Evaluating the Impact of Risk Management Strategies on the Success of Financial Enterprises in Kigoma, Tanzania

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Abstract

The stability and performance of financial enterprises are crucial, yet Tanzanian financial enterprises have faced a challenging business environment over the past decade. This study examined the impact of risk management strategies on the success of financial enterprises in the Kigoma region using the sampled 300 financial enterprises. Moreover, a cross-sectional research design and multistage sampling were employed to select districts, wards, and participants. Data were analyzed using both statistical and inferential methods, including multiple linear regression. Findings indicated that liquidity risk preparedness and risk-adjusted pricing have a significant negative effect on profit generation, while capital adequacy, regulatory compliance, enterprise location, enterprise category, and enterprise size significantly enhance profitability. Additionally, challenges such as financial constraints, technology adaptation, lack of skilled personnel, data quality issues, cultural resistance, and regulatory complexity were identified as major hindrances to effective risk management. The study recommends that financial enterprises maintain robust capital adequacy, implement comprehensive compliance programs, adhere to regulatory standards, and develop sound liquidity management policies to enhance success and stability.

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1. Introduction

In today's finance-driven business world, successful project implementation is crucial for organizations aiming to achieve sustainability (Edeh et al., 2020). Consequently, the process of identifying, analyzing, and mitigating risks in credit creation and investment decision-making has become increasingly important (Luong, 2023; Utouh & Kitole, 2024). Aduma and Kimutai (2018) define risk in projects as any event that may cause delays or shortcomings that impede successful project completion. Events are deemed certain if they have a 100% probability of occurrence or entirely uncertain if the probability is 0% (Jolanta et al., 2014; Juncos, 2018). As a result, risk management has emerged as a vital component of project management, particularly for financial enterprises. Historically, project management focused on resource optimization and goal achievement, but the increasing complexity and uncertainty of projects have necessitated the adoption of proactive risk management strategies (Barraza de la Paz et al., 2023; Edeh et al., 2021).

Over the past 25 years, the world has experienced rapid economic integration, reform, technological advancement, and increased democratic participation. However, these developments have also brought about financial instability, job losses, and environmental challenges (World Bank, 2024). Financial enterprises play a significant role in national economic growth and development, providing essential services such as loans, transaction facilitation, and credit access (Dakhil, 2013; Deyshappriya, 2019; Nguyen and Van Dang, 2022; Zhu et al., 2022). With the increased competition in the global economy, companies have been compelled to adapt their strategies to remain competitive. Effective project management is essential to deliver business value (Bergeron, 2015; Osoro & Muturi, 2015; Huayun, 2024; Mwanga & Lyatula, 2023). Risk management is crucial for project managers to identify and mitigate hazards that could impact project success, with strategies tailored to the specific nature and level of perceived risks (Crawford, 2013).

Several initiatives to mitigate risks have been implemented across Sub-Saharan countries, including Tanzania, aligning with the Sustainable Development Goals (SDGs) that emphasize risk-focused approaches in financial oversight (Kitole & Utouh, 2023; Neema & Fredrick, 2024). Additionally, the promotion of international standards and best practices has encouraged Tanzania to align its domestic regulations with global risk management norms. The Bank of Tanzania (BOT) has published the "Risk Management Guidelines for Banks and Financial Institutions" (2020) to guide financial institutions such as banks, microfinance entities, insurance companies, credit unions, and private equity firms. Moreover, the government has undertaken regulatory reforms and capacity-building programs for risk controllers and financial managers. These strategies aim to enhance risk management practices to support the success and performance of financial enterprises (Baker et al., 2022; Alawattegama, 2017; Chandler & Coaffee, 2017).

Despite these efforts, both small and large financial enterprises continue to face risks stemming from macroeconomic factors that may lead to failure or the inability to meet their objectives (Zavadskas et al., 2019; Kitole & Genda, 2024; Moradi & Rafiei, 2019). For example, financial enterprises in Africa have recently seen an increase in project failures, even with the presence of specialists, resources, and financial assistance. Many financial projects in Sub-Saharan Africa, including those in Tanzania, face multiple risks that disrupt the economy and social structures, often due to a lack of pre-emptive risk assessment (Koman et al., 2022; Aduma & Kimutai, 2018; Kishk & Ukaga, 2018; Peter, 2016). In Tanzania specifically, microfinance institutions, insurance companies, and commercial banks are confronted by risks related to misallocation and mishandling of responsibilities (Sospeter & Chileshe, 2021). More than 46%

