (2020), Feirouz, Mathuva, and Mwenda (2024), and Khan, Rahman, and Saeed (2021). Mensah and Antwi (2020) found that operational risk practices such as internal controls, contingency planning, and operational monitoring positively influenced profitability among SMEs in Ghana. Similarly, Feirouz et al. (2024) established that operational risk management significantly enhanced revenue growth and cost efficiency among private hospitals in Kenya. The current study supports these findings by demonstrating that private universities with stronger systems for handling operational disruptions, ICT failures, service delivery challenges, and continuity planning are more likely to achieve superior financial performance. This suggests that operational stability is critical for sustaining institutional efficiency and financial viability in higher education institutions.

The findings regarding reputational risk management are also consistent with studies emphasizing stakeholder confidence and organizational trust as drivers of financial performance. The positive and significant effect of reputational risk management corresponds with the findings of Berishvili and Mamedova (2025) and Zhang, Li, and Zhou (2023), who established that transparency, stakeholder trust, and disclosure practices enhance firm value and profitability. Similarly, Zhang et al. (2023), guided by stakeholder theory, found that integrating risk management with sustainability and ESG practices improves organizational performance. In the context of private universities, maintaining institutional reputation, ethical standards, academic credibility, and stakeholder trust is essential for attracting students, donors, strategic partners, and regulatory support, all of which directly contribute to financial sustainability.

The positive and significant influence of strategic risk management on financial performance supports the findings of Al-Nimer, Warrad, and Omari (2021) as well as Suleiman and Muturi (2026). Al-Nimer et al. (2021) found that organizations that integrate enterprise risk management into strategic decision-making achieve improved financial performance and competitive advantage. Likewise, Suleiman and Muturi (2026) established that strategic risk planning significantly improved revenue diversification and cost efficiency among private universities in East Africa. The current study similarly demonstrates that universities that align risk management with long-term institutional planning are better positioned to adapt to environmental uncertainties, enrolment fluctuations, competition, and changing regulatory demands. This finding reinforces enterprise risk management theory and the resource-based view, which emphasize that strategic risk capabilities enhance institutional resilience and sustainability.

The significant positive effect of compliance/regulatory risk management on financial performance corresponds with the findings of Jamilu (2024), Almulhim, Aljughaiman, Al-Naim, and Alosaimi (2024), and Adegboye and Alabi (2022). Jamilu (2024) established that compliance risk objectives positively influence profitability among insurance firms in Nigeria, while Almulhim et al. (2024) found that effective risk governance structures enhance shareholder value and financial outcomes in Saudi Arabian firms. Similarly, Adegboye and Alabi (2022) reported that firms with formal risk governance policies and oversight structures achieved superior financial performance. The current study supports these findings by revealing that private universities that comply with accreditation standards, legal requirements, and regulatory obligations are more likely to maintain institutional legitimacy, operational continuity, and financial stability. This demonstrates that compliance mechanisms are essential governance tools for ensuring sustainable institutional performance.

However, the finding that financial risk management had a positive but statistically insignificant effect on financial performance differs slightly from studies such as Ogundele and Nzama (2025), Mwangi and Kariuki (2023), and Nguyen and Tran (2022), which found that financial risk management significantly improves profitability and organizational sustainability. For example, Mwangi and Kariuki (2023) established that effective credit risk, liquidity risk, and investment risk management enhanced the performance of pension fund management firms in Kenya. Similarly, Nguyen and Tran (2022) found that strong financial risk frameworks improved bank profitability in Vietnam. The divergence in findings may be attributed to sectoral and contextual differences. Unlike banks, pension funds, and insurance firms, private universities are not primarily financial institutions; therefore, their financial performance may depend more heavily on operational continuity, institutional reputation, stakeholder confidence, and compliance with educational regulations than on traditional financial risk controls alone.

The findings of the current study also support the broader theoretical foundations underpinning risk management and organizational performance. The significant relationship between risk management practices and financial performance reinforces enterprise risk management theory, which emphasizes integrated and proactive risk management as a driver of organizational success. The findings further support agency theory by demonstrating that effective governance and oversight mechanisms reduce inefficiencies and improve institutional performance. Similarly, stakeholder theory is reinforced through the importance of reputational risk management and stakeholder trust in enhancing financial sustainability among private universities. Overall, the findings contribute significantly to the existing body of knowledge by extending risk management-performance discussions into the relatively underexplored context of private universities in Kenya. While prior studies largely

focused on banks, insurance firms, manufacturing companies, SMEs, hospitals, and listed firms, the current study demonstrates that risk management practices are equally critical within higher education institutions. The study therefore fills important contextual and empirical gaps by providing evidence that operational risk management, reputational protection, strategic adaptability, and regulatory compliance are essential determinants of financial performance in private universities in Kenya.

