

**THE EFFECT OF RISK MANAGEMENT ON THE  
PERFORMANCE OF SHOPPING MALLS IN NAIROBI  
COUNTY**

**By**

**EVA MAHOGO**

**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF  
THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF  
MASTERS IN BUSINESS ADMINISTRATION**

**SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI**

**SEPTEMBER 2015**

**DECLARATION**

This research project is my original work and has not been presented for examination in any other University.

Signature: ..... Date: .....

**EVA MAHOGO**

**D61/84422/2012**

This project has been submitted for examination with my approval as university supervisor.

Signature: ..... Date: .....

**Dr. JOHN YABS**

**SENIOR LECTURER**

**SCHOOL OF BUSINESS**

**UNIVERSITY OF NAIROBI**

## **ACKNOWLEDGEMENT**

First and foremost, I give thank the Almighty God for granting me peace, knowledge and sanity of mind that has enabled me to undertake this research work. It is through His abundance grace that has brought this research work this far.

I am greatly indebted to my supervisor, Dr. John Yabs, for his patience, support and professional guidance, encouragement and his availability. My sincere gratitude also goes to the staffs of the University of Nairobi for their support and assistance. I cannot forget their excellent ideas, co-operation and encouragement.

Finally, I appreciate the most important people who encouraged me in the adventure of academics and have been my anchor. They include my family who relentlessly stood by me even when I barely had time for them while pursuing this course. Their understanding and their moral support went a long way in making this a success.

## **DEDICATION**

I would like to dedicate this research work to my family who are my pillars and sources of great inspiration. My parents for their continuous prayers for God's wisdom upon me to be the best I can. To my husband Joseph Sawe who has been patient with me and supported me during my studies. God bless you.

## **ABSTRACT**

Risk management practices can facilitate reduction in earnings volatility. Reduction of Shopping malls exposure to risks will enhance their performance. Improved risk management in shopping malls will certainly require a clear understanding of the challenges they face. There are no local studies on the effect of risk management on performance of shopping malls in Nairobi. It is therefore evident that there is a gap in literature and this informs a research to be conducted to examine the relationship between risk management practices and the performance of shopping malls in Nairobi. The general objective of the study was to evaluate risk management on the performance of shopping malls in Nairobi. This study adopted a descriptive research design. The population of this study consisted of the 24 shopping malls in Nairobi County in Kenya that were licensed by the County government of Nairobi. A census approach was used; this is because detailed information on shopping malls is easy and economical to get since the population is small. The study used primary data which was quantitative and qualitative in nature. The questionnaire was administered to the managers of the various shopping malls as they understand the effect of risk management to performance of the shopping malls. The data collected through questionnaires was tabulated and analyzed using Statistical Package for the Social Sciences version 20 (SPSS v.20) and results tabulated and analyzed using descriptive statistics. The data collected was analyzed using multiple regression analysis: the relation of one dependent variable to multiple independent variables. The study found that that risk management has significant effect on the performance of shopping malls in Nairobi County. The study concludes that the risk management practice most frequently adopted risk identification. Others include risk analysis, risk evaluation, risk treatment. The study recommends that the management of the shopping malls in Nairobi should have an effective risk management practices. This will help to identify internal and external risks which are likely to cause a significant increase in the budget, disruption of the schedule or financial performance problems.

## TABLE OF CONTENT

<b>DECLARATION</b> .....	<b>ii</b>
<b>ACKNOWLEDGEMENT</b> .....	<b>iii</b>
<b>DEDICATION</b> .....	<b>iii</b>
<b>ABSTRACT</b> .....	<b>v</b>
<b>LIST OF TABLES</b> .....	<b>viii</b>
<b>LIST OF FIGURES</b> .....	<b>ix</b>
<b>LIST OF ABBREVIATION AND ACRONYM</b> .....	<b>x</b>
<b>CHAPTER ONE</b> .....	<b>1</b>
<b>INTRODUCTION</b> .....	<b>1</b>
1.1 Background of the study .....	1
1.1.1 Strategic Management .....	3
1.1.2 Risk Management .....	4
1.1.3 Firm Performance .....	5
1.1.4 Shopping Malls in Nairobi .....	5
1.2 Research problem .....	6
1.3 Research objectives .....	7
1.4 Value of the study.....	8
<b>CHAPTER TWO</b> .....	<b>9</b>
<b>LITERATURE REVIEW</b> .....	<b>9</b>
2.1 Introduction.....	9
2.2 Theoretical Foundation .....	9
2.2.1 Contingency Planning Theory .....	9
2.2.2 Value at Risk Theory .....	10
2.2.3 Asymmetric Information Theory .....	11
2.2.4 Portfolio Theory .....	12
2.3 Empirical Literature.....	15
2.4 Summary of the literature review .....	19
2.5 Conceptual framework.....	19

<b>CHAPTER THREE .....</b>	<b>25</b>
<b>RESEARCH METHODOLOGY .....</b>	<b>25</b>
3.1 Introduction.....	25
3.2 Research design.....	25
3.3 The targeted Population .....	25
3.4 Data collection .....	25
3.5 Data analysis .....	26
<b>CHAPTER FOUR.....</b>	<b>28</b>
<b>DATA ANALYSIS, RESULTS AND DISCUSSION.....</b>	<b>28</b>
4.1 Introduction.....	28
4.2 Questionnaire Return Rate.....	28
4.3 Background Information.....	29
4.4 Effect of Risk Management on Performance of Shopping Mall.....	34
4.5 Risk Management Practices .....	35
4.6 Shopping Malls Performance.....	41
4.7 Multiple Regression Analysis .....	42
<b>CHAPTER FIVE.....</b>	<b>45</b>
<b>SUMMARY, CONCLUSION AND RECOMMENDATIONS .....</b>	<b>45</b>
5.1 Introduction.....	45
5.2 Summary of Findings .....	45
5.3 Conclusion .....	47
5.4 Recommendations .....	47
5.5 Recommendations for Further Studies .....	47
5.6 Limitations of the Study .....	48
<b>REFERENCE.....</b>	<b>49</b>
<b>APPENDICES .....</b>	<b>52</b>
Appendix I: Questionnaire.....	52
Appendix II: Shopping Malls .....	59

## LIST OF TABLES

Table 4.1: Response Rate .....	28
Table 4.2: Gender of the Respondents .....	30
Table 4.3: Designation of the Respondents .....	31
Table 4.5: Level of Education .....	33
Table 4.6: Whether Risk Management has had any effect on Shopping Mall Performance .....	34
Table 4.7: Risk Identification and its Effects on the Performance of the Shopping Malls .....	35
Table 4.8: Agreement with Risk Identification and its Effects on Performance of Malls .....	37
Table 4.9: Risk Evaluation and its Effects on Performance of Shopping Malls in Nairobi.....	38
Table 4.10: Risk Management and its Effects on the Performance of Shopping Malls .....	40
Table 4.11: Agreement with statements on Performance of the Shopping Malls in Nairobi.....	41
Table 4.12: Coefficient of Determination .....	42
Table 4.13: Multiple Regression Analysis .....	43

## **LIST OF FIGURES**

Figure 2.1: Conceptual Framework .....	20
Figure 4.1: Composition of the Respondents by Age Brackets.....	31
Figure 4.2: Respondents' Duration of Work in Shopping Malls in Nairobi County.....	32
Figure 4.3: Duration of Working in their Current Positions .....	34

## **LIST OF ABBREVIATION AND ACRONYM**

CBD: Central business districts

MPT: Modern Portfolio Theory

EAR: Earning at Risk

VAR: Value at Risk

UAE: United Arabs Emirates

ROE: Return on Equity

MFI: Micro financial institutions

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the study

Project management is a subject that is receiving much attention these days (Choudhury, 1998). This is true because for economic growth to be realized, it takes the culmination of a number of projects that are successfully managed. This makes project management an extremely important problem area for any economy desirous of faster growth. For Kenya to attract investors, project management should take center stage in the implementation of her projects. Successful implementation of projects will have a positive contribution to the economy both in the short and long term.

Risks have always been an intrinsic part of project management (Burke, 2003). Project management has been defined as the systematic processes of identifying, analyzing and responding to project risks throughout the project life-cycle. It includes maximizing the results of positive events and minimizing the consequences of adverse effects (The Project Management Body of Knowledge-PMBOK). On the other hand, risk has been defined as factors that may cause a failure to meet the project's objectives or limits the achievement of the objectives set out at the outset of the project (The Association of the Project Managers-APM). Therefore organizations are confronted with risks after successful implementations of their projects.

Risk management by organizations is core in mitigating uncertainty in the business environment and in enhancing growth and performance. Enterprise risk management is an increasingly popular strategy that attempts to holistically evaluate and manage all of the risks faced by the firm (Pagach et al, 2010). The growth and performance of both organizations and business enterprises depend mostly on the identification and management of both inherent risks, market

risks and operations risk. Risk management is an activity within project management that is gaining importance because businesses are moving towards globalization and because of the increasing competition (Ahmed et al., 2007).

According to Miller (2010), risk is inherent in every business, but organizations that embed risk management practices into business planning and performance management are more likely to achieve strategic and operational objectives. Enhancing risk strategy enables organizations to more effectively anticipate risk. However, even with the most robust preventative risk strategy in place, unforeseen events can still occur that may affect performance. So, while it is imperative to proactively identify strategies that mitigate risk before an event occurs, it is equally important to develop reactive strategies that enable the organization to respond quickly if a risk does materialize

The risk management process consists of a series of steps, which are establishing the context, identifying, analyzing, assessing, treating, monitoring and communicating risks, which allow continuous improvement of decision making. Shopping Malls in Nairobi are faced with a myriad of risks ranging from operations risk, market risk, inherent risk and terrorism risks. The attack on Westgate Shopping Centre in Nairobi in September 2013 is a clear indicator of how vulnerable shopping Malls in Nairobi are exposed to terrorism risks. Properties worth millions of shillings were destroyed and many people lost their lives during the terrorist attack at Westgate. The attack on the Westgate mall indicates a continuing tendency of terror groups to attack soft targets including hotels, malls, sports events and schools.

By implementing risk, management organization can reduce unexpected & costly surprises and effective allocation of resources could be more effective. It improves communication and

provides senior management concise summary of threats, which can be faced by the organization, thus ultimately helping them in better decision making. Throughout the world, administration of risk is something that is more often linked to the building of bridges, mechanical, engineering, and in the disaster management context.