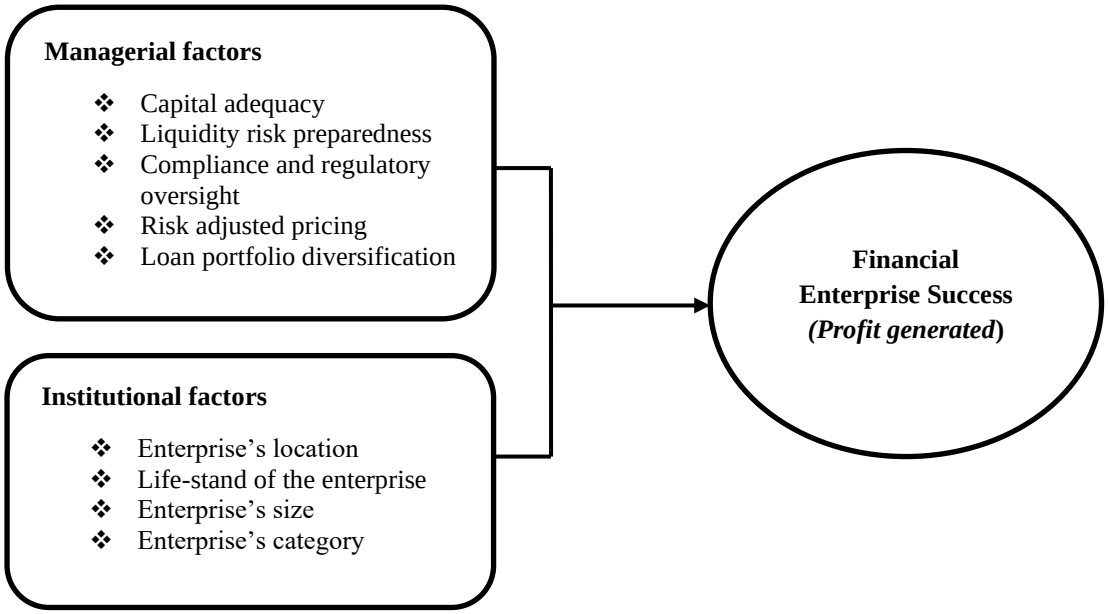
of microfinance enterprises have collapsed due to insufficient risk control strategies (Makono & Mbogo, 2023). Consequently, financial enterprises in Tanzania are still challenged by risks that affect their success, leading to delays, resource strains, and deviations from project goals.

Previous studies have assessed the effects of risk management strategies on enterprise success (Makono & Mbogo, 2023; Sulaiman et al., 2018; Zavadskas et al., 2019), noting that inadequate knowledge among stakeholders contributes to insufficient risk management in Tanzanian financial projects. Key factors influencing financial enterprise success include capital adequacy, risk-adjusted pricing, compliance and regulatory oversight, location, loan portfolio diversification, enterprise lifespan, size, and category (Franco et al., 2022; Huynh & Dang, 2022; Deyshappriya, 2019). However, none of these studies have focused on liquidity risk preparedness as a core strategy affecting enterprise success. This study aims to fill this knowledge gap by examining the impact of risk management strategies on financial enterprise success, with a particular focus on managerial and institutional factors affecting microfinance institutions, commercial banks, and insurance companies in Kigoma, Tanzania.

The financial sector plays a crucial role in Tanzania's economy, contributing significantly to national development. Between 2006 and 2016, financial services contributed approximately 7% to the nation's economy (Kapaya, 2020). The financial industry has experienced rapid growth, with the number of commercial banks increasing from 29 in 2000 to 59 by 2016 (Balele et al., 2018). This expansion has improved fund transfer efficiency, increased access to long-term financing, and provided employment for over 15,600 Tanzanians (URT, 2018; Kitole & Sesabo, 2022). Additionally, the sector has supported the growth of small and medium-sized enterprises (SMEs) by providing access to finance and mediating economic activities (Kapaya, 2020; Dimoso & Andrew, 2021).

Despite the sector's contributions, financial enterprises in Tanzania face challenges such as corporate failures, cost overruns, delays, and project abandonment (Simona & Cristian, 2018). These challenges often arise due to uncertain events like system hacks, information leaks, interest rate fluctuations, and market risks (Kishk & Ukaga, 2018; Kitole et al., 2023; Chauhan, 2024; Alim et al., 2021). Risk impacts not only the managing bodies, but all stakeholders involved (Leopkey & Parent, 2019). Given the critical role of financial enterprises in national development, their collapse can result in unemployment, weakened investor confidence, and the failure of SMEs. Therefore, a comprehensive understanding of the effects of risk management strategies on financial enterprise success is crucial to ensuring effective resource allocation and budget oversight. By investigating the effects of risk management strategies on financial enterprise success, this study seeks to provide valuable insights for enterprise managers, aiming to prevent project failures and delays, also it helps in offering solutions to the challenges faced by financial enterprises and improve the effectiveness of risk management strategies.

