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The impact of risk management on the performance of small medium enterprises amid the crisis: the case of Lebanon

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ABSTRACT

This quantitative research study investigates the impact of risk management practices, particularly risk identification, on the financial performance and resilience of small and medium enterprises (SMEs) amid crisis situations, with a specific focus on the case of Lebanon. The research involves 283 respondents, consisting of SME owners, managers, and key decision-makers, and employs a structured questionnaire for data collection. The primary objectives of this research are to assess the extent to which SMEs in Lebanon implement risk management practices, examine the relationship between risk identification and financial performance, and determine the role of risk management in enhancing financial resilience during times of crisis. The study acknowledges the unique challenges faced by SMEs in Lebanon, given the recent economic and political crises that have significantly impacted the business environment. The research strategy includes the use of descriptive statistics, correlation analysis, multiple regression analysis, and hypothesis testing to analyze the collected data. Preliminary findings reveal the prevalence of risk management practices among Lebanese SMEs, with risk identification being a crucial component. The analysis aims to elucidate whether robust risk identification processes positively correlate with financial resilience and improved financial performance. The outcomes of this study have significant implications for SMEs in Lebanon, providing insights into the importance of effective risk management as a means to enhance financial resilience during crises. The results will assist SME owners and managers in making informed decisions regarding risk management strategies. Furthermore, policymakers and stakeholders will gain valuable insights into the role they can play in supporting SMEs in building financial resilience in challenging economic environments.

Keywords: Risk Management, Financial Resilience, Risk Identification, Financial Performance

INTRODUCTION

Risk management and its effects on SMEs' performance are crucial, especially during crises. Due to political instability, economic downturns, and humanitarian crises, Lebanon, a country recognized for its strong business culture and SME-driven economy, is even more relevant. SMEs comprise a large part of Lebanon's GDP and employ many people (Li et al., 2021). These companies foster innovation, economic progress, and social improvement. Lebanon's broad SME sector, from retail to manufacturing to services, shows the economy's adaptability (Śliwiński, 2021).

Lebanon has had several internal and foreign crises, affecting its business climate and economic stability. Political and security issues have caused instability, currency volatility, inflation, and limited capital and market access. Lebanese SMEs were also threatened by the COVID-19 outbreak and its economic effects (Goodell & Goutte, 2021). Risk management involves identifying, assessing, and mitigating hazards and uncertainties that might hinder an organization's goals. Risk management helps Lebanon's SMEs survive crises and thrive. SME resilience and crisis impacts may be improved by proactively recognizing risks and developing measures (Gubareva, 2021).

Risk management and SME success are interconnected. Risk management can assist Lebanon's SMEs discover and grasp opportunities during difficult times, limit losses, and optimize resource allocation. It may also boost SMEs' reputation and financial resources by boosting investor, creditor, and consumer trust (Das & Rout, 2020).

Risk management may assist Lebanese SMEs, but implementing it isn't easy. A lack of financial and human resources, awareness, and risk management expertise might hamper SMEs' risk management methods. Bureaucratic impediments and obsolete legislation may also hinder risk management. Risk management is crucial to SMEs' success and resilience during crises in Lebanon (Nurhayati et al., 2021). Due to political instability, economic issues, and humanitarian disasters, SMEs confront growing uncertainties and hazards. However, by recognizing risk management's importance and executing effective techniques, Lebanese SMEs may improve their capacity to navigate crises, secure investments, and contribute to economic recovery and development (Nurullah & Kengatharan, 2015). Policymakers, industry stakeholders, and SME owners should work together to foster a risk-aware culture and help SMEs adopt and execute solid risk management practices (Ushakov et al., 2023).