Furthermore, a lot of attention has been given to terrorism risk management after the incident of September 2013. The shopping malls or other business organizations are taking steps to implement risk management by adopting terrorism risk insurance cover. Therefore this study aims to examine the effects of risk management on performance of shopping malls in Nairobi. Shopping malls in Nairobi are characterized with overcrowding of customers and this makes them soft spots for terrorist attack.

### **1.1.1 Strategic Management**

Economic environment is changing rapidly and this change is characterized by such phenomena as the globalization, changing customer and investor demands, ever-increasing product-market competition. To complete successfully in this environment, organizations continually need to improve their performance by reducing cost, innovating products and processes and improving quality, productivity and speed to market. According to Lamb(1984)strategic management is an ongoing process that evaluates and controls the business and the industries in which the company is involved, assesses its competitors and set goals and strategies to meet all existing and potential competitors, and then reassess each strategy annually or quarterly to determine how it has been implemented and whether it has succeeded or needs replacement by a new strategy to meet charged circumstances, new technology, new competitors, a new economic environment, or a new social, financial or political environment.

Achieving a competitive advantage position and enhancing firm performance relative to their competitors are the main objectives that business organizations in particular should strive to attain. (Raduan, 2009). Strategic management can depend upon the size of an organization, and the proclivity to change of its business environment. Therefore, a global transnational organization may employ a more structured strategic management model, due to its size, scope of operations, and need to encompass stakeholder views and requirement.

### **1.1.2 Risk Management**

Organizations face a myriad of risks that can impact the outcome of their operations, (Hopkin, 2012). According to Stulz (1996) risk management is a central part of the strategic management of any organization. It is the process whereby organizations methodically address the risks attached to their activities. A successful risk management initiative should be proportionate to the level of risk in the organization, aligned with other corporate activities, comprehensive in its scope, embedded into routine activities and dynamic by being responsive to changing circumstances. The focus of risk management is the assessment of significant risks and the implementation of suitable risk responses. The objective is to achieve maximum sustainable value from all the activities of the organization. Risk management enhances the understanding of the potential upside and downside of the factors that can affect an organization.

The importance of risk management has become heightened in today's competitive economic world. These cannot be underemphasized as the practice of risk management minimizes financial losses to the firm. In a study carried out by Ashby and Diacon (1994), as cited in Gerald Mars (2000), it was discovered that the practice of risk management in commerce stems largely from the need to avoid contractual, tortuous or statutory liability which has the capacity to dent the image of the organization. The danger of capital misallocation and imprudent risk taking has

become the leading source of problem in the banking industry, this has crippled many banks, thus, there is need to identify, measure, monitor and control all inherent risk in their day to day business transactions

### **1.1.3 Firm Performance**

Kaplan and Norton (2010) define performance as the accomplishment of a given task measured against preset known standards of accuracy, completeness, cost and speed. In a contract, performance is deemed to be the fulfillment of an obligation, in a manner that releases the performer from all liabilities under the contract. The performance outcomes vary depending on how a firm's performance for instance return on investment, enhancing sales, market share and the settings studied for instance service firms, industrial firms and manufacturing firms.

Different organizations use diverse types of measurements to evaluate their overall performance. The measurements of performance are categorized into non-financial and financial indicators. These measures are widely used by managers to evaluate their organizational performance. Most financial institutions use financial indicators such as return on investment (ROI), return on equity (ROE), and return on sales (ROS), market share and net profit. The weaknesses of these measures are failure to elucidate the current business conditions, new goals, strategic focus of stakeholders and lag in time (Kaplan and Norton, 2002).

### **1.1.4 Shopping Malls in Nairobi**

There are approximately twenty four shopping malls in Nairobi located along busy highways and in central business districts. Nearly all shopping malls in Nairobi are privately owned and centrally managed. They offer different business units for customers with the services ranging from supermarkets, restaurants, parking spaces, joints and recreational facilities. Shopping malls

are popular sites for families especially during weekends and holidays. Different businesses in the same building imply that shopping malls are faced with many risks. These risks include operational risks, natural calamities, terrorism risks, market risks and the inherent risks.

A survey by City Group shows that Kenya's retail market is the second most formalized in the sub-Saharan region after South Africa which has 60% of its market formalized. The Kenyan Market is said to be experiencing retail penetration of about 30% which is dominated by: chain stores and supermarkets like 'Nakumatt' with 37 stores, 'Tuskys' with 37 stores, followed by the 'Naivas' that has established 19 outlets and 'Uchumi' with 18 outlets. The penetration is attributed to the presence of strong brands of local outlets, a broad middle – income class, an elaborate transport network and generally good governance in the country.

According to IPSOS Synovate (2012), the evidence of a growing appetite for shopping space in Nairobi is shown by the high take up rates and occupancy levels of almost 98%, by the time a shopping mall development is completed. A shopping mall can be defined as a large retail complex containing a variety of stores, services, parking areas, restaurants and other business establishments housed in a series of connected or adjacent buildings or in a single large building. Despite the relatively higher capital costs and longer construction period, shopping malls are returning rental yields of between 10% and 13.5% in Nairobi, which is a good incentive compared to other forms of real estate such as residential and commercial property whose rental yields are 6% and 9% respectively (Knight Frank Africa Report, 2013).

## **1.2 Research problem**

Risk management practices can facilitate reduction in earnings volatility (Pagach et al, 2010). Reduction of Shopping malls exposure to risks will enhance their performance. Therefore, it is

necessary for shopping malls to have in place broad risk management practices and reporting process to identify, measure, monitor, manage, report and control risks. Efficient risk management practices have been essential in allowing the extraordinary performance of shopping malls. Effective management of risk is critical to enhance shopping malls feasibility and sustained growth. Failure to control risk may lead to closure of shopping malls and this would consequently result to business loss.

Risk management practices is an issue of concern in shopping malls today and there is need to develop improved processes and systems to deliver better visibility into future performance of the shopping malls. Improved risk management in shopping malls will certainly require a clear understanding of the challenges they face. This will in turn assist in developing strategies to overcome the risk management process. It is importance to a study on effects of risk management practices to be established due to the role of shopping management in improve its performance.

There are no local studies on the effect of risk management on performance of shopping malls in Nairobi. It is therefore evident that there is a gap in literature and this informs a research to be conducted to examine the relationship between risk management practices and the performance of shopping malls in Nairobi. This study therefore will seek to establish the relationship between risk management practices and performance of shopping malls in Nairobi.

### **1.3 Research objectives**

The general objective of the study was to evaluate risk management on the performance of shopping malls in Nairobi.

The specific objectives are as highlighted below.

- i. To investigate the extent to which risk identification has improved the performance of shopping malls
- ii. To determine how risk analysis outcome has affected the performance of shopping malls
- iii. To examine how risk evaluation outcome has improved the performance of shopping malls
- iv. To establish the extent to which risk treatment has impacted on the performance of shopping malls

#### **1.4 Value of the study**

The findings will indicate the effects of risk management on performance of shopping malls in Nairobi. Therefore the result will be significant in providing an insight into the various approaches towards risk management techniques, how to effectively handle the issues of risk management and how to reduce exposure to the risk.

Shopping malls under survey will benefit greatly as the study result will directly reflect their performance and recommendations deduced from the study will be very relevant. By extension, other business outlets will benefit from results of the study. Business firms, in various sectors of the economy, will benefit from the research findings e.g. to make informed decisions.

To regulators and policy makers, the research will provide the basis for control policy framework to mitigate the risks associated with shopping malls. The study will also form a good literature base upon which further studies and references was drawn. Academicians will, thus, benefit from the findings of this study as it will add to the body of existing knowledge in risk management in shopping malls.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter will look at existing literature on risk management on performance of shopping malls in Nairobi and how this concept relates to the current study. Specific areas include conceptual framework and empirical review.

#### **2.2 Theoretical Foundation**

This section will cover the theories of risk management in relation to organizational performance. Agency theory which stipulates that the principal agency problem can be reduced by better monitoring such as establishing more appropriate incentives for managers will not be relevant in this study since it is more relevant in financial analysis in finance. Portfolio theory, Capital Asset Pricing Theory will not be discussed in this study. However, contingency planning theory, value at risk theory and asymmetric information theory will form the basis of analysis for this study

##### **2.2.1 Contingency Planning Theory**

Contingency planning (CP) also known as business continuity planning is a crucial element of risk management. The fundamental basis of Contingency Planning (CP) is that, since all risks cannot be totally eliminated in practice, residual risks always remain. Contingency theory argues that managers should adjust their leadership styles to match the situations at hand. Scott (1981: 114) summarizes the theory as the best way to organize depends on the nature of the environment to which the organization must relate. Contingency approaches to organizational

structure are those which are based on the idea that the performance of an organization depends on having a structure that is appropriate to its environment.

Despite the organization's very best efforts to avoid, prevent or mitigate them, incidents will still occur. Particular situations, combinations of adverse events or unanticipated threats and vulnerabilities may conspire to bypass or overwhelm even the best information security controls designed to ensure confidentiality, integrity and availability of information assets (Hisnson and Kowalski, 2008). In the context of this study, contingency planning is defined as the totality of activities, controls, processes, plans relating to major incidents and disasters.

It is the act of preparing for major incidents and disasters, formulating flexible plans and marshaling suitable resources that will come into play in the event, whatever actually eventuates. The very word 'contingency' implies that the activities and resources that will be required following major incidents or disasters are contingent (depend) on the exact nature of the incidents and disasters that actually unfold. In this sense, CP involves preparing for the unexpected and planning for the unknown. The basic purpose of CP is to minimize the adverse consequences or impacts of incidents and disasters.

### **2.2.2 Value at Risk Theory**

The mathematics that underlies VaR was largely developed in the context of portfolio theory by Harry Markowitz and others, though their efforts were directed towards a different end – devising optimal portfolios for equity investors. In particular, the focus on market risks and the effects of the movements in these risks are central to how VaR is computed. The impetus for the use of VaR measures, though, came from the crises that beset financial service firms over time and the regulatory responses to these crises. The first regulatory measures that evoke Value at

Risk, though, were initiated in 1980, when the Securities Exchange Commission tied the capital requirements of financial service firms to the losses that would be incurred, with 95% confidence over a thirty-day interval, in different security classes; historical returns were used to compute these potential losses (Manganelli and Engle, 2001).