Figure 1: Conceptual Framework



2. Materials and methods

2.1 Study Area

The study was conducted across three districts in the Kigoma region of Tanzania: Kigoma DC, Kasulu, and Kakonko. Kigoma is situated in the northwestern corner of Tanzania and has a population of 2,470,967, as per the 2022 census. The region spans an area of 45,066 square kilometres, with its economy predominantly driven by agriculture and fishing activities. The selection of these districts aimed to capture a diverse representation of the financial enterprises operating within the broader economic landscape of the region.

2.2 Research Design and Sampling

A cross-sectional research design was adopted to evaluate the impact of risk management strategies on the success of financial enterprises in Kigoma. This design allows for a comprehensive snapshot of practices and outcomes at a single point in time, facilitating the analysis of how different strategies influence enterprise performance. A multistage sampling technique was applied to ensure a representative and systematic selection of the study's subjects.

Initially, three districts were selected out of the seven in the Kigoma region through systematic random sampling to ensure geographical diversity. Following this, two wards within each of the chosen districts were randomly selected, resulting in a total of six wards. This approach ensured a broad and balanced sample across the districts. A sample size of 300 respondents, drawn from the registered financial enterprises in these wards, was determined using Yamane's formula, which provides an accurate sample size based on a 95% confidence level and a 5% margin of error. This methodology ensured that the sample accurately reflected the population of financial enterprises in Kigoma.

2.3 Data collection

Data collection was conducted through structured questionnaires, designed to capture detailed information on risk management strategies, challenges faced, and overall financial performance. The questionnaire included both closed-ended and open-ended questions to gather quantitative data on risk management practices and qualitative insights into the

experiences of financial enterprises. The structured format ensured consistency in responses and facilitated easy coding and analysis.

The questionnaires were administered directly to managers, owners, or financial officers of the sampled financial enterprises. A team of trained enumerators was employed to ensure that the questionnaires were completed accurately and comprehensively. Prior to full deployment, a pilot test of the questionnaire was conducted to refine the questions for clarity and relevance. During the data collection process, enumerators provided assistance as needed, ensuring that participants fully understood the questions, which contributed to high response rates and reliable data. The use of structured questionnaires allowed for systematic data capture, which was crucial for the subsequent statistical and inferential analyses.

2.4 Econometrics analyses

The study utilized a multiple linear regression model to analyze the effects of risk management strategies on the success of financial enterprises in the Kigoma region. This approach was chosen due to the continuous nature of the dependent variable, which is measured by the annual profits generated by these enterprises. Multiple linear regression is an extension of simple linear regression that allows for the inclusion of multiple explanatory variables (Kitole et al., 2023), enabling a more comprehensive understanding of how various factors influence financial success.

The model's linearity assumes a direct relationship between the response variable (financial success) and a linear combination of the explanatory variables. This makes it well-suited to explore the impact of several risk management strategies simultaneously. The general form of the multiple linear regression equation remains similar to that of simple linear regression but incorporates additional terms to account for the multiple explanatory variables affecting the dependent variable. By doing so, the model provides a more robust and accurate representation of the factors contributing to the profitability of financial enterprises, the general equation of the model is given as:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \cdots + \beta_p X_p + e_i \quad (1)$$

As for the simple case, β_0 is the intercept term – which was the predicted value of y when all explanatory variables are constant. Additionally, with p explanatory variables, each explanatory variable has its own β coefficient (slope of the model), while e stands for margin error, representing the variability in the dependent variable that is not explained by the independent variables. Moreover, for the purpose of estimation in this study equation (1) was transformed into a log-linear model as shown in equation (2) with a set of eleven explanatory variables as presented in Table 1 and Table 4.

$$lnY = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \cdots + \beta_{11} X_{11} + e_i \quad (2)$$

Thus equation 2 can further be simplified as:

$$lnY = \beta_0 + \sum_{i=1}^{p} \beta_i X_i + e_i \quad (3)$$

This equation represents how the dependent variable lnY is predicted based on a linear combination of the independent variables $X_1, X_2, .., X_{11}$. Again, the analysis does not allow making causal inferences, but it does allow investigating how a set of explanatory variables is associated with a response variable of interest. Additionally, variables used in this model have been presented at Table 1.