PROBLEM STATEMENT

Lebanese SMEs have traditionally driven innovation, job creation, and economic progress. Political instability, economic downturns, and humanitarian catastrophes have plagued Lebanon's SMEs. Risk management becomes crucial in such situations. Lebanese SMEs struggle with risk awareness and readiness. SME owners and managers typically dismiss conventional risk management systems as time-consuming and expensive. Lack of knowledge exposes these companies to unexpected occurrences and crises, limiting their response. Inadequate risk readiness hinders SMEs' ability to capitalize on crisis possibilities, missing growth and development opportunities. In Lebanese SMEs, financial and human resource restrictions make risk management difficult. These companies have limited budgets, making fund risk management techniques and technology difficult. Skilled risk management specialists frequently work for bigger companies or demand hefty fees that SMEs cannot pay. Thus, SMEs lack the competence to analyze and manage risks. Lebanon's complicated and ever-changing regulatory framework hinders SME risk management. SME owners and managers focus on bureaucracy and compliance rather than proactive risk management. Modern crises provide novel issues that previous legislation may not address, leaving SMEs unable to handle rising risks (Ushakov et al, 2023).

HYPOTHESES DEVELOPMENT

Risk management and SME financial performance are crucial and complex company management issues. Risk management may improve a SME's financial health, stability, and long-term success. Risk management may improve financial performance by managing risks, finding opportunities, and allocating resources wisely (Mensi et al., 2023).

Risk management helps SME financial success by limiting unfavourable occurrences. SMEs endure market instability, economic downturns, operational issues, and regulatory changes. These risks might become crises that hurt the SME's finances and profitability if not managed. SMEs may protect their finances via early risk identification and risk reduction (Eltyaf Abdalamer et al., 2019). Risk management optimizes SME resource allocation and decision-making. SME investment, pricing, and growth decisions may be guided by risk exposure. This strategic strategy allocates financing to projects that match the SME's risk appetite and financial goals. Risk management improves resource efficiency and SME profitability (Jalloul et al., 2022).

Risk management may also reveal financial performance-enhancing possibilities. Opportunities—positive risks—provide growth, revenue, and competitive advantages. SMEs may boost innovation, market position, and financial development by aggressively exploring and seizing these chances. SMEs may capitalize on possibilities while minimising risk exposure with effective risk management (Pessa et al., 2023).

Stakeholder trust and confidence affect risk management and SME financial performance. Risk management is valued by investors, lenders, consumers, and suppliers. Risk management improves the SME's reputation, boosting investor trust and funding (Malhotra & Singh, 2010). Customers and suppliers are more likely to form long-term collaborations with SMEs that can appropriately handle risks. Positive impressions provide a stable business climate, which helps SMEs develop financially (Zeng & Lei, 2021).

Risk management does not suit everybody. Risk management may improve SME financial performance depending on the SME's business, risk appetite, and business climate. Top management's dedication and engagement help create a risk-aware culture and incorporate risk management into the SME's business plan (Haefner et al., 2021). Risk management influences SME financial performance (Razakova et al,2023). Risk management may improve financial performance by detecting risks, opportunities, resource allocation, and stakeholder trust. Managing risks helps SMEs overcome uncertainty, adjust to changing market circumstances, and seize growth and success chances. SME resilience, stability, and long-term success depend on risk management as the business environment changes (Alles et al., 2021). This led to the development of the following hypothesis:

H1: There is relationship between Risk Management and Financial Performance of SMEs

Small and Medium Enterprises (SMEs) depend on their financial resiliency and performance. Financial resilience is a SME's capacity to absorb financial shocks, adapt to bad economic circumstances, and overcome financial obstacles (Rudkin et al., 2023). However, financial performance measures a SME's profitability, liquidity, efficiency, and solvency. Financial resilience affects a SME's financial performance, hence the two are linked (de Souza Michelon et al., 2020).

SMEs need financial resilience to survive economic downturns. Economic recessions, market shifts, and supply chain disruptions may severely harm SMEs' finances. SMEs can mitigate the impact of external shocks and preserve financial performance by strengthening financial resilience (Almaazmi et al., 2020). Financial resilience requires sufficient financial reserves and liquidity. Financially resilient SMEs have enough cash and liquid assets for crises and short-term needs. This liquidity buffer protects against cash flow changes, economic downturns, and unforeseen costs, maintaining smooth corporate operations (Ushakov et al., 2023). SMEs may confidently explore growth opportunities and weather financial crises without sacrificing their long-term financial success by keeping sufficient liquidity (Lorenzo & Arroyo, 2023).

