**Original Research Article**

**Financial Risk Management and Corporate Performance of Selected Small-Scale Firms in Nigeria**

# Abstract

The study examined the influence of financial risk management on corporate performance of selected small-scale firms in Nigeria. The specific objective was to determine the extent to which operational risks and liquidity risks influence the corporate performance of selected small-scale firms in Nigeria. This study adopted a survey research design. The target population for this study consists of managers of small-scale firms in Nigeria. Using snowballing sampling technique, 35 managers of small-scale firms were selected from each of the six geopolitical zones of Nigeria, resulting in a total sample size of 210 respondents. Primary data for this study were collected using a structured questionnaire. The reliability of the instrument was tested using Cronbach’s Alpha, which measures internal consistency. The data collected were first analyzed using frequency analysis to show the distribution of the responses to the research questions. For the inferential aspect, multiple regression analysis was used to test the two hypotheses developed in line with the study’s objectives. It was found that: operational risks have a significant negative influence on the corporate performance of selected small-scale firms in Nigeria (β = -0.272, p = 0.002); liquidity risks have a significant negative influence on the corporate performance of selected small-scale firms in Nigeria (β = -0.225, p = 0.026). In conclusion, financial risk, when left unmitigated, can undermine the core functional and financial structures of small enterprises, leading to inefficiencies, reduced profitability, and in severe cases, business failure. The study recommends that small-scale firm owners and managers should invest in enhancing their internal risk management frameworks, including the adoption of regular operational audits and process optimization strategies to identify and mitigate operational inefficiencies.

*Key words:* Financial Risk Management, Corporate Performance, Operational Risks, Liquidity Risks

# 1.0 Introduction

Small-scale firms are pivotal to the economic development of nations worldwide. In Nigeria, these enterprises constitute a significant portion of the business domain, contributing substantially to employment generation, poverty alleviation, and the Gross Domestic Product (GDP) (Nwagbala, Harrieta, Obijiaku & Ejiogu, 2024; Ibitomi, Dada, Ayedogbon, Micah & Aderotimi, 2024). Despite their importance, small-scale firms in Nigeria face numerous challenges that hinder their growth and sustainability. Among these challenges, financial risks stand out as a critical concern. According to Newstyle, Isele, and Tekerebo (2024) and Nwafor and Nworie (2025), financial risks encompass various uncertainties that can adversely affect a firm's financial health, including credit risk, liquidity risk, interest rate fluctuations, and foreign exchange volatility. The dynamic and often volatile economic environment in Nigeria exacerbates these risks, making it imperative for small-scale firms to adopt effective financial risk management practices to ensure their survival and competitiveness (Onoh, Adonye, Enang & Efanga, 2025).

In the contemporary business milieu, characterized by rapid technological advancements, globalization, and economic uncertainties (Nworie, Odah & Nworie, 2024; Mmadubuobi, Nworie & Aziekwe, 2024), effective financial risk management has become indispensable. For small-scale firms operating in Nigeria's complex economic landscape, the ability to identify, assess, and mitigate financial risks is crucial for maintaining financial stability and achieving long-term objectives. Odukomaiya (2023) submitted that effective financial risk management enables firms to anticipate potential financial disruptions, allocate resources efficiently, and make informed strategic decisions. It also enhances a firm's credibility with investors, creditors, and other stakeholders by demonstrating a proactive approach to managing financial uncertainties. Moreover, in an era where financial markets are increasingly interconnected, the ripple effects of financial shocks can be profound, underscoring the need for robust risk management frameworks that can withstand external pressures and safeguard a firm's financial integrity.

The implementation of sound financial risk management practices has a direct and significant impact on the corporate performance of small-scale firms. By systematically identifying and mitigating financial risks, firms can protect their assets, ensure steady cash flows, and maintain profitability (Rabiu, 2023). Effective risk management contributes to operational efficiency by minimizing unexpected financial losses and enabling firms to capitalize on growth opportunities with greater confidence. It also fosters a culture of accountability and strategic foresight, which are essential for sustainable performance. Empirical studies have shown that firms with robust financial risk management frameworks tend to exhibit higher levels of financial performance, as they are better equipped to navigate economic downturns and capitalize on favorable market conditions (Isamade, Udeh & Odo, 2022; Ojubanire & Dawodu, 2021). In the context of Nigerian small-scale firms, where financial volatility is a persistent challenge, the adoption of comprehensive risk management strategies is not merely a defensive measure but a strategic imperative that can drive corporate success and resilience.