Table 1: Definition and Measurements of Variables

Variables	Measurement	Variable
Financial enterprises successful	Profit generated by the financial enterprises	Continuous
Enterprise`s size	Number of workers employed to specific enterprises	Continuous
Enterprises category	1 for Insurance Companies 2 for Commercial Banks 0 for Microfinance Institution	Categorical
Loan portfolio diversification	1 If the enterprises operate with loan portfolio diversification 0 If the enterprises do not operate with loan portfolio diversification	Categorical
Life stands of the enterprises	Number of years of enterprise in operating within the specific location	Continuous
Capital adequacy	1 If the enterprises operate with capital adequacy 0 If the enterprises do not operate with capital adequacy	Categorical
Risk adjusted pricing	1 If the enterprises operate with risk adjusted pricing 0 If the enterprises do not operate with risk adjusted pricing	Categorical
Compliance and regulatory oversight	1 If the enterprises apply compliance and regulatory oversight 0 If the enterprises do not apply compliance and regulatory oversight	Categorical
Liquidity risk preparedness	1 If the enterprises involve liquidity risk preparedness 0 If the enterprises do not involve liquidity risk preparedness	Categorical

3. Findings

Results in Table 2 reveal key insights into the risk management strategies adopted across different types of financial enterprises—Microfinance, Insurance, and Commercial Banks. The table evaluates two strategies: Loan Portfolio Diversification and Risk-Adjusted Pricing and provides a breakdown of how these strategies are employed across each enterprise type.

Regarding Loan Portfolio Diversification, the findings indicate that this strategy is not commonly adopted by Microfinance and Commercial Banks. Specifically, 202 out of 211 Microfinance enterprises (about 95.7%) do not diversify their loan portfolios, and 14 out of 41 Commercial Banks (approximately 34.1%) also refrain from using this strategy. In contrast, Insurance enterprises display a different approach: 36 out of 48 Insurance firms (75%) employ loan portfolio diversification. This suggests that Insurance companies are more inclined to diversify their loan portfolios as a means of risk mitigation, while Microfinance institutions and Commercial Banks are more likely to avoid this practice.

In terms of Risk-Adjusted Pricing, the results show a more varied distribution across the enterprise categories. Within the Microfinance sector, a majority (164 out of 211, or about 77.7%) do not engage in risk-adjusted pricing, indicating a lesser focus on pricing products according to risk exposure. However, a significant number of Insurance enterprises (39 out of 48, or around 81.3%) adopt risk-adjusted pricing, demonstrating a strong tendency to align pricing strategies with the level of risk involved. Commercial Banks present a more balanced distribution, with 26 out of 41 (approximately 63.4%) utilizing this strategy, highlighting that a majority still employ risk-adjusted pricing as part of their risk management practice.

Table 2: Descriptive presentation on risk management strategy across enterprises' category

Risk management strategy		Type of enterprises			Total
		Microfinance	Insurance	Commercial bank	
Loan portfolio diversification	No	202	12	14	288
	Yes	9	36	27	72
	Total	**211**	**48**	**41**	**300**
Risk adjusted pricing	No	164	9	15	188
	Yes	47	39	26	112
	Total	**211**	**48**	**41**	**300**

Overall, the results from Table 2 suggest that the adoption of risk management strategies is highly dependent on the type of financial enterprise. Insurance enterprises are more proactive in using both loan portfolio diversification and risk-adjusted pricing as risk mitigation tools. Meanwhile, Microfinance institutions are less likely to use either strategy, indicating a potential reliance on other forms of risk management or a different approach to risk mitigation. Commercial Banks exhibit a moderate level of adoption for both strategies, suggesting a balanced approach in managing risk through diversification and pricing mechanisms.

3.1 Findings from the regression results

To ensure the validity of the regression results regarding the effect of risk management strategies on the success of financial enterprises, it was necessary to first conduct several tests to assess model assumptions. These tests were crucial to determine whether the collected data appropriately fit the model, ensuring the accuracy and reliability of the subsequent analysis and interpretation.

3.1.1 Test for the multicollinearity

Table 3 displays the results of the multicollinearity test for all independent variables, including their Variance Inflation Factor (VIF) and its reciprocal (1/VIF). The VIF values for all variables are relatively low, ranging from 1.01 to 1.41, with a mean VIF of 1.18, indicating minimal multicollinearity. Specifically, Loan Portfolio Diversification has a VIF of 1.08 (1/VIF = 0.9259), and Risk-Adjusted Pricing has a VIF of 1.15 (1/VIF = 0.8695). The Enterprise Insurance Companies variable shows a VIF of 1.18 (1/VIF = 0.8474), while Enterprise Size has a VIF of 1.15 (1/VIF = 0.8695). Capital Adequacy has the highest VIF at 1.41 (1/VIF = 0.7092), and Liquidity Risk Preparedness has a VIF of 1.31 (1/VIF = 0.7633). Lastly, Compliance Regulatory Oversight exhibits the lowest VIF of 1.01 (1/VIF = 0.9901), suggesting almost no multicollinearity.