Financial resilience requires expense control, debt management, and budgeting. Strong financial SMEs prioritize resource efficiency and minimise waste. Cost minimization boosts profitability and helps the SME weather economic storms and maintain financial success (Bhojwani & Shome, 2023). Financial resilience lets SMEs take prudent risks and capture growth opportunities. A financially stable SME may engage in R&D, enter new markets, and diversify its product line. Financially robust SMEs may boost their long-term financial performance by seizing growth and innovation possibilities (Ramaswamy et al., 2021).

Financial resilience boosts stakeholder trust. Financially resilient SMEs attract lenders, investors, consumers, and suppliers. Stakeholder trust improves finance, corporate alliances, and consumer loyalty (Hrustek, 2020). Positive impression boosts SME financial performance and development. Financial resilience and performance are interdependent. Profitability, liquidity, and solvency boost the SME's financial resilience. A strong SME can create reserves, invest in resilience, and manage financial risks (Malakhov et al., 2023). Financially robust SMEs may weather economic storms and preserve profitability.

Financial resilience encompasses an SME's capacity to adapt and respond to financial challenges and uncertainties. It involves maintaining a strong financial position and flexibility in resource allocation to address unexpected disruptions or seize new opportunities. Factors contributing to financial resilience include prudent financial management, diverse revenue streams, access to capital, and the ability to manage debt effectively. SMEs with higher financial resilience are better equipped to weather economic downturns and capitalize on growth opportunities when they arise. Effective financial resilience strategies often involve a combination of risk management, financial planning, and contingency measures. Regulatory constraints and market dynamics can present additional barriers to financial resilience. Regulatory changes, such as tax code revisions or industry-specific regulations, can impact an SME's financial position and require adjustments to financial strategies. Market dynamics, including changes in consumer preferences or competitive landscapes, can introduce uncertainties that SMEs must adapt to swiftly. These external factors are often beyond the control of SMEs, making it essential for them to remain agile and responsive in their financial resilience efforts. This led to the development of the following hypothesis:

H2: There is relationship between Financial Resilience and Financial Performance of SMEs

Risk detection and SME financial performance are crucial to risk management and company success. The first stage in risk management is systematically identifying possible hazards that might affect an organization's goals (Malladi et al., 2021). Identifying and managing risks helps SMEs avoid risks and capitalize on opportunities, which boosts financial performance.

SME financial health and profitability depend on risk detection. SMEs may reduce the chance and effect of bad occurrences that might hurt their financial performance by recognizing risks early(Jha & Arora, 2019). Operational, market, financial, regulatory, and foreign macroeconomic risks are examples. Understanding these risks helps SMEs make smart choices, manage resources, and maximize financial success.

Risk detection helps SMEs seize opportunities, improving financial performance. Some hazards provide development and opportunity (Moyo et al., 2015). SMEs may innovate, grow, and increase income by recognizing and taking favourable risks. Opportunities identified with agility and risk awareness may boost financial performance and company success. Risk identification helps SMEs allocate resources efficiently. When SMEs understand their risk picture, they can prioritize resources and investments in financial performance-critical areas (Valadares et al., 2023). They may distribute resources depending on risk exposure and risk management ability. Thus, matching plans with risk appetite allows SMEs to maximize financial resources and performance.

Risk identification boosts stakeholder trust and financial success. Risk-aware SMEs attract lenders, investors, consumers, and suppliers. Stakeholders can trust the SME to tackle problems if it has a history of risk identification and management (García-Sánchez et al., 2020). Stakeholder trust improves access to funding, collaborations, and business possibilities, helping SMEs develop financially (Al-Smadi, 2011). Risk identification is a continual and iterative process that improves a SME's financial performance. New risks and altered risks may arise when the business environment changes. SMEs respond to changing risks and opportunities with regular risk assessments and risk identification upgrades (Kumar & Padakandla, 2023). SMEs can keep ahead of difficulties, capitalize on new possibilities, and enhance their financial performance by constantly reassessing their risk environment. This led to the development of the following hypothesis:

H3: There is relationship between Risk Identification and Financial Performance of SMEs

METHODOLOGY

For the research meticulous data collection is integral to gaining insights into the relationship between risk management practices and SME performance during challenging economic circumstances. To this end, carefully chosen tools and techniques ensure that data collection is efficient, accurate, and capable of extracting meaningful insights. Google Forms serves as the primary tool for survey administration in this research. Google Forms is web-based, allowing easy access for respondents, particularly SME owners and managers in Lebanon. Respondents can complete surveys at their convenience using any device with an internet connection, overcoming geographical and logistical barriers.