In an ideal business environment, small-scale firms should be able to thrive and grow by leveraging sound financial strategies, including effective financial risk management practices. These practices are expected to help firms anticipate, manage, and mitigate various forms of financial risks such as credit defaults, liquidity shortages, market fluctuations, and operational uncertainties (Rabiu, 2023). When properly implemented, financial risk management ensures financial stability, enhances decision-making, improves operational efficiency, and supports the achievement of long-term strategic goals. Ideally, small-scale firms should be equipped with the necessary tools, knowledge, and systems to manage financial risks effectively and thereby improve their overall corporate performance. However, Odukomaiya (2023) argued that many small-scale firms operate without structured or formal financial risk management systems. These firms often lack access to accurate financial data, professional risk assessment tools, and trained financial experts who can help identify and mitigate financial threats. A significant number of small-scale businesses make decisions based on intuition rather than strategic financial planning, which increases their vulnerability to unexpected economic shocks, market volatility, and financial losses.

As a result, their ability to operate efficiently and achieve sustainable performance is severely compromised. The consequence of this reality is that many small-scale firms in Nigeria experience frequent financial instability, stunted growth, and, in many cases, business failure. Poor financial risk management leads to misallocation of resources, high operational costs, and increased exposure to financial fraud and insolvency (Odukomaiya, 2023). These outcomes not only undermine the performance and survival of individual firms but also weaken the overall contribution of the SME sector to national economic development. If these financial vulnerabilities remain unaddressed, small-scale firms will continue to struggle with performance issues, and their potential to drive job creation, innovation, and economic transformation in Nigeria will remain largely untapped.

# 1.1 Objectives of the Study

The main aim of the study is to examine the influence of financial risk management on corporate performance of selected small-scale firms in Nigeria. The specific objectives are as follows:

1. To determine the extent to which operational risks influence the corporate performance of selected small-scale firms in Nigeria.

2. To determine the degree to which liquidity risks influence the corporate performance of selected small-scale firms in Nigeria.

# 1.2 Hypothesis

H01. Operational risks do not significantly influence the corporate performance of selected small-scale firms in Nigeria.

H02. Liquidity risks do not significantly influence the corporate performance of selected small-scale firms in Nigeria.

# 2.0 Literature Review

# 2.1 Conceptual Review

# 2.1.1 Financial Risk Management

Financial risk management refers to the process by which a business identifies, evaluates, and takes proactive steps to mitigate potential financial losses that may arise from various uncertainties in the economic environment (Newstyle, Isele & Tekerebo, 2024). It is a strategic discipline that enables firms to manage exposure to risks such as credit defaults, interest rate fluctuations, exchange rate volatility, and investment losses. The primary objective of financial risk management is to protect the financial integrity and long-term viability of a business by minimizing the adverse effects of unforeseen financial events (Odukomaiya, 2023).

Financial risk management is about understanding the financial exposures a firm faces and implementing strategies to control or eliminate these risks. It is not just about avoiding risk but about managing it in a way that supports business objectives (Rabiu, 2023). For example, while all investments carry some degree of risk, financial risk management allows a company to determine acceptable risk levels and put measures in place to remain within those thresholds. This may involve techniques such as hedging, diversification, insurance, and the use of financial instruments to offset potential losses.

Financial risk management is vital across all sectors, particularly in environments characterized by high market volatility (Obi & Nworie, 2024), economic instability, or regulatory uncertainty. For small-scale firms, in particular, discipline is crucial because these businesses often lack capital buffers or access to credit that larger corporations might have. Thus, any unexpected financial shock can significantly disrupt operations. By incorporating risk management into financial planning, budgeting, and forecasting, firms can make more informed decisions, secure investor confidence, and achieve better financial outcomes (Apaloo & Bright, 2022). Ultimately, financial risk management is not a one-time activity but an ongoing, adaptive process that is essential to the stability and growth of any business enterprise.

# 2.1.1.1 Financial Risk Management Model for Small Scale Firms

The Financial Risk Management (FRM) model for small-scale firms is a systematic approach designed to identify, assess, and manage financial risks to improve corporate performance (Apaloo & Bright, 2022). It is crucial for small businesses in Nigeria, where resource constraints and market volatility often make financial risk management an afterthought. This model can be divided into several key components: risk identification, risk assessment, risk control, and monitoring and review.