Table 3: Multicollinearity test results for independent variable

Variable	VIF	1/VIF
Loan portfolio diversification	1.08	0.9259
Risk adjusted pricing	1.15	0.8695
Enterprise insurance companies	1.18	0.8474
Enterprise Size	1.15	0.8695
Capital Adequacy	1.41	0.7092
Liquidity risk preparedness	1.31	0.7633
Compliance regulatory oversight	1.01	0.9901
Mean VIF	**1.18**	

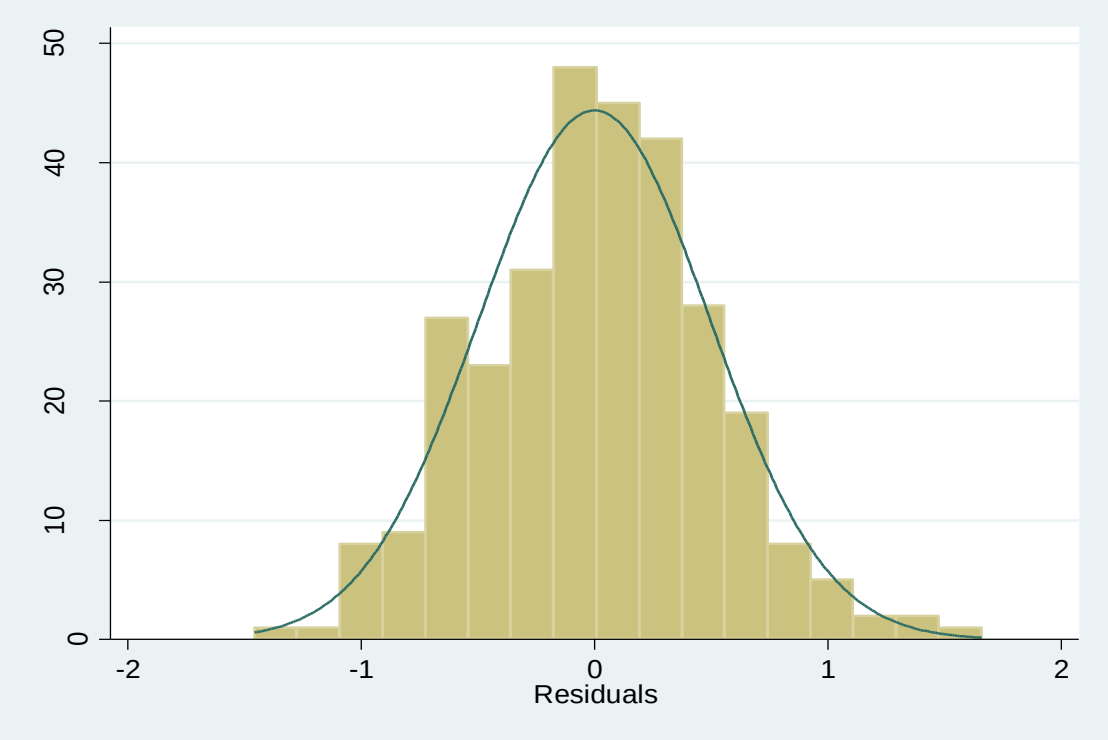
The results in Table 3 indicate that all independent variables are well below the critical threshold of 10 for VIF, confirming that multicollinearity is not a significant concern in this model. The low degree of correlation among the variables supports the reliability of the

regression coefficients, with a mean VIF of 1.18 further affirming the model's robustness and stability.

3.1.2 Test for normality

The Normality Test results in Figure 2 display a histogram of the residuals overlaid with a normal distribution curve. The distribution of the residuals appears symmetric and roughly bell-shaped, clustering around the mean value of 0, with a relatively equal spread on both sides. This suggests that the residuals are approximately normally distributed. The normality of residuals is an important assumption in regression analysis, as it indicates that the model fits well and that any deviations are randomly distributed. The shape of the histogram and its close alignment with the normal curve imply that this assumption is met, supporting the validity of the regression model's results.

Figure 2 Histogram for normality test



3.1.3 Effects of risk management strategies on financial enterprises success

The results in Table 4 highlight the effects of various risk management strategies and enterprise characteristics on the profitability of financial enterprises. Capital Adequacy shows a strong positive impact on profit, with a coefficient of 0.574785 and a highly significant p-value of 0.000. This suggests that an increase in capital adequacy is associated with enhanced profitability, indicating that enterprises that maintain stronger capital buffers are more likely to achieve financial success. The low standard error and high t-value further emphasize the importance of capital adequacy in influencing profitability.

In contrast, Liquidity Risk Preparedness exhibits a negative and significant relationship with profitability, with a coefficient of -0.29657 and a p-value of 0.001. This implies that heightened liquidity risk preparedness might be linked to lower profits, possibly because conservative liquidity management could limit potential income-generating opportunities. Similarly, Risk-Adjusted Pricing has a negative coefficient of -0.20072 and a significant p-value of 0.025,

suggesting that adjusting prices based on risk can also have an adverse effect on profitability. This could be due to a cautious pricing approach that may limit income potential when considering risk factors.