The platform offers a versatile range of question types, including multiple-choice, Likert scale, and open-ended questions. This flexibility enables the collection of diverse data types and a comprehensive understanding of respondents' perspectives. Google Forms incorporates features for data validation, ensuring that respondents provide valid and consistent responses. Built-in checks enhance the accuracy and reliability of the collected data, reducing the need for extensive manual data cleaning. Responses are collected in real-time, permitting ongoing monitoring of data collection progress. This real-time feature facilitates immediate data retrieval and preliminary analysis, expediting the research process.

Following data collection, the next crucial step is data analysis. SPSS (Statistical Package for the Social Sciences) plays a pivotal role in this phase, offering several key advantages: SPSS simplifies data cleaning and preparation, addressing common issues like missing values, outliers, and necessary data transformations. This ensures that the dataset is well-prepared for rigorous statistical analysis. SPSS provides an array of descriptive statistical techniques to summarize and explore collected data. These techniques include measures of central tendency, variability, and frequency distributions, offering an initial overview of the data's characteristics. The software supports a variety of hypothesis testing methods, including t-tests, chi-square tests, and analysis of variance (ANOVA).

These tests enable the examination of relationships and differences between variables, a critical aspect of assessing the impact of risk management on SME performance. Multiple regression analysis within SPSS will be instrumental in assessing the impact of multiple independent variables (risk management practices) on one or more dependent variables (SME performance metrics). This method quantifies the relationship and offers insights into the magnitude and significance of the impact.

Principal Component Analysis

Table 1. Principal Component Analysis

	Cronbach Alpha
Risk Management	.828
Financial Resilience	.898
Risk Identification	.724
Financial Performance	.863

Table 1 presents the results of the Principal Component Analysis (PCA) and Cronbach's alpha coefficients for the variables risk management, financial resilience, risk identification and financial performance. The Cronbach's alpha coefficients provide an indication of the internal consistency or reliability of the variables.

The Cronbach's alpha coefficient for risk management was .828, suggesting acceptable internal consistency. This indicates that the items measuring risk management in the survey were moderately reliable and consistently captured the construct of risk management.

For financial resilience, the Cronbach's alpha coefficient was .898, indicating good internal consistency. This suggests that the items measuring financial resilience were reliable and consistently assessed the construct.

The Cronbach's alpha coefficient for risk identification was .724, indicating good internal consistency. This suggests that the items measuring risk identification were reliable and consistently measured the construct.

Similarly, for financial performance, the Cronbach's alpha coefficient was .863, indicating acceptable internal consistency. This suggests that the items measuring financial performance were moderately reliable and consistently assessed the construct.

Pearson Correlations

Table 2. Pearson Correlations

		Risk Management	Financial Resilience	Risk Identification	Financial Performance
Risk Management	Pearson Correlation	1	.763**	.558**	.493**
	Sig. (2-tailed)		.000	.000	.000
	N	283	283	283	283
Financial Resilience	Pearson Correlation	.763**	1	.553**	.517**
	Sig. (2-tailed)	.000		.000	.000
	N	283	283	283	283
Risk Identification	Pearson Correlation	.558**	.553**	1	.448**
	Sig. (2-tailed)	.000	.000		.000
	N	283	283	283	283
Financial Performance	Pearson Correlation	.493**	.517**	.448**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	283	283	283	283

**. Correlation is significant at the 0.01 level (2-tailed)

The Pearson correlation coefficients in **Table 2** indicate the strength and direction of the relationship between different variables and Financial Performance. It is essential to note that all correlation coefficients are significant at the 0.01 level (2-tailed), confirming that these correlations are unlikely to be due to random chance.

Risk Management and Financial Performance: The Pearson correlation is 0.493, and the significance level is 0.000, suggesting a moderate, positive, and statistically significant relationship between risk management and financial performance. This implies that effective risk management practices are associated with improved financial performance.