V. Summary Of Findings

The assessment of the study objective demonstrated that risk management practices collectively exert a substantial and statistically significant positive effect on the financial performance of private universities in Kenya. When evaluated as a combined framework, the model proves that strong systems for identifying, assessing, and mitigating risks explain a large portion of the variance in financial outcomes, confirming that proactive risk mitigation is a key operational driver of long-term financial sustainability. However, analyzing these dimensions individually reveals that non-traditional risk factors carry the greatest weight in higher education. Operational risk management emerged as the single most powerful predictor of financial success, highlighting that institutional resilience against operational disruptions, information technology failures, and poor continuity planning is vital for maintaining a healthy bottom line. Similarly, reputational risk management showed a highly significant positive effect, confirming that protecting the university's public image and building stakeholder trust directly sustains student enrollment and institutional partnerships. Compliance, regulatory, and strategic risk management also displayed significant positive influences, underscoring that maintaining strict accreditation standards and aligning long-term planning with market realities are non-negotiable for operational legitimacy and stability. Conversely, traditional financial risk management was found to have a positive but statistically insignificant direct effect on financial performance. This indicates that while internal financial controls are standard and necessary baseline features, they are ultimately secondary to operational stability, brand reputation, and regulatory standing when it comes to driving actual financial outcomes within the higher education sector.

VI. Conclusions

Based on the study objective, the study concludes that comprehensive risk management practices have a substantial and statistically significant positive effect on financial performance, thereby rejecting the null hypothesis. The findings confirm that effective risk identification, assessment, and mitigation processes are indispensable determinants of financial sustainability and operational efficiency within private universities. By validating the core principles of Enterprise Risk Management (ERM), the framework proves that structured, proactive risk mitigation directly translates into protected revenue streams and minimized waste. Crucially, however, the study underscores that traditional financial risk controls alone do not guarantee financial success; instead, the financial survival of these institutions depends entirely on a broader, multi-dimensional view of risk.

These findings enrich Stakeholder Theory, Agency Theory, and the Resource-Based View (RBV) by demonstrating how risk capabilities serve as specialized, intangible internal strengths. Within the unique ecosystem of higher education, long-term institutional longevity and financial health are not achieved through aggressive financial maneuvering or isolated accounting controls. Rather, they are driven by operational resilience and the absolute preservation of academic credibility. Ultimately, private universities maximize their financial performance when leadership shifts away from passive, check-the-box monitoring and actively leans into managing the true drivers of institutional value: seamless service delivery, an unblemished public reputation, strategic market adaptability, and uncompromised regulatory standing.

VII. Recommendations Of The Study

For the study objective, private universities must prioritize the development and implementation of comprehensive risk management frameworks that actively address operational, financial, reputational, strategic, and compliance risks. Rather than treating risk management as an isolated, back-office function, institutions must deeply embed these practices into everyday administrative and academic operations. Crucially, because the empirical findings identify operational risk management as the single strongest driver of financial performance, university management must prioritize funding for robust information technology infrastructure, disaster recovery protocols, and comprehensive continuity planning. This proactive approach eliminates institutional service disruptions and directly safeguards vital tuition revenues. Furthermore, internal audit functions and early warning systems must be structurally strengthened to ensure the timely identification and mitigation of vulnerabilities before they erode financial stability.

To complement these operational safeguards, private universities should implement formal mechanisms to monitor institutional reputation, protect academic integrity, and maintain high ethical standards. By utilizing active transparency and consistent engagement with parents, students, and donors, leadership can convert reputation management into an active asset that secures steady enrollments and philanthropic partnerships.

Finally, governing councils must integrate risk assessment directly into long-term strategic planning. Regulatory compliance should no longer be viewed as a bureaucratic burden, but rather treated as a core stabilizing mechanism. Ensuring flawless alignment with university education guidelines is essential to prevent costly legal penalties, protect operational licensing, and maintain long-term institutional legitimacy.

Suggestions for Further Studies

Future studies should consider expanding the scope of this research to include public universities in Kenya in order to compare how governance and risk management practices influence financial performance across different institutional settings. Such comparative analysis would provide a broader understanding of higher education governance dynamics in the country.

Further research should also examine other potential mediating or moderating variables such as institutional culture, leadership style, and technological adoption to better explain variations in financial performance. This would help in developing more comprehensive models that capture the complexity of institutional performance beyond governance and risk management alone.

In addition, longitudinal studies are recommended to assess how changes in corporate governance and risk management practices over time influence financial performance. This would provide stronger evidence of causality and capture long-term effects that cross-sectional designs may not fully reveal.

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