The impact of Compliance with Regulatory Oversight is highly positive and statistically significant, with a coefficient of 0.669081 and a p-value of 0.000. This underscores the importance of adhering to regulations in achieving financial success, as enterprises that are compliant tend to be more profitable. Meanwhile, Loan Portfolio Diversification shows a positive coefficient of 0.159347 but is not statistically significant (p-value of 0.226), indicating that while diversification might have a favorable association with profitability, its impact is not strong enough to draw definitive conclusions within this model.

Table 4: The effects of risk management strategies on financial enterprises success

Profit	**Coefficient**	**Robust Std. Err**	**T**	**P>t**
Capital Adequacy	0.574785	0.123256	4.66	0.000
Liquidity risk Preparedness	-0.29657	0.084388	-3.51	0.001
Compliance regulatory oversight	0.669081	0.071267	9.39	0.000
Risk adjusted pricing	-0.20072	0.088904	-2.26	0.025
Loan portfolio Diversification	0.159347	0.131471	1.21	0.226
Enterprise Kigoma	0.263455	0.100007	2.63	0.009
Enterprise Kasulu	-0.07016	0.075136	-0.93	0.351
Enterprise Commercial Bank	0.686853	0.150986	4.55	0.000
Enterprise Insurance Companies	0.265834	0.147442	1.8	0.072
Enterprise Size	0.091115	0.023913	3.81	0.000
Enterprise experience	-0.0017	0.004226	-0.4	0.687
Constant	0.152649		80.93	0.000
Model strength		Observation	=	300
		Prob> F)	=	0.000
		R-squared	=	0.7249
		Root MSE	=	0.51196

When considering enterprise characteristics, the geographical location seems to play a role. Enterprises based in Kigoma demonstrate a significant positive effect on profitability (coefficient = 0.263455, p-value = 0.009), suggesting that location influences financial outcomes. However, enterprises located in Kasulu do not show a significant impact on profitability, with a coefficient of -0.07016 and a p-value of 0.351. The type of financial enterprise is also a significant factor; Commercial Banks show a strong positive association with profitability (coefficient = 0.686853, p-value = 0.000), suggesting they are more profitable compared to other types of financial institutions. Insurance Companies, on the other hand, exhibit a moderately positive effect, though their significance level is less robust (coefficient = 0.265834, p-value = 0.072).

Enterprise Size plays a notable role in profitability, with a coefficient of 0.091115 and a highly significant p-value of 0.000. This indicates that larger enterprises are generally more profitable, potentially due to economies of scale and greater market influence. In contrast, Enterprise Experience—the number of years in operation—does not show a significant effect on profitability, as indicated by a coefficient of -0.0017 and a p-value of 0.687, suggesting that experience alone may not be a strong determinant of financial performance.

Overall, the model's strength is affirmed by a highly significant F-statistic (Prob > F = 0.000), and an R-squared value of 0.7249, indicating that approximately 72.49% of the variation in profitability is explained by the variables included. This strong explanatory power suggests that the model effectively captures the factors influencing financial enterprise profitability, with capital adequacy, regulatory compliance, and enterprise type emerging as particularly significant determinants. The model's Root Mean Square Error (Root MSE) of 0.51196 indicates an acceptable level of accuracy in predicting profitability based on the given factors.

3.1.4 Challenges affecting financial enterprises in implementing effective risk management strategies

Table 5 outlines the challenges that financial enterprises in the Kigoma region face in implementing effective risk management strategies, providing insights into the perceived severity of various obstacles. A significant challenge highlighted in the table is the lack of skilled personnel, which appears to be widely recognized as a critical barrier. A combined 68% of respondents either "Strongly Agree" (30.67%) or "Agree" (37.33%) that a shortage of skilled individuals hinders effective risk management. This highlights a pressing need for capacity building and training within these enterprises, suggesting that a deficiency in relevant expertise is seen as a significant impediment to establishing comprehensive risk management frameworks. Such a shortage could affect the ability of these enterprises to accurately assess, monitor, and mitigate risks, thereby impacting their overall performance and sustainability.

The most prominent challenge identified, however, is financial constraints, with a majority of respondents acknowledging its impact. An overwhelming 56% "Strongly Agree" and 18% "Agree" that limited financial resources create barriers to risk management. This implies that financial enterprises struggle with accessing funds necessary for developing risk management infrastructure, investing in technology, or even hiring skilled personnel. The significance of financial constraints points to broader structural issues within the Kigoma region, suggesting that without addressing funding limitations, enterprises will find it difficult to implement robust risk management practices, regardless of other strategies in place.

Table 5: Challenges for risk management among financial enterprises in Kigoma region.