Value at risk (VAR or sometimes VaR) theory has received immense attention being titled the "new science of risk management". This is a technique used to measure the probability of portfolio losses based on the statistical analysis of historical price trends and volatilities. Value at risk is commonly used by banks, security firms and companies that are involved in trading energy and other commodities. VAR is able to measure risk while it happens and is an important consideration when firms make trading or hedging decision (Manganelli and Engle, 2001). According to Jorion (2001), VaR measure the worst expected loss over a given horizon under normal market conditions at a given level of confidence.

### **2.2.3 Asymmetric Information Theory**

The asymmetric information theory was brought to light by Vickrey and Mirrlees. The problem of the economics of information and the special issue of asymmetries of information had been under discussion for some time prior to the crucial breakthroughs by Akerlof, Spence, and Stiglitz in the 1970s (Barkley, 2002). Information asymmetry refers to a situation where business owners or manager know more about the prospects for, and risks facing their business, than do lenders (Eppy 2005). It describes a condition in which all parties involved in an undertaking do not know relevant information.

In an investments market, information asymmetry arises when an investor who takes an investment decision usually has better information about the potential risks and returns associated with investment projects for which the funds are earmarked. The lender on the other hand does not have sufficient information concerning the borrower (Edwards and Turnbull, 1994). Binks and Ennew (1997) point out that perceived information asymmetry poses two problems for the investment, moral hazard (monitoring entrepreneurial behavior) and adverse selection (making errors in lending decisions).

#### **2.2.4 Portfolio Theory**

Portfolio theory of investment which tries to maximize portfolio expected return for a given amount of portfolio risk, or equivalently minimize risk for a given level of expected return, by carefully choosing the proportions of various assets. Although Portfolio Theory is widely used in practice in the financial industry and several of its creators won a Nobel Prize for the theory, in recent years the basic Portfolio Theory have been widely challenged by fields such as behavioral economics. (Markowitz 1952)

Portfolio Theory is a mathematical formulation of the concept of diversification in investing, with the aim of selecting a collection of investment assets that has collectively lower risk than any individual asset. That this is possible can be seen intuitively because different types of assets often change in value in opposite ways. For example, when prices in the stock market fall, prices in the bond market often increase, and vice versa. A collection of both types of assets can therefore have lower overall risk than either individually. But diversification lowers risk even if assets' returns are not negatively correlated indeed, even if they are positively correlated (Markowitz ,1952).

More technically, portfolio theory models assets return as a normally distributed (or more generally as an elliptically distributed random variable), define risk as the standard deviation of return, and model a portfolio as a weighted combination of assets so that the return of a portfolio is the weighted combination of the assets' returns. By combining different assets whose returns are not perfectly positively correlated, portfolio theory seeks to reduce the total variance of the portfolio return. Portfolio theory also assumes that investors are rational and markets are efficient. (Sharpe 1964)

Portfolio Theory was developed in the 1950s through the early 1970s and was considered an important advance in the mathematical modelling of finance. Since then, many theoretical and practical criticisms have been levelled against it. These include the fact that financial returns do not follow a Gaussian distribution or indeed any symmetric distribution, and those correlations between asset classes. (Micheal, Sproul 1998)

### **2.3.5 Arbitrage pricing theory**

The Arbitrage Pricing Theory (APT) was developed primarily by Ross (1976). It is a one-period model in which every investor believes that the stochastic properties of returns of capital assets are consistent with a factor structure. The Arbitrage Pricing Theory (APT) describes the price where a mispriced asset is expected to be. It is often viewed as an alternative to the capital asset pricing model (CAPM), since the APT has more flexible assumption requirements. Whereas the CAPM formula requires the market's expected return, APT uses the risky asset's expected return and the risk premium of a number of macro-economic factors. Arbitrageurs use the APT model to profit by taking advantage of mispriced securities. A mispriced security will have a price that differs from the theoretical price predicted by the model. By going short an overpriced security,

while concurrently going long the portfolio the APT calculations were based on, the arbitrageur is in a position to make a theoretically risk-free profit. (Ross, 1976)

The basis of arbitrage pricing theory is the idea that the price of a security is driven by a number of factors. These can be divided into two groups: macro factors, and company specific factors. This intuition is sketched out in Section 2. Ross' formal proof shows that the linear pricing relation is a necessary condition for equilibrium in a market where agents maximize certain types of utility. The subsequent work, which is surveyed below, derives either from the assumption of the preclusion of arbitrage or the equilibrium of utility-maximization. A linear relation between the expected returns and the betas is tantamount to an identification of the stochastic discount factor (SDF). Sections 3 and 4, respectively, review this literature. The APT is a substitute for the Capital Asset Pricing Model (CAPM) in that both assert a linear relation between assets' expected returns and their covariance with other random variables. (Ross, 1976)

The difference between CAPM and arbitrage pricing theory is that CAPM has a single non-company factor and a single beta, whereas arbitrage pricing theory separates out non-company factors into as many as proves necessary. Each of these requires a separate beta. The beta of each factor is the sensitivity of the price of the security to that factor.

Arbitrage pricing theory does not rely on measuring the performance of the market. Instead, APT directly relates the price of the security to the fundamental factors driving it. The problem with this is that the theory in itself provides no indication of what these factors are, so they need to be empirically determined. Obvious factors include economic growth and interest rates. For companies in some sectors other factors are obviously relevant as well - such as consumer spending for retailers. The potentially large number of factors means more betas to be calculated.

There is also no guarantee that all the relevant factors have been identified. This added complexity is the reason arbitrage pricing theory is far less widely used than CAPM. (Sharpe, 1992)

### **2.3 Empirical Literature**

Saleem et al (2003) conducted a study on the effectiveness of risk management on organizational performance. Based on the data, collected from 25 organizations working in software development sector, the results indicates that risk management practices are not widely used by the organizations, moreover most of the organizations do not have documented risk management policy properly. Therefore, these organizations cannot deal with the risks systematically and sometimes face negative consequences for the non-systematic approaches. However, the study concluded that the few companies that have implemented certain risk management techniques enjoy high-performance.

Ibe et al (2012) examined enterprise risk management on the performance of Nigeria's brewery industry. The study adopted the cross section survey design and copies of questionnaire were distributed to 375 respondent comprising top and middle level management staff of three major brewing firms in Nigeria. The study found that enterprise Risk Management enhances the performance of firms in the Brewery industry in Nigeria. The study therefore recommends that managers in the brewery industry in Nigeria should continue to adopt and implement enterprise rise management as a tool to enhance organizational performance and this should be backed by policy.

A study by Govori (2012) on measuring and managing the impact of risk on organizations in Kosovo concluded that organizations will be able to manage to improve performance and results

in the areas of the operations performance, the development of processes and projects, and the selection and implementation of alternative development strategies if they take a proactive approach to risk and risk management.

Adeusi et al (2013) conducted a study on risk management and financial performance of banks in Nigeria. This study focused on the association of risk management practices and bank financial performance in Nigeria. Secondary data sourced was based on a 4year progressive annual reports and financial statements of 10 banks and a panel data estimation technique adopted. The result implied an inverse relationship between financial performance of banks and doubt loans, and capital asset ratio was found to be positive and significant. Similarly it suggested that the higher the managed funds by banks the higher the performance. The study concluded a significant relationship between banks performance and risk management. Hence, the need for banks to practice prudent risks management in order to protect the interests of investors.

Mwirigi (2006) indicated that it was important for firms to ensure that risk management function is established throughout the whole corporation that is the parent companies including subsidiaries have to identify and analyze all risks. There are many approaches for risk identification for instance, scenario analysis or risk mapping. An organization can identify the frequency and severity of the risks through risk mapping which could assist the organization to stay away from high frequency and low severity risks and instead focus more on the low frequency and high severity risk. Risk identification process includes risk-ranking components where these ranking are usually based on impact, severity or dollar effects (Christen and Pearce 2005). Accordingly, the analysis helps to sort risk according to their importance and assists management to develop risk management strategies to allocate resources efficiently

In relation to commercial banks' practice of risk management, Al-Tamimi (2002) found that the United Arab Emirates (UAE) commercial banks were mainly facing credit risk which they identified through inspection by branch managers and financial statement analysis methods. The main techniques used in risk management are establishing standards, credit score, credit worthiness analysis, risk rating and collateral. The recent study by Al-Tamimi and Al-Mazrooei (2007) conducted on banks' risk management of UAE national and foreign banks revealed that the three most important types of risks encountered by UAE commercial banks are foreign exchange risk, followed by credit risk and finally operating risk.

Mwangi (2012) conducted a study on the effects of credit risk management of financial performance of commercial banks in Kenya using a modern ROE as profitability indicator while non-performing loan ratio and capital adequacy ratio as credit risk management indicators. This study showed that there is a significant relationship between financial performance (in terms of profitability) and credit risk management (in terms of loan performance and capital adequacy). The results of the analysis states that both non-performing loans ratio and capital adequacy ratio have negative and relatively significant effect on return on equity (ROE), with non-performing loan ratio having higher significant effect on ROE in comparison to capital adequacy ratio. Hence, the regression as whole is significant; this means that non-performing loan ratio and capital adequacy ratio reliably predict ROE.

Musyoki et al (2012) conducted a study to assess various parameters pertinent to credit risk management as it affects banks' financial performance of Banks in Kenya between the periods of 2000 - 2006. The parameters covered in the study were; default rate, bad debts costs and cost per loan asset. Financial reports of 10 banks was used to analyze profit ability ratio for seven years

(2000-2006) comparing the profitability ratio to default rate, cost of debt collection and cost per loan asset which was presented in descriptive, regression and correlation was used to analyze the data. The study revealed that all these parameters have an inverse impact on banks' financial performance, however the default rate is the most predictor of bank financial performance vis-à-vis the other indicators of credit risk management. The recommendation is to advise banks to design and formulate strategies that will not only minimize the exposure of the banks to credit risk but will enhance profitability and competitiveness of the banks

Gatuhu (2013) undertook a study on the effects of Credit Management on Financial Performance of Microfinance Institutions in Kenya surveying 59 MFIs in Kenya. She used a census study to carry out the research and found out that client appraisal, credit risk control and collection policy had effect on financial performance of MFIs. The study established that there was strong relationship between financial performance of MFIs and client appraisal, credit risk control and collection policy. The study revealed that a unit increase in client appraisal would lead to increase in financial performance of MFIs in Kenya. According to Gatuhu (2013), this is an indication that there was positive association between client appraisal and financial performance of MFIs, an increase in credit risk control would lead to increase in financial performance of MFIs in Kenya, which shows that there was positive relationship between financial performance of MFIs and credit risk control and a unit increase in collection policy would lead to increase in performance; this is an indication that there was a positive relationship between financial performance of MFIs and collection policy. Client appraisal, credit risk control and collection policy significantly influence financial performance of MFIs in Kenya.