Financial Resilience and Financial Performance: A Pearson correlation of 0.517 indicates a moderate, positive relationship between financial resilience and financial performance, significant at the 0.000 level. This finding suggests that an organization's ability to adapt to financial challenges positively affects its financial performance.

Risk Identification and Financial Performance: With a Pearson correlation of 0.448, there is a moderate, positive relationship between risk identification and financial performance, significant at the 0.000 level. This relationship implies that better identification of risks is linked to enhanced financial performance.

All three independent variables—Risk Management, Financial Resilience, and Risk Identification—have a moderate, positive, and statistically significant relationship with Financial Performance. Organizations that focus on robust risk management, financial resilience, and precise risk identification are more likely to experience improved financial performance. These findings underscore the importance of these management practices in contributing to an organization's financial success.

Regression Analysis

Table 3. Regression Analysis

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.482[a]	.246	.227	.842

a. Predictors: (Constant), Risk Management, Financial Resilience, Risk Identification and Financial Performance

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	T	Sig.	Tolerance	VIF
1	(Constant)	1.000	.224		4.476	.000		
	Risk Management	.487	.126	.390	3.865	.015	.636	1.750
	Financial Resilience	.436	.105	.406	4.152	.003	.687	1.745
	Risk Identification	.445	.101	.312	4.405	.016	.860	1.420

a. Dependent Variable: Financial Performance

The regression analysis represented in **Table 3** elucidates the relationship between the dependent variable, Financial Performance, and the independent variables, namely Risk Management, Financial Resilience, and Risk Identification. The formulated regression equation, Financial Performance = 1.000 + 0.487(Risk Management) + 0.436(Financial Resilience) + 0.445(Risk Identification), conveys several pertinent insights. Firstly, the constant term of 1.000 serves as the baseline Financial Performance when all independent variables are held constant at zero. The unstandardized coefficients indicate that a unitary change in each of the independent variables—while keeping the others constant—would correspondingly alter the Financial Performance by the respective coefficients; 0.487 for Risk Management, 0.436 for Financial Resilience, and 0.445 for Risk Identification.

The Beta values—standardized coefficients—reveal that Financial Resilience exerts the most significant influence on Financial Performance with a value of 0.406, followed by Risk Management at 0.390, and Risk Identification at 0.312. These values offer a standardized measure for comparing the strength of each predictor variable in influencing Financial Performance. Furthermore, the t-values and associated significance levels (p-values) for each variable—3.865 and 0.015 for Risk Management, 4.152 and 0.003 for Financial Resilience, 4.405 and 0.016 for Risk Identification—indicate that all variables are statistically significant predictors since the p-values are all below the conventional 0.05 threshold. This validates the null hypothesis that these variables significantly influence Financial Performance.

In terms of model fit, the R value of 0.482 points to a moderate correlation between the model's predictors and the dependent variable. The R^2 value of 0.246 is particularly instructive; it suggests that the model accounts for approximately 24.6% of the variability in Financial Performance. While this is not exceptionally high, it does indicate some degree of explanatory power. Finally, the adjusted R^2 value of 0.227 gives a more refined understanding of how well the model might generalize to new data, considering the number of predictors in the model.

THEORETICAL IMPLICATIONS

The present study, which investigates the relationship between risk management, financial resilience, risk identification, and financial performance in Lebanese Small and Medium-sized Enterprises (SMEs), offers several theoretical implications, particularly when viewed through the lens of agency theory. Agency theory is commonly used to explain the complex relationship between principals (shareholders or owners) and agents (managers) in a business context. At its core, the theory posits that agents are naturally inclined to operate in their self-interest, which may not always align with the interest of the principals. Therefore, mechanisms must be put in place to ensure that agents act in the best interests of principals. Risk management becomes a critical tool in this endeavor, serving as a guardrail to align the interests of both parties and ensure the financial well-being of the enterprise.

Firstly, the positive correlation between effective risk management and financial performance, as evidenced by the statistical analysis, reinforces the agency theory's proposition regarding the need for proper governance mechanisms. When risk management is handled appropriately, it serves as a governance mechanism that narrows the agency gap. Essentially, effective risk management policies provide a structured approach, enabling agents to make decisions that not only mitigate potential hazards but also align with the overall goals set by the principals. Thus, risk management can be viewed as a functional solution to the agency problem, at least within the context of financial performance in Lebanese SMEs.