Challenges	Strongly agree	agree	Neutral	disagree	Strongly disagree
Lack of skilled personnel	30.67%	37.33%	6.33%	10%	15.67%
Financial constraints	56%	18%	3.33%	12.67%	10%
Data quality and availability	2%	25.67%	49%	16.33%	7%
Complex regulatory requirements	2%	13%	19%	31%	35%
Adaptation of new technology	31.67%	25.67%	23.67%	11%	8%
Cultural resistance	12%	10%	17%	31%	30%

In contrast, data quality and availability appears to be a more nuanced issue. Nearly half of the respondents (49%) remain neutral, suggesting that while some enterprises may experience difficulties in accessing and utilizing quality data for risk assessment, others may not see it as a pressing challenge. Only 27.67% ("Strongly Agree" and "Agree") perceive data as a significant obstacle, indicating that the impact of data challenges may vary greatly across different enterprises. This variability suggests that while data may be crucial for effective risk management, it is not uniformly seen as a limiting factor in the Kigoma region, perhaps due to differing data needs or access capabilities among the financial enterprises.

Complex regulatory requirements are notably downplayed as a challenge, with the majority of respondents either "Disagreeing" (31%) or "Strongly Disagreeing" (35%) about their impact. Only a small percentage (15% combined) view regulations as a significant barrier, which is atypical in many financial contexts where regulatory burdens are often cited as major obstacles. This suggests that financial enterprises in Kigoma may find the current regulatory environment either clear and supportive, or they may possess adequate compliance mechanisms that prevent regulations from becoming a significant hurdle to risk management. This perception may indicate that the challenges to risk management lie more in internal enterprise factors than in external regulatory pressures.

The adaptation to new technology emerges as a mixed challenge. While a sizable proportion of respondents (31.67% "Strongly Agree" and 25.67% "Agree") recognize the difficulty of adopting new technologies, a significant number remain neutral (23.67%). This indicates that while technology is recognized as an essential tool for modern risk management, financial enterprises in Kigoma are at varying stages of technological adoption and readiness. The neutral stance of nearly a quarter of respondents suggests that while technology can be a game-changer, its adoption might be hindered by factors like financial constraints or the availability of skilled personnel to implement and utilize these technological solutions effectively.

Cultural resistance is largely not seen as a significant barrier to risk management, with 61% of respondents ("Disagree" and "Strongly Disagree") expressing that it is not a major challenge. Only 22% perceive it as an obstacle, suggesting that the implementation of risk management practices is not fundamentally hindered by cultural attitudes or resistance to change. This could indicate that there is a general acceptance or understanding of the importance of risk management within the enterprises, and that challenges are more operational or resource-based rather than cultural.

Overall, the challenges to risk management in financial enterprises in the Kigoma region are primarily driven by financial constraints and a lack of skilled personnel, with adaptation to technology being a secondary but still significant issue. In contrast, challenges such as data quality, complex regulatory requirements, and cultural resistance are perceived as less significant barriers. This indicates that addressing resource limitations, both financial and human, could be key to enhancing the capacity of financial enterprises in Kigoma to effectively manage risks and improve their performance.

4. Discussion

The results of the analysis on the effects of risk management strategies and enterprise characteristics on profitability are consistent with a number of findings in the literature. The significance of Capital Adequacy in positively influencing profitability aligns with the work of Berger and Udell (2021), who argue that a well-capitalized financial institution is more stable, enjoys greater confidence from investors, and can manage risks more effectively, leading to improved financial performance. Ngaba and Kibet (2018) further support this view, suggesting that capital adequacy enables firms to buffer against potential losses, ensuring long-term profitability and sustainability.

Conversely, the negative effect of Liquidity Risk Preparedness on profitability may seem counterintuitive, but Demirgunes (2016) and Huynh and Dang (2022) provide insights into this finding. Their research suggests that over-preparing for liquidity risks can lead to inefficient asset allocation, as funds held for liquidity purposes might otherwise be used in higher-yielding investments. Therefore, while liquidity is important, an overly cautious approach can hinder profitability. Ariwidanta and Wiksuana (2018) also highlight the delicate balance between

liquidity management and profit maximization, indicating that excessive liquidity reserves may lower returns.

The importance of Compliance with Regulatory Oversight in promoting profitability is emphasized by Zhu et al. (2022) and Joudeh and Aqel (2024), who argue that adherence to regulatory frameworks not only mitigates risks but also enhances reputational capital. These studies suggest that compliance can lead to a reduction in potential penalties, fraud, and operational risks, which can enhance profitability. However, Deyganto and Alemu (2019) point out that regulatory compliance also requires financial and operational costs, which may initially reduce profitability but offer long-term benefits through risk mitigation.