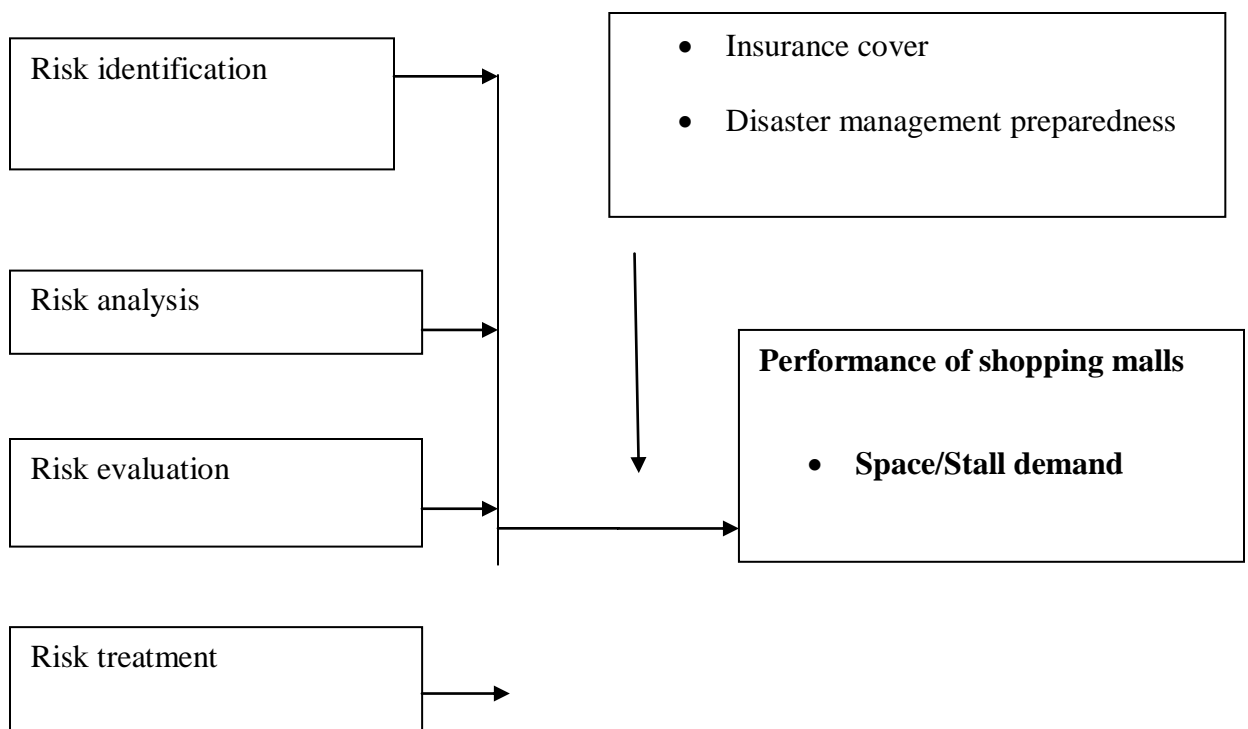
## 2.4 Summary of the literature review

The literature review begun by highlighting the theoretical approaches that surround the context of the relationship between risk management and performance of organizations. Key theories discussed are Contingency Planning Theory, Value at a Risk Theory and Asymmetric Information Theory. Local studies that have been done on risk management do not focus on the effect of risk management on the performance of shopping malls, there is therefore a gap in the empirical evidence available .This study seeks to bridge the gap.

## 2.5 Conceptual framework

The conceptual framework for this study will be derived from the theories discussed above. The dependent variable will be the performance of shopping malls while the independent variables are. The risk identification, risk analysis, risk evaluation and risk treatment. The relationship has been presented as given below

### Intervening Variables



## **Independent Variables**

## **Dependent Variable**

### **Figure 2.1: Conceptual Framework**

#### **Risk identification**

The identification of risk is one of the processes of risk management, which reveals and determines the possible risk facing up means of organization. It is considered to be the most important step for risk management because it provides a base for the right future work of the organization concerning the developing and the implementation of new programs for the risk control (Tchankova, L., 2002). The method chosen for the identification of the risk depends upon the culture and organization's practices etc. There must be a risk list provided as deliverable of risk identification phase suggesting at least one response to the identified risks (Chapman, C., 1997). Cerevon, F. H., (2006) view risk identification as a team work which looks at project events with respect to various risk categories, and extracting those which could have a negative impact on the project. Due to vast changes in organizational environment, the risk identification process must be continuous.

The appropriate risk identification method will depend on the application area (i.e. nature of activities and the hazard groups), the nature of the project, the project phase, resources available, regulatory requirements and client requirements as to objectives, desired outcome and the required level of detail.

The use of the following tools and techniques may further assist the identification of risks: examples of possible risk sources, checklist of possible business risks and fraud risks, typical risks in stages of the procurement process, scenario planning as a risk assessment tool, process

mapping, and documentation, relevant audit reports, program evaluations and / or research reports. Specific lists, e.g. from standards, and organizational experience support the identification of internal risks. To collect experience available in the organization regarding internal risks, people with appropriate knowledge from the different parts of the organization should be involved in identifying risks. Creativity tools support this group process (see Fig. 3).

The identification of the sources of the risk is the most critical stage in the risk assessment process. The sources are needed to be managed for pro-active risk management. The better the understanding of the sources, the better the outcomes of the risk assessment process and the more meaningful and effective will be the management of risks

### **Risk Analysis**

After the identification of risks, analysis is done to determine their characteristics whether they are worth of further analysis (Ahmed *et al.*, 2007). In this stage, each risk identified is assigned a significant rating by doing so it helps in better understanding the possible impact of a risk or the likelihood of it occurring. The purpose of risk analysis is to provide information to business owners to make decisions regarding priorities.

Risk analysis is also being used to evaluate and manage the potential of unwanted circumstances in a large array of areas: industrial explosions; machine part and other mechanical and process failures; workplace injuries; injury or death from diseases, natural causes, lifestyles, and voluntarily pursued activities; the impacts of economic development on ecosystems; and financial market transactions among others.

Risk analysis comprises of the following elements:

**Risk assessment** is the process where you Identify hazards. Analyze or evaluate the risk associated with that hazard. Determine appropriate ways to eliminate or control the hazard.

**Risk management** is the process of identifying and implementing measures which can be applied to reduce risk to an acceptable level and documenting the final import decision.

**Risk communication** is the process by which the results of risk assessment and risk management are communicated to decision-makers and the public. Adequate risk communication is essential in explaining official policies to stakeholders who are often aware of the risks but not the benefits of importations. Risk communication must also be a two-way process, with the concerns of stakeholders being heard by officials and addressed adequately

### **Risk evaluation**

Risk analysis provides a basis for risk evaluation in which it is decided that which risk is to be treated or accepted which action plan is better to implement. The evaluation stage usually depends on the number of risks. However, when there are only few risks then the evaluation stage might be lightweight, however, when there are many risks and the situations are complex, then the evaluation becomes difficult. Moreover, in the evaluation stage risks should be examined individually as well as their combined impact on the project (Elkington P. *et al.*, 2002). In risk evaluation, different mitigation options are determined keeping in view the risk events and then most suitable option is incorporated to the risk mitigation plan (Ahmed *et al.*, 2007).

Once the risks have been analyzed they can be compared against the previously documented and approved tolerable risk criteria. When using risk matrices this tolerable risk is generally documented with the risk matrix. Should the protected risk be greater than the tolerable risk then

the specific risk needs additional control measures or improvements in the effectiveness of the existing controls.

The decision of whether a risk is acceptable or not acceptable is taken by the relevant manager. A risk may be considered acceptable if for example: The risk is sufficiently low that treatment is not considered cost effective, a treatment is not available, e.g. a project terminated by a change of government, or a sufficient opportunity exists that outweighs the perceived level of threat. If the manager determines the level of risk to be acceptable, the risk may be accepted with no further treatment beyond the current controls. Acceptable risks should be monitored and periodically reviewed to ensure they remain acceptable. The level of acceptability can be organizational criteria or safety goals set by the authorities

### **Risk treatment**

The important result of the risk management process is the risk treatment. Risks are determined which have worth of further investigation due to either of their relative importance or because of their high chance for occurring again, are treated by implementing a risk mitigation plan. Risks can be treated either through proactive approach or through reactive approach. Reactive approach refers to the actions initiated after the eventuation of the risks events while proactive approach refers to actions initiated based on chance of the occurrence of certain risks (Ahmed et al., 200). The objective of this stage of the risk assessment process is to develop cost effective options for treating the risks. Treatment options (cf. Fig. 5), which are not necessarily mutually exclusive or appropriate in all circumstances, are driven by outcomes that include: Avoiding the risk, Reducing (mitigating) the risk, Transferring the risk and Retaining the risk.

According to Wirthin (2006) transferring the risk totally or in part may be achievable through moving the responsibility to another party or sharing the risk through a contract, insurance, or partnership or joint venture. However, one should be aware that a new risk arises in that the party to whom the risk is transferred may not adequately manage the risk. Retaining the risk and managing it - Resource requirements feature heavily in this strategy.

The next step is to determine the target level of risk resulting from the successful implementation of the preferred treatments and current control activities. The intention of a risk treatment is to reduce the expected level of an unacceptable risk. Using the risk matrix one can determine the consequence and likelihood of the risk and identify the expected target risk level.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter describes the research design, target population and sample size, sampling technique, data collection method, data analysis procedures and ethical issues.

#### **3.2 Research design**

This study adopted a descriptive research design. Donald (2006) notes that a research design is the structure of the research, it holds all the elements in a research project together. Further, Orodho (2003) defines a research design as the scheme, outline or plan that is used to generate answers to research problems. The study used a descriptive survey that aims at assessing the effect of risk management practices on the performance of shopping malls in Nairobi County.

#### **3.3 The targeted Population**

According to Mugenda and Mugenda, (2003) target population is that population to which a researcher wants to generalize the results of the study. The population of this study consisted of the 24 shopping malls in Nairobi County in Kenya that are licensed by the County government of Nairobi (See Appendix II). A census approach was used; this is because detailed information on shopping malls is easy and economical to get since the population is small.