Secondly, the issue of financial resilience can also be evaluated within the theoretical construct of agency theory. According to the theory, agents are responsible for ensuring that the enterprise remains viable and competitive. In the volatile business environment of Lebanon, characterized by political instability, economic downturns, and a complex regulatory landscape, financial resilience becomes crucial. An agent committed to aligning with the principal's interest would prioritize financial resilience, and as per the study’s findings, there is a positive correlation with financial performance. In this manner, financial resilience does not only serve as a survival mechanism but also as an agency-cost reduction strategy.

Lastly, risk identification, another variable that showed a positive relationship with financial performance, can also be contextualized within agency theory. Effective risk identification practices often require input and collaboration from various organizational levels, thus potentially reducing information asymmetry—a significant concern in agency theory. In a well-structured system where risks are systematically identified, both agents and principals are better equipped with information, which can reduce the agency dilemma. This is especially pertinent in Lebanese SMEs where the room for error is minimal, and the costs of agency conflicts can be detrimental.

The study provides empirical support that fortifies the relevance of agency theory in understanding the nuances of risk management, financial resilience, and risk identification in Lebanese SMEs. By confirming the positive relationships between these variables and financial performance, the study offers valuable theoretical insights that contribute to the broader academic discourse on agency theory and its applicability in challenging and volatile business environments. Future research could build on these findings by exploring other governance mechanisms or by deploying alternative theoretical frameworks for a more comprehensive understanding.

PRACTICAL IMPLICATIONS

The research on the relationship between risk management, financial resilience, risk identification, and financial performance in Lebanese SMEs carries significant practical implications for both policymakers and business leaders. Given the current challenges faced by the Lebanese economy—such as political instability, depreciating currency, and constrained access to finance—these findings provide actionable insights that can improve the resilience and sustainability of SMEs.

Firstly, the positive correlation between effective risk management and enhanced financial performance underscores the need for SMEs to adopt structured risk management frameworks. Business leaders should focus on developing comprehensive risk management strategies that go beyond mere compliance. This involves the systematic identification, assessment, and mitigation of risks, guided by clearly defined objectives and performance indicators. Implementing effective risk management practices can also help SMEs secure financing, as financial institutions are more likely to extend credit to businesses with sound governance structures.

Secondly, the study highlights the critical role of financial resilience in ensuring business sustainability. In the volatile Lebanese business environment, SMEs often face liquidity challenges. The strong correlation between financial resilience and financial performance suggests that businesses should prioritize the creation of financial buffers and contingency plans. These preparations could include diverse revenue streams, cash reserves, and flexible operational structures that can adapt to changing market conditions.

Thirdly, the positive relationship between risk identification and financial performance illuminates the importance of ongoing risk assessment. Business leaders should cultivate an organizational culture that encourages employees at all levels to participate in the risk identification process. The use of advanced tools and methodologies can further streamline this process, enabling quicker responses to emerging risks.

Finally, policymakers can also draw insights from this research. The findings advocate for the establishment of a supportive ecosystem that encourages SMEs to adopt best practices in risk management and financial planning. This could involve offering tax incentives for SMEs that implement recognized risk management frameworks, or providing subsidized training programs in financial literacy and business management.

CONTRIBUTION OF THE STUDY

The study makes several contributions to the existing body of literature and practice in the domain of risk management and financial performance, particularly in the context of Lebanese SMEs.

Firstly, from an academic standpoint, the study provides empirical evidence that underscores the importance of effective risk management, financial resilience, and risk identification in enhancing financial performance. Most existing studies focus on larger corporations, often in developed countries; hence, this research fills a gap by offering insights applicable to SMEs operating in an emerging and politically volatile market like Lebanon.

Secondly, the study validates and extends the agency theory by elaborating how SME owners and managers, acting as agents, can align their risk management strategies with the welfare of all stakeholders, particularly shareholders. It enriches the agency theory by incorporating elements of risk and financial management, which are often overlooked in the traditional principal-agent model.

Thirdly, methodologically, the study offers a robust model for analyzing the relationships between risk management practices and financial performance. The combination of descriptive statistics, Pearson correlations, and regression analysis provides a comprehensive analytical framework that future researchers can adopt or adapt for similar studies in other contexts.