The finding that Risk-Adjusted Pricing has a negative effect on profitability is consistent with Zainudin et al. (2018), who argue that conservative pricing to account for risk may limit revenue opportunities. Financial enterprises that overly price for risk may lose out on potentially profitable clients, thus reducing their margins. Mwangudza et al. (2020) adds to this perspective by emphasizing the need for a balanced pricing strategy that considers both risk and profitability potential, suggesting that an overly risk-averse approach might limit financial gains.

Regarding the effect of Loan Portfolio Diversification, the results suggest that while diversification is positively associated with profitability, its impact is not statistically significant. Atuahene et al. (2021) and Deyshappriya (2019) discuss the benefits of loan portfolio diversification in reducing exposure to sector-specific risks. However, they also note that diversification can dilute focus and may not always lead to significant profitability increases unless managed effectively. This supports the finding that while diversification can be beneficial, it may not be a critical driver of profit across all contexts.

The impact of enterprise-specific characteristics such as Size and Location is supported by Nguyen and Van Dang (2022) and Peter (2016), who argue that larger enterprises often benefit from economies of scale, enhanced market power, and better access to capital, leading to improved profitability. This aligns with the strong positive effect of enterprise size on profitability found in the analysis. Similarly, Luong (2023) highlight the influence of location on business success, suggesting that enterprises situated in economically active regions or with better access to resources and clients are more likely to achieve financial success, supporting the finding that enterprises based in Kigoma are more profitable.

The strong positive effect of Commercial Banks on profitability aligns with the work of Huynh and Dang (2022), who argue that commercial banks typically have more diversified revenue streams, better access to capital markets, and larger customer bases, making them more profitable compared to other financial enterprises like microfinance institutions. The moderate profitability of Insurance Companies is consistent with the findings of Joudeh and Aqel (2024) and Kisaka-Lwayo and Obi (2012), who suggest that while insurance enterprises may benefit from risk diversification, their profitability is often affected by regulatory challenges, market competition, and the long-term nature of their returns.

5. Conclusion

The study concludes that several key factors significantly influence the success of financial enterprises in the Kigoma region. Capital adequacy, compliance and regulatory oversight, enterprise size, location, and enterprise category all play a crucial role in enhancing profitability. In contrast, liquidity risk preparedness and risk-adjusted pricing have a negative effect on profit generation, indicating that overly conservative liquidity strategies or cautious pricing may hinder financial performance. Although loan portfolio diversification and the lifespan of the enterprise have a positive effect, their impact is not statistically significant in

this context. These findings underline the importance of balanced risk management practices that support financial health without excessively limiting growth opportunities.

Based on these findings, the study draws several policy and practical recommendations aimed at improving financial performance and risk management effectiveness. Enhancing financial stability requires a multifaceted approach, focusing on maintaining strong capital adequacy, comprehensive compliance programs, optimized liquidity management, and tailored risk-pricing strategies. By addressing these areas, financial enterprises can overcome current challenges and foster sustainable growth in the Kigoma region.

To maintain financial stability and growth, enterprises should prioritize robust capital adequacy. Regularly assessing and optimizing capital reserves not only acts as a catalyst for financial health but also protects against unexpected losses, thereby enhancing resilience during economic downturns. A strong capital base further enables enterprises to seize strategic opportunities, such as market expansion and technological innovation, while boosting investor and policyholder confidence. Additionally, comprehensive compliance programs are essential for legal and operational stability. Adhering to regulatory standards and enhancing oversight through regular employee training, periodic internal audits, and advanced compliance systems can safeguard enterprises from legal penalties and ensure a transparent, accountable business environment.

Effective liquidity management policies are crucial for balancing short-term cash needs with long-term investment opportunities. While it is important to maintain sufficient liquidity to cover operational needs, excessive liquidity buffers can restrict growth by limiting funds available for higher-yield investments. Therefore, enterprises should focus on optimal liquidity allocation to maximize profitability. Furthermore, enhancing enterprise size and skilled labor force is recommended to better manage resources and leverage emerging technologies. Microfinance institutions, in particular, can benefit from knowledge exchange with commercial banks and insurance companies to strengthen risk management strategies, as firm type plays a pivotal role in financial success. Finally, government interventions to improve infrastructure, particularly in Kasulu and Kakonko districts, will aid financial enterprises by reducing operational costs and mitigating risks associated with poor facilities.

Moreover, the study recommends a balanced approach to risk-adjusted pricing. While it is important for prices to reflect the inherent risks of financial products, setting overly cautious premiums can negatively impact market share and revenue by deterring customers and offering less competitive pricing compared to peers. Utilizing advanced data analytics and predictive modeling can lead to more accurate risk assessments, allowing enterprises to establish competitive prices that adequately cover risks without compromising profitability. By implementing these strategies, financial enterprises in Kigoma can enhance their risk management practices, increase profitability, and ultimately achieve greater financial success.

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