#### **3.4 Data collection**

The study used primary data which is quantitative and qualitative in nature. The questionnaire was administered to the managers of the various shopping malls as they understand the effect of risk management to performance of the shopping malls. Gall et al., (1996) points out that, questionnaires are appropriate for studies since they collect information that is not directly

observable as they inquire about feelings, motivations, attitudes, accomplishments as well as experiences of individuals. They further observed that questionnaires have the added advantage of being less costly and using less time as instruments of data collection. The questionnaire was semi-structured (have both open and close-ended questions). While the close-ended questions guided the respondents' answers within the choices given, the open-ended ones were useful in obtaining a more detailed response essentially in cases where the researcher has no pre-determined options.

Respondents were presented with descriptive statements in a 5-point Likert scale on which they were required to rate by scoring the extent to which they perceived a particular statement is descriptive of the force in the corporations. The questionnaires were administered through drop and pick.

### **3.5 Data analysis**

The data collected through questionnaires was tabulated and analyzed using Statistical Package for the Social Sciences version 20 (SPSS v.20) and results were tabulated and analyzed using descriptive statistics. The data collected was analyzed using multiple regression analysis: the relation of one dependent variable to multiple independent variables. The regression output was obtained using SPSS version 20. The regression model is given in equation one below.

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \epsilon$$

Whereby: **Y** = Performance (Shopping malls)

**X1** = Risk Identification (RI)

**X2**= Risk Analysis (RA);

**X3**= Risk Evaluation (RE);

**X4**= Risk Treatment (RT); and

**B0,  $\beta_1$ ,  $\beta_2$ ,  $\beta_3$ ,  $\beta_4$**  =Regression model coefficients.

**$\epsilon$**  = Error Term.

## CHAPTER FOUR

### DATA ANALYSIS, RESULTS AND DISCUSSION

#### 4.1 Introduction

This chapter provides the data analysis, presentation and interpretation of the results of the study as set out in the research methodology. The purpose of the study was to evaluate the effect of risk management on the performance of shopping malls in Nairobi County. The data was gathered from questionnaire as the research instrument. The questionnaire was designed in line with the objectives of the study. To enhance quality of data obtained, structured and unstructured types of questions were included. The data obtained was fed into SPSS version 20.0 and used to compute the ratios used as proxies to measure the effect of risk management on the performance of shopping malls in Nairobi County.

#### 4.2 Questionnaire Return Rate

Questionnaire return rate involves the computation of the response rate from the questionnaire returned from the field. The study involved 24 respondents from the target population in collecting data with regard to the effect of risk management on the performance of shopping malls in Nairobi County. The questionnaire return rate results are shown in Table 4.1.

**Table 4.1: Response Rate**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Responded	21	87.5
Not responded	3	12.5
<b>Total</b>	<b>24</b>	<b>100.0</b>

From the study, 21 out of 24 sampled respondents filled in and returned the questionnaire contributing to 87.5%. This commendable response rate was made a reality after several personal calls were made and visits to remind the respondent to fill-in and return the questionnaires as well as explaining the importance of their participation in this study hence, kept reminding the respondents to fill in the questionnaires through frequent phone calls and picked the questionnaires once fully filled. This response rate was good and representative and conforms to Mugenda and Mugenda (2003) stipulation that a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent. The response rate demonstrates a willingness of the respondents to participate in the study.

#### **4.3 Background Information**

This section concerns itself with outlining and presentation of the findings obtained from the questionnaires distributed to the respondents. For clarity of the information, it was necessary for a review of the responses to ascertain that the information from the respondents was adequate and complete for purposes of the research. In order to get the background information on the challenges of internationalization of business operations by medium size manufacturing enterprises in Nairobi County, the demographic data of the respondents was investigated in the first section of the questionnaire. They are presented in this section under gender, age bracket, designation, working experience in years and highest level of education.

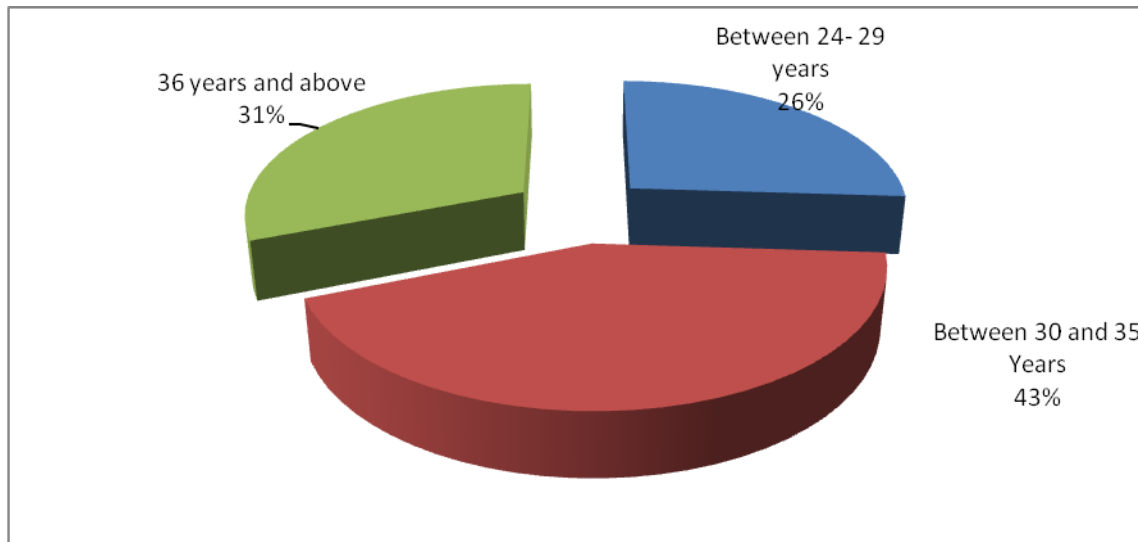
In this study the respondents sampled were expected to comprise both male and female staffs. As such, the study required the respondents to indicate their gender by ticking on the spaces provided in the questionnaire. Table 4.2 shows the distribution of the respondents by gender.

**Table 4.2: Gender of the Respondents**

<b>Gender</b>	<b>Frequency</b>	<b>Percent</b>
Male	13	62.6
Female	8	37.4
<b>Total</b>	<b>21</b>	<b>100</b>

Accordingly, 62.6% of the respondents were male management staffs while 37.4% of them were female management staffs working in the shopping malls in Nairobi County. The findings show that the shopping malls studied had both male and female management staffs; however the majority of them were male management staffs. The findings imply that the views expressed in these findings are gender sensitive and can be taken as representative of the opinions of both genders as regards to the effect of risk management on the performance of shopping malls in Nairobi County.

The study also sought to investigate the composition of the respondents in terms of age brackets to understand their familiarity with the effect of risk management on the performance of shopping malls in Nairobi County. According to the results depicted in Figure 4.1, majority (comprising 43.0%) of the respondents indicated that they were aged between 30 and 35 years, 31.0% of them indicated that they were aged 36 years and above. In addition, 26.0% of the respondents reiterated that they were aged between 24- 29 years. The results depicted in table 4.3 show that the respondents were well distributed in terms of age and that they are active in technological advancements and productivity and hence can contribute constructively in this study on the effect of risk management on the performance of shopping malls in Nairobi County.



**Figure 4.2: Composition of the Respondents by Age Brackets**

The study sample included senior level management, middle level management and subordinate management. This was relevant to assess the distribution of the respondents across the management levels.

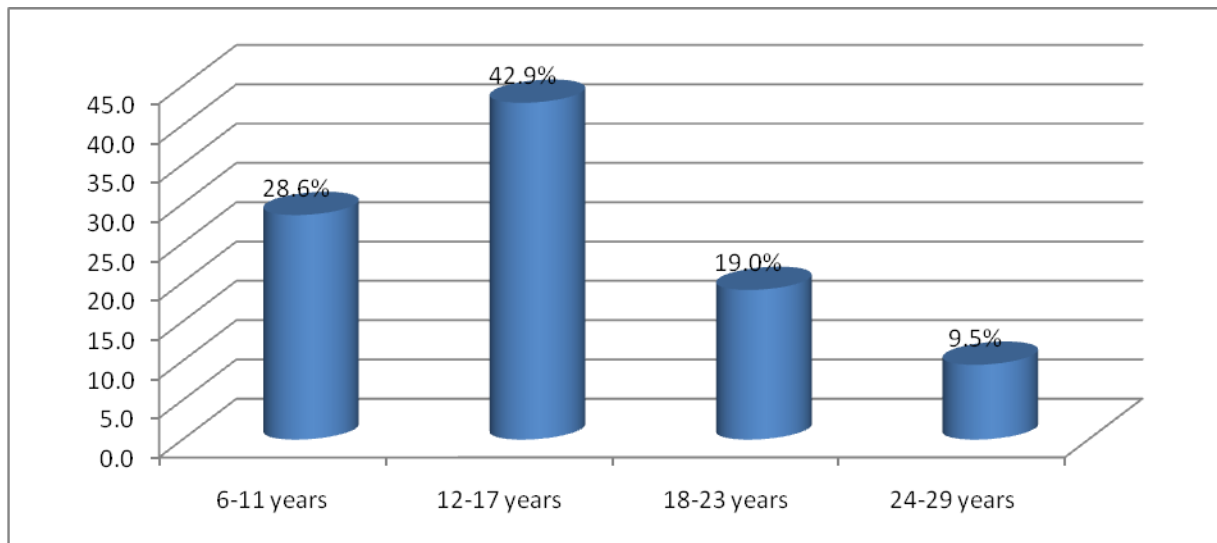
**Table 4.3: Designation of the Respondents**

<b>Designation</b>	<b>Frequency</b>	<b>Percentage</b>
Senior level management	11	52.4
Middle level management	6	28.6
Subordinate management	4	19.0
<b>Total</b>	<b>21</b>	<b>100</b>

According to the results shown in Table 4.3, majority (52.4%) of the respondents were senior level managers, 28.6% of them were middle level management staffs, while 19.0% of the respondents comprised of subordinate staffs. From these results, the respondents that participated in the study are mainly those involved in the formulation and implementation of the decisions

concerned with the risk management of shopping malls in Nairobi County and hence their insights are viewed as more resourceful for knowledge and policy recommendations.