The first step in the model is Risk Identification. Small-scale firms should proactively identify potential financial risks that could threaten their operations (Tchankova, 2002). These risks may include operational risks, liquidity risks, credit risks, market risks, and foreign exchange risks. A comprehensive risk identification process involves analyzing internal financial data, industry trends, market conditions, and historical performance.

Once risks are identified, the next step is Risk Assessment. In this phase, firms should assess the probability and potential impact of each risk identified (Onoh, Adonye, Enang & Efanga, 2025). This could involve using quantitative methods such as financial ratios, liquidity assessments, and sensitivity analyses to measure the potential impact of different risks on the firm’s financial performance (Onoh, Adonye, Enang & Efanga, 2025). For example, liquidity risk could be assessed by calculating the current ratio or quick ratio, while operational risks may be analyzed through an audit of business processes.

The third component is Risk Control, where the firm develops strategies to mitigate or avoid the identified risks. For operational risks, small firms might focus on improving operational efficiency, investing in employee training, or adopting technology to automate processes (Aduloju & Akindipe, 2022). For liquidity risks, firms could maintain sufficient working capital and develop effective cash flow forecasting to avoid financial crises. Furthermore, firms can reduce credit risk by performing due diligence on customers and tightening credit policies.

Lastly, Monitoring and Review involves continuously tracking the identified risks and the effectiveness of the mitigation strategies (Kaur & Singh, 2018). Firms should regularly review their financial statements and adjust their risk management strategies as necessary. This dynamic and ongoing process ensures that financial risks are consistently managed, thus enhancing the firm’s financial performance and long-term sustainability.

# 2.1.2 Operational Risks

Operational risks refer to the potential for loss or damage resulting from inadequate or failed internal processes, people, systems, or from external events (Newstyle, Isele & Tekerebo, 2024). Unlike financial or market risks, which are often driven by external economic factors, operational risks stem primarily from the internal workings of an organization. These can include human errors, system failures, fraud, theft, natural disasters, or disruptions caused by external actors such as cyberattacks. Operational risk is present in all aspects of a business’s operations and, if unmanaged, can lead to significant financial loss and reputational damage (Borokini, 2024).

The scope of operational risks is broad and often unpredictable, making it one of the most complex risk categories to manage (Isamade, Udeh & Odo, 2022). These risks are inherent in daily business activities—ranging from the handling of transactions, record keeping, and customer interactions, to the implementation of information technology and employee conduct. For instance, a breakdown in a company's supply chain management system, or the failure of a crucial software program, can significantly disrupt operations and erode customer trust. Similarly, a lapse in internal controls can expose the company to fraud, compliance failures, or legal penalties.

Effective management of operational risks requires a deep understanding of the firm’s processes and the environment in which it operates (Borokini, 2024). This involves regular assessments of potential vulnerabilities, implementation of control measures, and creating contingency plans for unexpected disruptions. For small-scale firms, which may not have dedicated risk management departments, operational risks can be even more challenging to identify and control. Nonetheless, acknowledging the existence of these risks and developing basic mitigation strategies—such as employee training, regular audits, and IT safeguards—can substantially reduce exposure. As operations form the backbone of every organization, managing operational risk is essential to maintaining business continuity and ensuring long-term success.

# 2.1.3 Liquidity Risks

Liquidity risk is the potential that a business will not be able to meet its short-term financial obligations due to the inability to convert assets into cash or obtain sufficient funding without incurring substantial losses (Newstyle, Isele & Tekerebo, 2024). It arises when a firm cannot quickly generate enough cash flow to cover its liabilities as they come due. This type of risk is particularly critical because, even if a company is profitable on paper, a lack of liquidity can lead to insolvency (Rabiu, 2023), operational disruption, or forced asset sales under unfavorable conditions.

Liquidity risk can manifest in two main ways: funding liquidity risk and market liquidity risk (Nikolaou, 2009). Funding liquidity risk occurs when a firm does not have enough liquid assets or access to external financing to meet its immediate cash needs (Drehmann & Nikolaou, 2013). Market liquidity risk, on the other hand, arises when a company cannot sell assets quickly enough at a reasonable price to generate cash. Both forms of liquidity risk can compromise the financial health of an organization, especially during periods of economic uncertainty or market stress (Isamade, Udeh & Odo, 2022). For small-scale businesses, liquidity risk is often a pressing concern due to limited access to credit facilities, inconsistent revenue streams, and a smaller asset base. These firms may struggle to secure loans or emergency funding, particularly in times of financial crisis. Poor cash flow management, delayed customer payments, or unexpected expenses can exacerbate the problem, leaving the business unable to pay suppliers, workers, or utility bills.