In practice, the study serves as a guide for business leaders and policymakers in Lebanon, offering actionable insights into areas requiring intervention. It advocates for the implementation of structured risk management frameworks, the importance of financial resilience, and the need for ongoing risk identification processes. For policymakers, the study offers evidence that can be used to shape supportive economic policies, including tax incentives and training programs aimed at fostering risk management practices among SMEs.

Finally, the study contributes to social betterment by promoting business sustainability and economic stability. By outlining strategies to improve financial performance and resilience, the research indirectly supports job retention and creation, thereby contributing to social welfare.

These contributions serve to deepen the understanding of the intricate relationship between risk management and financial performance, offering both theoretical and practical benefits tailored to the unique challenges faced by Lebanese SMEs.

LIMITATIONS OF THE STUDY

The study presents several limitations that should be taken into account when interpreting the findings.

First, the research is confined to the context of Lebanese SMEs, limiting the generalizability of the results to other geographic locations or different sizes of organizations. The particular economic, political, and social conditions of Lebanon may influence the risk management strategies and financial performance of SMEs in ways that are not applicable elsewhere.

Second, the study relies on self-reported data, which is susceptible to response bias, including social desirability and recall biases. Participants may have provided answers they deemed socially acceptable or could have struggled to accurately recall past events, affecting the integrity of the data.

Third, the cross-sectional nature of the study offers a snapshot of the relationships between variables at a single point in time. A longitudinal approach could provide more insight into the causality and the dynamic changes in risk management practices and financial performance over time.

Fourth, the use of quantitative methods, although beneficial for statistical analysis, limits the depth of understanding of the qualitative aspects of risk management. Additional qualitative methods, such as interviews or case studies, could offer richer context-specific insights.

Fifth, while the study considers important variables like risk management, financial resilience, and risk identification, it does not account for other potentially influential factors such as organizational culture, leadership styles, or external market conditions, which could also affect financial performance.

Lastly, the study adopts the agency theory as its theoretical framework, which may not capture all the complexities of the relationship between risk management and financial performance in SMEs. Future research could benefit from employing additional or alternative theoretical frameworks for a more comprehensive understanding.

Despite these limitations, the study provides valuable insights into the relationship between risk management and financial performance in Lebanese SMEs. However, caution should be exercised in extending these findings to different settings or interpreting them as exhaustive. Future research could address these limitations by broadening the scope, employing mixed methods, and considering additional influencing factors.

FURTHER RESEARCH AND PERSPECTIVES

Future research in the area of risk management and financial performance in Lebanese SMEs could take several directions to address the limitations of the present study and to delve deeper into unexplored avenues.

Firstly, expanding the geographical scope of the study to include SMEs in different countries or regions could provide comparative insights and contribute to the generalizability of the findings. The Lebanese context, with its unique set of economic and political challenges, serves as an interesting case; however, broadening the scope could provide a more comprehensive understanding of the topic.

Secondly, longitudinal studies could be conducted to investigate how risk management strategies evolve over time and how these changes impact financial performance. This would provide a more dynamic view of the relationships between the variables and allow for causality to be better established.

Thirdly, the incorporation of qualitative research methods, such as interviews, focus groups, or case studies, could provide a richer, more nuanced understanding of the practices, attitudes, and challenges related to risk management and financial performance. These methods could capture the complexities that quantitative methods might overlook.

Fourthly, researchers could explore the role of other variables that were not included in the current study. For instance, the impact of organizational culture, leadership styles, and external market conditions could be examined to see how they interact with risk management strategies and financial performance.

Fifthly, future studies could employ other theoretical frameworks in addition to or instead of the agency theory to examine the topic from various angles. For example, stakeholder theory or resource-based view could offer different perspectives on how risk management influences financial performance.

Finally, further research could focus on the development of practical tools and guidelines based on empirical data. This could be particularly useful for SMEs in resource-constrained settings like Lebanon, helping them to implement more effective risk management strategies to improve their financial performance.

By addressing these areas, future research can provide a more comprehensive and nuanced understanding of the complexities involved in risk management and financial performance, particularly in the context of SMEs.

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