The length of continuous service/working in an organization determines the extent to which one is aware of the issues sought by the study. The study therefore sought to establish the length of time that the respondents had been working in the shopping malls in Nairobi County, Kenya. From the study, 42.9% of the respondents indicated that they had worked in the shopping malls in Nairobi for a period of 12-17 years, 28.6% of them had been working in the shopping malls in Nairobi for 6-11 years, 19.0% of the respondents indicated that they had a working experience of 18-23 years in the shopping malls in Nairobi while 9.5% of the respondents indicated that they had worked in the shopping malls in Nairobi for a period of 24-29 years. For that reason, majority of the respondents had enough experience on the effect of risk management on the performance of shopping malls in Nairobi County.



**Figure 4.3: Respondents' Duration of Work in Shopping Malls in Nairobi County**

The Shopping Malls in Nairobi County employ staffs in different work stations hence different academic qualifications. The target population comprised of people in different responsibilities

and qualification requirements hence different academic qualifications. This difference might contribute to differences in the responses given by the respondents.

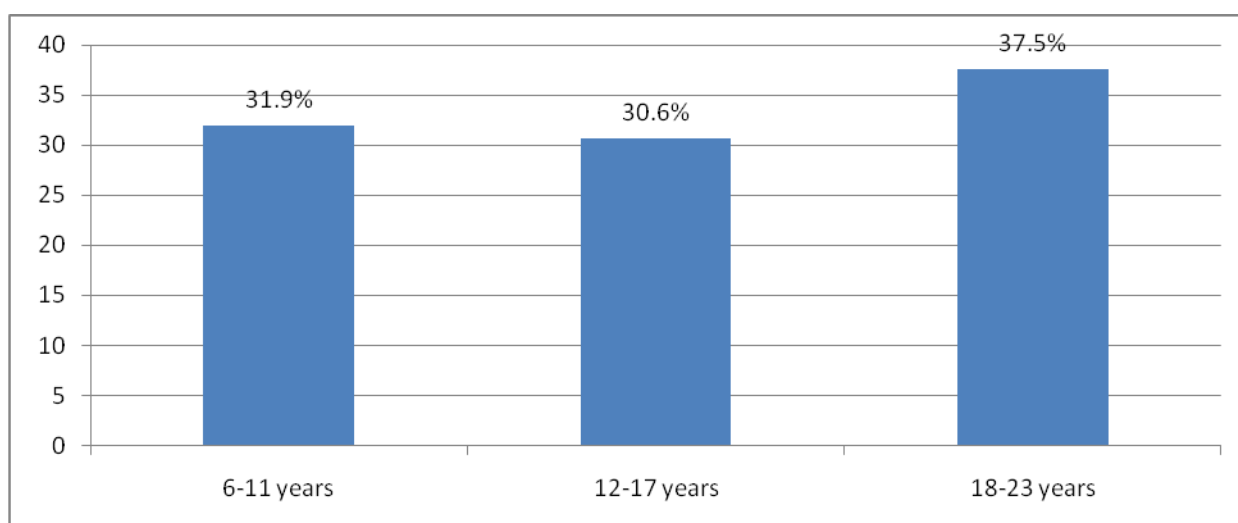
**Table 4.4: Level of Education**

<b>Level of Education</b>	<b>Frequency</b>	<b>Percent</b>
Masters Level	9	40.5
Degree/Graduate level	11	50.0
College Diploma	2	9.5
<b>Total</b>	<b>21</b>	<b>100.0</b>

The outcome depicted in table 4.5 show that majority of the respondents had at least an undergraduate degree and hence understood the information sought by this study. From the study, 50.0% of the respondents had acquired a graduate level of education, 40.5% of the respondents indicated that they had acquired a masters level of education, while 9.5% of the respondents indicated that they had acquired college Diplomas. The results show that the respondents are academically qualified and hence understood the information sought by this study. These findings further imply that all the respondents were academically qualified and also familiar with their duties and could dispense them effectively in terms of professional work ability and performance.

The study targeted to collect data from the management staffs working in the shopping malls in Nairobi County. The responses discussed in this study comprise of staffs designated as managers, assistant managers, supervisors and general staffs. In addition the respondents were required to indicate the length of time they had been working in their positions. From the study, 37.5% of them indicated that they had worked in their current positions for a period of 18 to 23

years, 30.6% of the respondents had been working in their positions in the Shopping Malls in Nairobi County for a period of 6 to 11 years while 30.6% of them had been working in their positions for 12 to 17 years. For that reason, majority of the respondents had enough experience on the effects of risk management on the performance of shopping malls in Nairobi County.



**Figure 4.4: Duration of Working in their Current Positions**

#### **4.4 Effect of Risk Management on Performance of Shopping Mall**

The general objective of the study was to evaluate the effects of risk management on the performance of shopping malls in Nairobi. As such the respondents were required to indicate whether risk management has had any effect on shopping mall performance.

**Table 4.5: Whether Risk Management has had any effect on Shopping Mall Performance**

<b>Response</b>	<b>Frequency</b>	<b>Percent</b>
Yes	18	87.2
No	3	12.8
<b>Total</b>	<b>21</b>	<b>100.0</b>

As shown in Table 4.6, 87.2% of the respondents unanimously agreed that risk management has had any effect on shopping mall performance, while 12.8% of them indicated a contrary view. This is an indication that risk management has significant effect on the performance of shopping malls in Nairobi County.

#### **4.5 Risk Management Practices**

In order to fulfill its objective the study sought to investigate the effects of risk management practices on the performance of shopping malls in Nairobi. The various risk management practices investigated in this study include risk identification, risk analysis, risk evaluation and risk treatment. This section is dedicated to investigating the effects of these aspects on performance of shopping malls in Nairobi. A study by Govori (2012) on measuring and managing the impact of risk on organizations in Kosovo concluded that organizations will be able to manage to improve performance and results in the areas of the operations performance, the development of processes and projects, and the selection and implementation of alternative development strategies if they take a proactive approach to risk and risk management.

##### **4.5.1 Risk Identification**

The respondents were required to indicate their level of agreement with various statements regarding risk identification and its effects on the performance of the shopping malls in Nairobi.

**Table 4.6: Risk Identification and its Effects on the Performance of the Shopping Malls**

<b>Statements on Risk Identification</b>	<b>Mean</b>	<b>Std dev</b>
We analyze the business plan to identify risk exposure	3.5104	.76770
We consider professionalism in the respective business within the shopping malls	3.4583	.83246

We consider capacity of the business to mitigate the risk	3.4479	.85680
We look at the long term planning for the shopping mall to identify the impending risk	3.6146	.73082
We look at the conditions i.e. economic, political before we finance a project	3.6250	.63660
We consider the net worth of every business that operates within the shopping mall.	3.5313	.64812
We look at project events with respect to various risk categories, and extracting those which could have a negative impact on the project	3.4375	.67765

From the results depicted in Table 4.7, majority of the respondents agreed that they (management of malls) look at the conditions of economic and political before they finance a project as shown by a mean of 3.6250, the shopping malls look at the long term planning for the shopping mall to identify the impending risk as shown by a mean of 3.6146, the management consider the net worth of every business that operates within the shopping mall as shown by a mean of 3.5313 and they analyze the business plan to identify risk exposure as shown by a mean of 3.5104. On the other hand they remained neutral on that the management considers professionalism in the respective business within the shopping malls as shown by a mean of 3.4583, they consider capacity of the business to mitigate the risk as shown by a mean of 3.4479 and they look at project events with respect to various risk categories, and extracting those which could have a negative impact on the project as shown by a mean of 3.4375. These results concur with Tchankova (2002) who contends that important step for risk management because it provides a base for the right future work of the organization concerning the developing and the

implementation of new programs for the risk control. Cerevon (2006) also view risk identification as a team work which looks at project events with respect to various risk categories, and extracting those which could have a negative impact on the project. Due to vast changes in organizational environment, the risk identification process must be continuous. Adeusi et al (2013) also found that a significant relationship between banks performance and risk management. Hence, the need for banks to practice prudent risks management in order to protect the interests of investors.

#### 4.5.2 Risk Analysis

The respondents were required to indicate their level of agreement with various statements on risk identification and its effects on performance of the shopping malls in Nairobi. The results are as shown in Table 4.8.

**Table 4.7: Agreement with Risk Identification and its Effects on Performance of Malls**

<b>Risk Identification and its Effects on Performance of Malls</b>	<b>Mean</b>	<b>Std dev</b>
We periodically assess information about the businesses within the shopping malls	3.5937	.65820
We monthly evaluate and manage the potential of unwanted circumstances in the shopping malls	3.6146	.71627
The risk assessment and risk management is communicated to decision-makers and the public.	3.4896	.63237
We assess if the business units within the shopping malls understand the basic risk practices	3.5521	.69388
We analyze growth in sales of the shopping mall.	3.5625	.61237

Accordingly, majority of the respondents agreed that the management of the malls carry out monthly evaluation and manage the potential of unwanted circumstances in the shopping malls as shown by a mean of 3.6146, they periodically assess information about the businesses within the shopping malls as shown by a mean of 3.5937, they analyze growth in sales of the shopping mall as shown by a mean of 3.5625 and they assess if the business units within the shopping malls understand the basic risk practices as shown by a mean of 3.5521. In addition, the respondents neither agreed nor disagreed with that the risk assessment and risk management is communicated to decision-makers and the public as shown by a mean of 3.4896. The results coincide with Ahmed *et al.*, (2007) who indicated that risk analysis is used to evaluate and manage the potential of unwanted circumstances in a large array of areas: industrial explosions; machine part and other mechanical and process failures; workplace injuries; injury or death from diseases, natural causes, lifestyles, and voluntarily pursued activities; the impacts of economic development on ecosystems; and financial market transactions among others.

#### 4.5.3 Risk Evaluation

To examine how risk evaluation outcome has improved the performance of shopping malls, the study required to indicate their level of agreement with various statements on risk evaluation and its effects on performance of shopping malls.