Therefore, maintaining adequate liquidity is not just about having cash on hand—it also involves effective planning, budgeting, and maintaining strong banking relationships. In essence, liquidity risk reflects a company’s ability to remain operational and solvent in the face of short-term financial pressures (Isamade, Udeh & Odo, 2022). Managing this risk requires continuous monitoring of cash inflows and outflows, as well as contingency planning to address potential liquidity crunches. Addressing liquidity risk is essential for business survival and long-term performance.

# 2.1.4 Corporate Performance

Corporate performance refers to the overall effectiveness with which a company achieves its financial, operational, and strategic objectives (Koralun-Bereźnicka, 2013). It encompasses a range of metrics that evaluate how well a business is performing in terms of profitability, growth, productivity, competitiveness, and stakeholder satisfaction. Corporate performance is a multidimensional concept that reflects the organization’s ability to use its resources efficiently, respond to external challenges, and sustain long-term value creation (Combs, Russell & Shook, 2005).

Traditionally, corporate performance is measured using financial indicators. However, modern perspectives recognize that non-financial elements such as customer satisfaction, employee engagement, innovation capacity, and social responsibility also play a critical role in defining performance (El Fallahi, Ibenrissoul & El Amri, 2023). As such, corporate performance is often viewed through both quantitative and qualitative lenses, providing a more holistic picture of an organization’s health and trajectory.

For small-scale firms in Nigeria, corporate performance is not only a measure of profitability but also of survival and resilience in a challenging business environment (Sawalha, 2013). These businesses operate in dynamic markets, often characterized by regulatory hurdles, infrastructure deficiencies, limited access to funding, and economic volatility. As such, strong corporate performance indicates that a firm is not just financially stable but also adaptive, strategic, and competitive within its industry. It reflects the company’s ability to manage risks, satisfy customers, and retain a motivated workforce. Ultimately, corporate performance serves as a benchmark for strategic decision-making, resource allocation, and investment planning. It helps managers, investors, and other stakeholders assess the value and sustainability of a business. High corporate performance is associated with strong leadership, sound financial management, and efficient operation, all of which are vital for long-term success in today’s competitive market.

# 2.2 Theoretical Framework

The Resource-Based Theory (RBT) originated from the work of Edith Penrose in her 1959 seminal book *"The Theory of the Growth of the Firm"* (Nworie & Nwoye, 2023). However, it gained major theoretical recognition and development through the contributions of scholars such as Jay Barney in 1991, who refined and formalized it into a strategic management theory. Barney’s work titled *“Firm Resources and Sustained Competitive Advantage”* became a foundational piece in the development of RBT, presenting it as a key lens through which firms can gain and sustain competitive advantage (Barney & Clark, 2007). Over time, this theory has evolved into a central concept in understanding how internal firm resources—both tangible and intangible—can be strategically deployed to improve performance and secure long-term growth.

The Resource-Based Theory postulates that firms possess resources, capabilities, and competencies that, if valuable, rare, inimitable, and non-substitutable (VRIN), can lead to a sustainable competitive advantage (Esteve-Pérez & Mañez-Castillejo, 2008). These resources must be strategically managed and leveraged to generate superior outcomes in the firm’s operations and market performance. RBT emphasizes that it is not just access to resources that matters, but the effective deployment, management, and coordination of those resources within the unique context of each firm. The theory distinguishes between different types of resources—physical capital, human capital, organizational capabilities—and asserts that their strategic use is what leads to enhanced firm performance over time (Ployhart, 2021).

The Resource-Based Theory (RBT) aligns closely with the subject matter of the study titled *“Influence of Financial Risk Management on Corporate Performance of Selected Small-Scale Firms in Nigeria.”* Within this framework, financial risk management is perceived as an essential internal strength—a form of strategic asset—that empowers businesses to handle uncertainties, prevent financial setbacks, and make sound fiscal choices. For small-scale enterprises, which often face unstable market conditions and limited financial and infrastructural support, robust risk management capabilities represent a distinctive and valuable competency. RBT posits that such internally cultivated strengths can serve as a source of lasting competitive edge, ultimately leading to enhanced business performance, operational resilience, and sustained growth. As such, the theory offers a suitable framework through which to investigate how effective in-house financial risk strategies affect outcomes in the context of small business operations.