**Table 4.8: Risk Evaluation and its Effects on Performance of Shopping Malls in Nairobi**

<b>Risk Evaluation and its Effects on Performance of Shopping Malls</b>	<b>Mean</b>	<b>Std dev</b>
We decided which risk is to be treated or accepted and which action plan is better to implement	3.5820	.60083
We individually examine the risk as well as their combined impact on the shopping mall.	3.4016	.67616

Decision to diversify our investment is only made by management	3.6066	.62400
Different mitigation options are determined by keeping in view the risk events and then most suitable option is incorporated to the risk mitigation plan economy	3.4098	.70129
Acceptable risks are monitored and periodically reviewed to ensure they remain acceptable	3.4836	.59243

From the results shown in Table 4.9, majority of the respondents agreed that decision to diversify the shopping malls investment is only made by management as shown by a mean score of 3.6066 and the management decided which risk is to be treated or accepted and which action plan is better to implement as shown by a mean score of 3.5820. The respondents further indicated neutrality that acceptable risks are monitored and periodically reviewed to ensure they remain acceptable as shown by a mean score of 3.4836, different mitigation options are determined by keeping in view the risk events and then most suitable option is incorporated to the risk mitigation plan economy as shown by a mean score of 3.4098 and the management individually examine the risk as well as their combined impact on the shopping mall as shown by a mean score of 3.4016. In the evaluation stage risks should be examined individually as well as their combined impact on the project. According to Elkington *et al.*, (2002) in the evaluation stage risks should be examined individually as well as their combined impact on the project. If the manager determines the level of risk to be acceptable, the risk may be accepted with no further treatment beyond the current controls.

#### 4.5.4 Risk Treatment

Risk treatment is another aspect of risk management that affects the performance of shopping malls. As such the respondents were required to indicate their level of agreement with various statements on risk management and its effects on the performance of shopping malls.

**Table 4.9: Risk Management and its Effects on the Performance of Shopping Malls**

<b>Risk management and its effects on the performance of shopping malls</b>	<b>Mean</b>	<b>Std dev</b>
We have developed cost effective options for treating the risks within the shopping malls	3.4896	.6323
We do risk treatment on behalf of the business units within the shopping malls.	3.5521	.6938
The shopping malls apply risk matrix to determine the consequence and likelihood of the risk and identify the expected target risk level.	3.5938	.5907

According to the results presented in Table 4.10, majority of the respondents agreed that the shopping malls apply risk matrix to determine the consequence and likelihood of the risk and identify the expected target risk level and they do risk treatment on behalf of the business units within the shopping malls as shown by mean scores of 3.5938 and 3.5521 respectively. In addition the respondents were uncertain on that the malls have developed cost effective options for treating the risks within the shopping malls as shown by a mean score of 3.4896. The results reflect the findings by Wirthin (2006) transferring the risk totally or in part may be achievable through moving the responsibility to another party or sharing the risk through a contract, insurance, or partnership or joint venture. Risks can be treated either through proactive approach or through reactive approach. Reactive approach refers to the actions initiated after the

eventuation of the risks events while proactive approach refers to actions initiated based on chance of the occurrence of certain risks.

#### 4.6 Shopping Malls Performance

Risk management practices play a significant role in enhancing the performance of organizations. In this study the respondents were required to indicate their level of agreement with several statements regarding the performance of the shopping malls in Nairobi County.

**Table 4.10: Agreement with statements on Performance of the Shopping Malls in Nairobi**

<b>Performance of the shopping malls in Nairobi</b>	<b>Mean</b>	<b>Std dev</b>
The shopping mall has expanded its market share through effective risk management within the shopping malls	3.3607	.68110
The shopping mall has improved its sales turnover through effective risk management within the shopping malls	3.6230	.53517
In general, the risk management practices used in the shopping malls has improved the mall's performance.	3.5328	.61904

The results shown in Table 4.11 reveal that majority of the respondents agreed that the shopping malls have improved their sales turnover through effective risk management within the shopping malls as shown by a mean score of 3.6230 and that in general, the risk management practices used in the shopping malls has improved the mall's performance as shown by a mean score of 3.5328. On the other hand the respondents were undecided on that the shopping malls have expanded their market share through effective risk management within the shopping malls as shown by a mean score of 3.3607. Ongore and Kusa (2013), indicate that macroeconomic factors like inflation and gross domestic product have influence on performance though minimal. That

when the economy is doing well and gross domestic product is growing, people go in for loans and when the economy and gross domestic product go down, people shy away from loan facilities which reduce financial institutions' profitability.

#### 4.7 Multiple Regression Analysis

The researcher further conducted a multiple regression analysis so as to evaluate the effect of risk management on the performance of shopping malls in Nairobi County. Multiple regression is a statistical technique that allows us to predict a score of one variable on the basis of their scores on several other variables. The main purpose of multiple regressions is to learn more about the relationship between several independent or predictor variables and a dependent or criterion variable. The researcher applied the statistical package for social sciences (SPSS) to code, enter and compute the measurements of the multiple regressions for the study.

**Table 4.11: Coefficient of Determination**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.757(a)	.574	.533	.91241

Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (performance of the shopping malls) that is explained by all the four independent variables (risk identification, risk analysis, risk evaluation and risk treatment). From the results, 57.4% of the performance of the shopping malls on Nairobi County is attributed to combination of the four independent factors (risk identification, risk analysis, risk evaluation and

risk treatment) investigated in this study. A further 42.6% of the performance of the shopping malls is attributed to other factors not investigated in this study.

**Table 4.12: Multiple Regression Analysis**

Model		Unstandardized		Standardized	t	Sig.
		Coefficients		Coefficients		
		B	Std. Error	Beta		
1	(Constant)	0.713	1.068		0.799	0.033
	Budget control	0.246	0.203	0.135	0.619	0.036
	Risk identification	0.359	0.193	0.08	0.358	0.014
	Risk Treatment	0.268	0.250	0.242	0.891	0.023
	Risk Analysis	0.215	0.16	0.346	1.284	0.044

Dependent Variable: performance of the shopping malls on Nairobi County.

The researcher conducted a multiple regression analysis so as to determine the relationship between the performance of the shopping malls on Nairobi County and the four attributes investigated in this study. The regression equation ( $Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \alpha$ ) was:

$$Y = 0.713 + 0.246X_1 + 0.359X_2 + 0.268X_3 + 0.215\beta_4X_4 + 0$$

Whereby **Y** = Performance (Shopping malls)

**X1** = Risk Identification (RI)

**X2**= Risk Analysis (RA);

**X3**= Risk Evaluation (RE);

**X4**= Risk Treatment (RT); and

**B0,  $\beta_1$ ,  $\beta_2$ ,  $\beta_3$ ,  $\beta_4$**  =Regression model coefficients.

$\epsilon$  = Error Term.

According to the regression equation established, taking all factors (risk identification, risk analysis, risk evaluation and risk treatment) constant at zero, the performance of the shopping malls on Nairobi County in Kenya as a result of these independent factors will be 0.713. The data findings analyzed also shows that taking all other independent variables at zero, a unit increase in performance of the shopping malls on Nairobi County will lead to a 0.246 increase in performance of the shopping malls on Nairobi County. A unit increase in risk identification will lead to a 0.359 increase in performance of the shopping malls on Nairobi County; a unit increase in risk Treatment will lead to a 0.268 increase in performance of the shopping malls on Nairobi County while a unit increase in risk analysis will lead to a 0.168 increase in performance of the shopping malls on Nairobi County in Kenya. This therefore implies that all the four variables have a positive relationship with risk identification contributing more to the performance of the shopping malls on Nairobi County, while risk analysis contributes the least to the performance of the shopping malls on Nairobi County.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This is the final chapter in this study which gives the summary of the findings, conclusions, recommendations of the study based on the objective of the study and suggestions for further findings. It comes after identifying the background, problem at hand and the objectives in chapter one, literature review was done in chapter two, chapter three set out the methodology that the study used to collect data and chapter four analyzed the data obtained from the study. The chapter finally presents the suggestions for further studies. The study sought to determine the effect of risk management on the performance of shopping malls in Nairobi County. The chapter finally presents the suggestions for further studies.

#### **5.2 Summary of Findings**

The study found that that risk management has significant effect on the performance of shopping malls in Nairobi County. The various risk management practices investigated in this study include risk identification, risk analysis, risk evaluation and risk treatment. With regard to risk identification, the study found that management of malls) look at the conditions of economic and political before they finance a project, the shopping malls look at the long term planning for the shopping mall to identify the impending risk, the management consider the net worth of every business that operates within the shopping mall and they analyze the business plan to identify risk exposure. From the results, the management considers professionalism in the respective business within the shopping malls, they consider capacity of the business to mitigate the risk and they look at project events with respect to various risk categories, and extracting those which could have a negative impact on the project.

The study found that the respondents agreed that the management of the malls carry out monthly evaluation and manage the potential of unwanted circumstances in the shopping malls, they periodically assess information about the businesses within the shopping malls, they analyze growth in sales of the shopping mall and they assess if the business units within the shopping malls understand the basic risk practices and the respondents neither agreed nor disagreed with that the risk assessment and risk management is communicated to decision-makers and the public.

The study established that decision to diversify the shopping malls investment is only made by management and the management decided which risk is to be treated or accepted and which action plan is better to implement. However, that acceptable risks are monitored and periodically reviewed to ensure they remain acceptable, different mitigation options are determined by keeping in view the risk events and then most suitable option is incorporated to the risk mitigation plan economy and the management individually examine the risk as well as their combined impact on the shopping mall.

The study found that risk treatment is another aspect of risk management that affects the performance of shopping malls. The respondents agreed that the shopping malls apply risk matrix to determine the consequence and likelihood of the risk and identify the expected target risk level and they do risk treatment on behalf of the business units within the shopping malls. On the other hand, the respondents were uncertain on that the malls have developed cost effective options for treating the risks within the shopping malls.

The study found that risk management practices play a significant role in enhancing the performance of organizations. The shopping malls have improved their sales turnover through

effective risk management within the shopping malls and that in general, the risk management practices used in the shopping malls has improved the mall's performance. However, there was neutrality on that the shopping malls have expanded their market share through effective risk management within the shopping malls.

### **5.3 Conclusion**

From the foregoing study findings, the study concludes that the risk management practice most frequently adopted risk identification. Others include risk analysis, risk evaluation, risk treatment. The stalls also use standardization and certification and incorporation of risk concerns into strategic plans. The shopping malls are keen on mitigating harmful effects of external event risks and operational risks rather than economic and strategic risks.

### **5.4 Recommendations**

The study recommends that the management of the shopping malls in Nairobi should have an effective risk management practices. This will help to identify internal and external risks which are likely to cause a significant increase in the budget, disruption of the schedule or financial performance problems. By identifying, avoiding and dealing with potential risks in advance, the organization can respond effectively to the challenges whenever they emerge.

### **5.5 Recommendations for Further Studies**

The same study should be carried in other organizations in a different sector or industry such the banking sector, insurance sector among others to compare the findings. This would be a modest attempt to enhancing formulation of policies regarding risk management and firm performance in Kenya. Further studies can be conducted with an aim of establishing the effects of the specific

risk management on the performance of the organizations in Kenya. The specific intention would be to establish how firms endure the challenges and make a difference in their activities.

### **5.6 Limitations of the Study**

The researcher was likely to encounter various limitations that might have hindered access to information sought by the study. The main limitation of study was its inability to include more organizations in the Country. This was a study focusing on effects of risk management on the performance of shopping malls in Nairobi County. The study could have covered more organization across country so as to provide a more broad based analysis. The study countered this problem by carrying out the study in organizations across the various sectors and regions; settings (counties) and serve as a representative.

The respondents approached were likely to be reluctant in giving information fearing that the information sought would be used to intimidate them or print a negative image about them or their enterprises. The researcher handled the problem by carrying an introduction letter from the University and assured them that the information they give would be treated confidentially and it would be used purely for academic purposes.

There were likely to be cases of acquiescence bias, where some staff would answer questions with an incline that does not represent the absolute truth. The answers could therefore be misinterpreted or falsified. The data collected was therefore likely to be inaccurate. The researcher therefore found it necessary to insist to the respondents to only give the real scenario in the organization. The researcher overcame this problem by urging the respondents to be truthful by writing the right information.

## REFERENCE

- Ahmed A., Kayis B. and Amornsawadwatana S. (2007), A review of techniques for risk management in projects, *Benchmarking: An International Journal*, Vol. 14 No. 1, pp. 22-36.
- Barkley, R. (2002). A Nobel Prize for Asymmetric Information: The Economic Contributions of George Akerlof, Michael Spence, and Joseph Stiglitz. *Review of Political Economy*, forthcoming, James Madison University
- Binks, M. & Ennew, T. (1997). Small business and relationship banking: the impact of participative behavior, entrepreneurship; *Theory and practice*, 21(4), 83 – 92, Ed Macmillan
- Boehm W. B. (1991), *Software Risk Management: Principles and Practices*, IEEE Software, pp 32-41
- Burker, R. (2003). *Product Management*, Biddles, Ltd, Guildford.
- Chapman C. (1997), Project risk analysis and management-- PRAM the generic process, *International Journal of Project Management*, Vol. 15, No. 5, pp. 273-281
- Choudhury I (1998) Cross-cultural training of project personnel for implementation of international construction projects.
- Cervone F.H. (2006), Project risk management, *OCLC Systems & Services: International digital library perspectives*, Vol. 22 No. 4, pp 256-262.
- Elkington P. and Smallman C. (2002), *Managing Project Risks: A Case from Utilities Sector*, *International Journal of Project Management*, pp 49-57.
- Eppy, I. (2005). *Perceived Information Asymmetry, Bank lending Approaches and Bank Credit Accessibility by Smes in Uganda*. Makerere University.
- Gatuhu, R. (2013). *The effects of Credit Management on Financial Performance of Microfinance Institutions in Kenya*. MBA Research Paper, University of Nairobi

- Govori, A. (2012). Measuring and managing the impact of risk on organizations: The Case of Kosovo.MPRA Paper No. 38975,
- Hinson, D and Kowalski, L (2008).Roles and Responsibilities for Contingency Planning. London: UCL Press Miller, R. (2010) Turning risks into result:
- Hopkin, P. (2012). Fundamental of Risk Management.
- Ibe, I.G. and Boniface, U. (2012). Enterprise Risk Management and Performance of Nigeria's Brewery Industry.
- Manganelli. S. & Engle, R. (2001). *Value at risk models in finance*, Working Paper Series 075, European Central Bank
- Miller, K. D., & Bromiley, P. (1990). Strategic Risk and Corporate Performance: an Analysis of Alternative Risk Measures. *Academy of Management Journal*, 33(4), 756-779.
- Mugenda, O.M and Mugenda A.G. (2003); Research Methods. *Act Press. Nairobi.*
- Musyoki, D. & Kadubo, A. (2012). *The impact of credit risk management on the financial performance of Banks in Kenya for the period 2000 – 2006*. International Journal of Business and Public Management 2(2), 72-80
- Mwangi, G. (2012). The Effect of Credit Risk Management on the Financial Performance of Commercial Banks in Kenya. Unpublished MBA project, University of Nairobi
- Pagach, D. and Warr, R. (2010) *The Effects of Enterprise Risk Management on Firm Performance*
- Saleem, S.and Abideem, Z. (2012) Do effective risk management affect organizational performance; *European Journal of Business and Management* ISSN 2222-1905 (Paper) ISSN2222-2839 Vol 3, No.3

Scott, W. Richard. (1981). *Organizations: Rational, Natural, and Open Systems*. Englewood Cliffs, Prentice Hall Inc., N. J.

Saunders, A. and Cornett, M.M. (2002), *Financial Institutions Management: The Review of Economic Studies*, 25.

Stulz, R. (1996). Rethinking risk management, *Journal of Applied Corporate Finance*, 9, 3, 8-24.

Tchankova L. (2002), Risk Identification-basic stage in risk management, *Environmental Management and Health*, Vol 13 No 3, pp 290-297.

## APPENDICES

### Appendix I: Questionnaire

This questionnaire has been designed for the sole purpose of collecting data on the effect of risk management on the performance of shopping malls in Nairobi County. The data collected will be treated with a very high degree of confidentiality and it is meant for academic purposes only.

You are kindly asked to fill out this questionnaire by putting an “X” in front of the applicable answer or in the applicable cell or fill the blanks with the appropriate response for each item.

(Optional)

Name of the Shopping Mall.....

Name of the respondent.....

#### Section A: Personal Information

1 Gender

Male [ ] Female [ ]

2 Age

18-23 years [ ] 24- 29 years [ ]  
30-35 ears [ ] 36 and above years [ ]

3 Management level

Senior level management [ ] Middle level management [ ]  
Subordinate management [ ]

4 Number of years working in the shopping Mall?

Less than 5 years [ ] 6-11 years [ ]  
12-17 years [ ] 18-23 years [ ]  
24-29 years [ ] above 30 years [ ]

5 Level of Education

Secondary level [ ] Certificate level [ ]

Diploma level	[ ]	Degree level	[ ]
Masters level	[ ]	PhD level	[ ]
Others (please specify)	[ ]		

6 What is your designation?

.....

7 Length of service in the position

Less than 5 years	[ ]	6-11 years	[ ]
12-17 years	[ ]	18-23 years	[ ]
24-29 years	[ ]	Above 30 years	[ ]

**SECTION B: EFFECT OF RISK MANAGEMENT ON PERFORMANCE OF SHOPPING MALL**

8 Has risk management had any effect on shopping mall performance?

Yes [ ]

No [ ]

## RISK MANAGEMENT PRACTICES

### I. Risk Identification

Please respond to the following statements by indicating the extent to which you agree or disagree as per the given choices.

		5	4	3	2	1
		Strongly agree	Agree	Uncertain	Disagree	Strongly disagree
1	We analyze the business plan to identify risk exposure					
2	We consider professionalism in the respective business within the shopping malls					
3	We consider capacity of the business to mitigate the risk					
4	We look at the long term planning for the shopping mall to identify the impending risk					
5	We look at the conditions i.e. economic, political before we finance a project					
6	We consider the net worth of every business that operates within the shopping mall.					
7	We look at project events with respect to various risk categories, and extracting those which could have a negative					

impact on the project					
-----------------------	--	--	--	--	--

## II. Risk Analysis

Please respond to the following statements by indicating the extent to which you agree or disagree as per the given choices

		5	4	3	2	1
		Strongly agree	Agree	Uncertain	Disagree	Strongly disagree
1	We periodically assess information about the businesses within the shopping malls					
2	We monthly evaluate and manage the potential of unwanted circumstances in the shopping malls					
3	The risk assessment and risk management is communicated to decision-makers and the public.					
4	We assess if the business units within the shopping malls understand the basic risk practices					
5	We analyze growth in sales of the shopping mall.					

### III. Risk Evaluation

Please respond to the following statements by indicating the extent to which you agree or disagree as per the given choices

		5	4	3	2	1
		Strongly agree	Agree	Uncertain	Disagree	Strongly disagree
1	We decided which risk is to be treated or accepted and which action plan is better to implement					
2	We individually examine the risk as well as their combined impact on the shopping mall.					
3	Decision to diversify our investment is only made by management					
4	Different mitigation options are determined by keeping in view the risk events and then most suitable option is incorporated to the risk mitigation plan economy					
5	Acceptable risks are monitored and periodically reviewed to ensure they remain acceptable					

#### IV. Risk Treatment

Please respond to the following statements by indicating the extent to which you agree or disagree as per the given choices

		5	4	3	2	1
		Strongly agree	Agree	Uncertain	Disagree	Strongly disagree
1	We have developed cost effective options for treating the risks within the shopping malls					
2	We do risk treatment on behalf of the business units within the shopping malls.					
3	The shopping malls apply risk matrix to determine the consequence and likelihood of the risk and identify the expected target risk level.					

## V. Shopping Malls Performance

Please respond to the following statements by indicating the extent to which you agree or disagree as per the given choices

		5	4	3	2	1
		Strongly agree	Agree	Uncertain	Disagree	Strongly disagree
1	The shopping mall has expanded its market share through effective risk management within the shopping malls					
2	The shopping mall has improved its sales turn over through effective risk management within the shopping malls					
3	In general, the risk management practices used in the shopping malls has improved the mall's performance.					

## **Appendix II: Shopping Malls**

1. Highway Mall- Uhuru Highway
2. Sarit Centre- Westlands
3. The Mall - Westlands
4. The Village Market - Gigiri
5. Diamond Plaza (parklands)
6. Yaya Centre - Kilimani
7. The crossroad small - Karen(NakumattKaren)
8. Karen Shopping Centre - Karen
9. The Junction - Nairobi
10. Maasai mall~Rongai
11. Capital Centre - Mombasa Road, Nairobi
12. Panari Centre - Mombasa Road, Nairobi
13. Prestige Plaza - Ngong road
14. Nakumatt Lifestyle - Nairobi
15. Mountain Mall - Kasarani
16. Galleria Mall - Shopping Mall Karen-Langata Road, Nairobi
17. T-Mall -Nairobi West
18. Shujaa Mall Nairobi
19. Taj Shopping Mall - Embakasi
20. Thika Road Mall (T.R.M.) - Roysambu
21. The Gift Mal
22. Greenspan Mall Donholm
23. Ridgeways Mall
24. Westage Shopping Mall