# 2.3 Empirical Review

Onoh, Adonye, Enang, and Efanga (2025) investigated the impact of risk assessment on the performance of manufacturing firms in the North-Central region of Nigeria. In the study, risk review served as the independent variable, while organizational performance represented the dependent variable. A survey design was employed, and the analysis involved correlation and ANOVA techniques to determine the strength and significance of the relationship between the two variables. The findings indicated a statistically significant and positive relationship between risk review and firm performance. This suggests that enhanced risk assessment practices contribute to improved organizational outcomes. Based on this, the researchers advised manufacturing firms in the region to invest more in identifying and evaluating current and potential risks.

Newstyle, Isele, and Tekerebo (2024) analyzed the influence of financial risk management on the financial performance of listed deposit money banks in Nigeria. Employing an ex-post facto research approach, the study targeted fourteen banks listed on the Nigerian Exchange Group, from which nine were selected using purposive sampling. Data for the study were drawn from the annual financial statements of these institutions between 2013 and 2022. The analysis incorporated descriptive statistics, unit root testing, diagnostic evaluation, Hausman testing, and multiple regression via panel least squares. Tools such as EViews 10 and SPSS version 20 were utilized for Moderated Multiple Regression analysis. The results showed that market and liquidity risk management had no significant influence on return on average assets. In contrast, credit and operational risk management showed significant effects. Firm size did not have a significant moderating effect on the relationship between total risk management and performance.

Borokini (2024) explored the impact of financial risks on the financial performance of banks listed in Nigeria and evaluated the relative importance of different risk types. The study examined six out of the fourteen deposit money banks listed on the Nigerian Exchange using purposive sampling, with data spanning from 2018 to 2022. Information was collected from these banks’ annual reports. Return on Assets (ROA) was adopted as the proxy for performance. The study assessed four key financial risks: liquidity, operational, exchange rate, and capital risks. Regression analysis revealed that operational and exchange rate risks were positively but not significantly related to ROA. In contrast, both liquidity and capital risks exhibited negative associations with ROA, though only the former showed a statistically significant effect.

Odukomaiya (2023) explored how small and medium-sized enterprises (SMEs) in Nigeria understand and apply risk management, as well as the extent to which they link their business success to such practices. The study adopted a qualitative, exploratory multiple-case study design involving eleven SMEs based in Lagos. Data was collected via semi-structured interviews with 23 SME owners and managers drawn from five industries: Education, Manufacturing, Wholesale/Retail Trade, Human Health and Social Work, and Accommodation and Food Services. These businesses had been in operation for a period ranging from seven to twenty-nine years. Document analysis was also conducted to complement the interviews. Using thematic and cross-case synthesis, the study found that while SMEs are aware of the risks they face, they do not always label their responses as formal risk management. Common strategies included monitoring and supervision, awareness creation, planning, stakeholder and supplier management, collaboration, insurance, and networking. Many participants attributed their sustainability, growth, reduction in losses, and improved access to financing to these practices. The study further identified several motivators encouraging SMEs to strengthen their risk management efforts.

Rabiu (2023) analyzed the relationship between financial risk management and the financial performance of microfinance banks in Nigeria. The study focused on how variables such as capital adequacy, risk asset quality, loan loss provisions, loan-to-deposit ratio, and liquidity strength influenced performance indicators. Secondary data covering a thirty-year period (1993–2022) were sourced from the Central Bank of Nigeria’s statistical bulletins and microfinance banks' financial reports. The analysis was conducted using the autoregressive distributed lag (ARDL) model. The findings revealed that risk asset quality had a significant negative effect on both return on assets and return on equity in both the short and long run. On the other hand, liquidity strength had a positive and significant effect on both performance metrics over the same time horizons.

Akowe (2023) investigated risk management and its impact on the financial performance of firms in Nigeria, with a focus on using firm size as a moderator, covering the period from 2012 to 2019. The population for the study consisted of all quoted financial firms in Nigeria, and a filtering technique was used to arrive at a sample of forty-four financial firms. The researcher employed a robust random effect regression model for hypothesis testing, after performing several diagnostic tests. The results showed that interest rate risk has a significant positive effect on the return on assets of quoted financial firms in Nigeria. Additionally, it was found that financial leverage risk, when moderated by firm size, had an insignificant statistical effect on return on assets. The study further indicated that interest rate risk without moderation was significant at a 1% level, while the indirect effect of interest rate risk, moderated by firm size, showed a positive and significant impact on return on assets. The study recommends that financial firm managers in Nigeria adopt a leverage ratio of 60:40 to boost profitability, as highly leveraged firms may help resolve agency problems, leading to improved profitability. Furthermore, it is recommended that the management of financial firms continue to manage interest rate risks by aligning interest rates with prevailing inflation rates to enhance profitability.

Aduloju and Akindipe (2022) assessed the effect of risk control techniques on the performance of selected SMEs in Lagos State, Nigeria. The study focused on two key types of risk control techniques: physical and financial. Physical risk control techniques included risk elimination and risk reduction, while financial risk control techniques encompassed risk retention and risk transfer. The study covered 10 major clustered markets in Lagos State, where various SMEs operate, including those in the oil and gas, manufacturing, service, and general merchandise sectors. A survey research design was used, employing a convenience sampling method. A survey tool was used to administer questionnaires, and the data were analyzed using regression analysis in SPSS. The results indicated a positive and significant correlation between both physical and financial risk control techniques and the organizational performance of SMEs. The study concluded that SMEs should adopt efficient and cost-effective methods to address potential risks that could threaten their operations. It recommended that SMEs increase their risk appetite to improve business management efficiency.

Apaloo and Bright (2022) explored the impact of risk management practices on the performance of SMEs. The study utilized a convenience sampling method, collecting data from 285 small and medium-scale enterprises. Primary data was gathered through questionnaires, which were analyzed using SPSS 25 and Microsoft Excel 2019. Both descriptive and inferential statistical methods were employed. The findings revealed that risk management is not widely practiced in SMEs due to the low educational levels of many business owners, which hinders their ability to identify, assess, treat, and monitor key operational risks. The study highlighted a positive relationship between risk management practices and performance, indicating that when SME managers or owners improve their risk management practices, business performance also improves.

Isamade, Udeh, and Odo (2022) investigated the impact of financial risks on the performance of selected manufacturing firms in Nigeria. Specifically, the study focused on the effects of operational risk, credit risk, and liquidity risk on the annual profit of manufacturing firms. The research used an ex-post facto design, with a population consisting of 17 listed food and beverage companies in Nigeria. A sample of five companies was selected, using a judgmental sampling technique. Panel regression, based on a random effect model, was used to analyze the data, and unit root tests and descriptive statistics were conducted as preliminary tests. The study found that operational risk, credit risk, and liquidity risk had a significant positive effect on the profit for the year in the selected manufacturing firms.

Ojubanire and Dawodu (2021) examined the effect of enterprise risk management (ERM) on the financial performance of micro, small, and medium-scale enterprises in Osun State, Nigeria. The study used primary data collected through a structured questionnaire from 273 respondents, including owners and managers of small and medium businesses. Descriptive analysis and inferential statistics were used to analyze the data and test the hypotheses. The correlation analysis revealed no significant relationship between the scale of the business and the adoption of risk management practices. Regression analysis showed that risk identification and control activities were the only ERM variables that significantly affected financial performance.

# 2.4 Gap in Literature

Although numerous studies have examined the relationship between financial risk management and firm performance across various sectors, a critical review of existing literature reveals a contextual and methodological gap, particularly with respect to small-scale firms in Nigeria. For instance, Onoh, Adonye, Enang, and Efanga (2025) focused on manufacturing firms in the North-Central region, while Newstyle, Isele, and Tekerebo (2024) concentrated on listed deposit money banks, using sophisticated econometric techniques on secondary financial data. Similarly, Borokini (2024) and Rabiu (2023) investigated financial risks in banking institutions, emphasizing liquidity, operational, and capital risks, yet their studies excluded micro and small businesses which face distinct financial risk challenges due to their scale and capital constraints. Odukomaiya (2023) qualitatively explored SMEs' risk awareness and informal mitigation strategies but did not quantitatively assess how specific types of risks—such as operational or liquidity risks—affect performance. Furthermore, although studies by Akowe (2023), Aduloju and Akindipe (2022), and Apaloo and Bright (2022) highlighted the importance of risk control techniques and interest rate risks, they either aggregated risk types or failed to isolate liquidity and operational risks as standalone variables in small-scale firm contexts. Additionally, Isamade, Udeh, and Odo (2022) focused on manufacturing firms and their profitability metrics, while Ojubanire and Dawodu (2021) investigated ERM practices without examining the extent to which specific financial risk components influence corporate performance in small-scale businesses. Therefore, there is a noticeable gap in the literature regarding empirical studies that explicitly investigate how liquidity and operational risks individually influence the corporate performance of small-scale firms in Nigeria, thus justifying the relevance and necessity of the present study.

# 3.0 Methodology

This study adopts a survey research design to examine the influence of financial risk management on the corporate performance of selected small-scale firms in Nigeria. Survey research design is suitable for collecting data on the perceptions, opinions, and experiences of respondents using standardized questionnaires.

The target population for this study consists of managers of small-scale firms in Nigeria. These individuals are considered appropriate respondents due to their active role in managing financial risks and overseeing corporate performance. Managers are also more likely to possess comprehensive knowledge of the firm’s operations and financial practices, making them suitable informants for this study. The sampling technique used in this study is the snowballing method, a non-probability sampling technique suitable when the population is difficult to identify or access comprehensively. Using this technique, 35 managers of small-scale firms were selected from each of the six geopolitical zones of Nigeria, resulting in a total sample size of 210 respondents (35 × 6 = 210). The snowballing approach was instrumental in reaching experienced managers through referrals, enhancing the relevance and quality of the responses.

Data for this study were collected using a structured questionnaire. The instrument focused on the key study variables: Operational Risk, Liquidity Risk, and Corporate Performance. Questions in this instrument were developed in alignment with the specific objectives and measured using a 5-point Likert scale ranging from:

* + Strongly Disagree (1)
  + Disagree (2)
  + Neutral (3)
  + Agree (4)
  + Strongly Agree (5)

The reliability of the instrument was tested using Cronbach’s Alpha, which measures internal consistency. The reliability coefficients for each construct are presented below:

**Table 1 Reliability Test**

|  |  |
| --- | --- |
| Variable | Cronbach’s Alpha Value |
| Operational Risk | 0.783 |
| Liquidity Risk | 0.958 |
| Corporate Performance | 0.719 |

Source: Author’s Calculation Using SPSS v.26 (2025)

All values are above the 0.7 threshold, indicating a high level of internal consistency and reliability of the instrument.

The data collected were first analyzed using frequency analysis to show the distribution of the responses to the research questions. For the inferential aspect, multiple regression analysis was used to test the two hypotheses developed in line with the study’s objectives. The regression model is specified as follows:

COP = β₀ + β₁OPR + β₂LQR + ε\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_eqi

Where:

COP = Corporate Performance

OPR = Operational Risk

LQR = Liquidity Risk

β₀ = Intercept

β₁ – β₂ = Coefficients of the independent variables

ε = Error term

The decision rule is based on a significance level of 0.05. If the p-value obtained from the regression analysis is less than 0.05, the null hypothesis is rejected, indicating a statistically significant relationship between the variables. Conversely, if the p-value is greater than 0.05, the null hypothesis is accepted, implying that the independent variable does not have a statistically significant effect on the dependent variable.

# 4.0 Result and Discussion

# 4.1 Analysis of Research Questions

The analysis of the research questions and subsequent test of hypotheses were based on the response rate of 87% as 183 responded out of the total expected respondents of 210. Table 2 below shows the analysis of the research questions.

**Table 2 Analysis of Research Question**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **S/N** | **Corporate Performance** | **SA** | **A** | **N** | **D** | **SD** |
| 1 | Our firm has consistently achieved its performance targets over the past three years. | 22 | 34 | 18 | 64 | 45 |
| 2 | We have experienced steady growth in our market share. | 35 | 24 | 32 | 46 | 46 |
| 3 | Our business has been able to maintain a competitive advantage in the industry. | 18 | 43 | 28 | 60 | 34 |
| 4 | We have achieved our business objectives in terms of financial and non-financial outcomes. | 33 | 26 | 18 | 60 | 46 |
|  | **Operational Risks** | **SA** | **A** | **N** | **D** | **SD** |
| 5 | Inadequate internal processes have sometimes disrupted our business operations. | 59 | 62 | 24 | 18 | 20 |
| 6 | Our firm has experienced delays in service or product delivery due to system failures. | 67 | 44 | 26 | 30 | 16 |
| 7 | The lack of standard operating procedures has led to inefficiencies in our business. | 36 | 78 | 35 | 22 | 12 |
| 8 | Operational risks have affected the quality of products or services we offer. | 54 | 49 | 27 | 37 | 16 |
|  | **Liquidity Risks** | **SA** | **A** | **N** | **D** | **SD** |
| 9 | Our firm often struggles to meet short-term financial obligations. | 50 | 81 | 12 | 26 | 14 |
| 10 | A lack of access to immediate funds has restricted our operational capabilities. | 96 | 35 | 24 | 10 | 18 |
| 11 | We have experienced challenges in maintaining an adequate cash flow. | 52 | 58 | 20 | 34 | 19 |
| 12 | Liquidity issues have hindered us from taking on profitable opportunities. | 40 | 77 | 18 | 32 | 16 |

Source: Field Survey, April 2025

The frequency distribution in Table 2 offers useful hints on how respondents perceive corporate performance, operational risks, and liquidity risks within their firms. Regarding corporate performance, responses show mixed views. For instance, on whether firms consistently achieved performance targets over the past three years, a relatively low number of respondents strongly agreed (22) or agreed (34), while a larger portion disagreed (64) or strongly disagreed (45). This suggests a notable level of dissatisfaction or underperformance. Similarly, when asked about market share growth, 35 respondents strongly agreed and 24 agreed, but 46 respondents each disagreed and strongly disagreed, highlighting uncertainty or inconsistency in market expansion. Perceptions about maintaining a competitive advantage were also mixed, with only 61 respondents agreeing or strongly agreeing, while a larger number (94) expressed disagreement, suggesting challenges in sustaining an edge in the industry. For achieving business objectives, only 59 respondents agreed or strongly agreed, compared to 106 who disagreed or strongly disagreed, indicating a general sentiment that objectives—both financial and non-financial—may not have been fully met.

Responses under operational risks indicate that such risks are perceived as a significant issue. A majority of respondents acknowledged that inadequate internal processes have disrupted operations, with 59 strongly agreeing and 62 agreeing. System failures leading to delays also received strong agreement from 67 and agreement from 44, suggesting this is a common problem. The absence of standard procedures also stood out, with 36 strongly agreeing and 78 agreeing, pointing to inefficiencies rooted in operational structure. Additionally, 103 respondents acknowledged that operational risks have affected product or service quality, which implies that such risks have tangible impacts on firm output.

In the liquidity risks section, responses reflect a high level of concern. For instance, 50 respondents strongly agreed and 81 agreed that their firms struggle to meet short-term financial obligations, indicating serious liquidity pressure. The restriction of operations due to lack of immediate funds received even stronger affirmation, with 96 strongly agreeing and 35 agreeing. Challenges with maintaining cash flow were also acknowledged by a majority—110 respondents either strongly agreed or agreed—while only 53 disagreed or strongly disagreed. Similarly, liquidity issues hindering profitable opportunities had 117 respondents in agreement, suggesting that poor liquidity is not only a survival issue but also a missed-growth opportunity.

# 4.2 Test of Hypotheses

H01. Operational risks do not significantly influence the corporate performance of selected small scale firms in Nigeria.

H02. Liquidity risks do not significantly influence the corporate performance of selected small scale firms in Nigeria.

Table 3 below shows the result of the test of hypotheses.

**Table 3 Test of Hypotheses**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Model Summary** | | | | |
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1 | .420a | .177 | .168 | 3.36002 |
| a. Predictors: (Constant), Liquidity Risks, Operational Risks | | | | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **ANOVAa** | | | | | | | | | | | |
| Model | | Sum of Squares | | df | | Mean Square | | F | | Sig. | |
| 1 | Regression | 436.281 | | 2 | | 218.140 | | 19.322 | | .000b | |
| Residual | 2032.156 | | 180 | | 11.290 | |  | |  | |
| Total | 2468.437 | | 182 | |  | |  | |  | |
| a. Dependent Variable: Corporate Performance | | | | | | | | | | | |
| b. Predictors: (Constant), Liquidity Risks, Operational Risks | | | | | | | | | | | |
| **Coefficientsa** | | | | | | | | | | | | |
| Model | | | Unstandardized Coefficients | | | | Standardized Coefficients | | t | | Sig. | |
| B | | Std. Error | | Beta | |
| 1 | (Constant) | | 17.950 | | 1.230 | |  | | 14.591 | | .000 | |
| Operational Risks | | -.272 | | .085 | | -.275 | | -3.213 | | .002 | |
| Liquidity Risks | | -.225 | | .100 | | -.192 | | -2.248 | | .026 | |
| a. Dependent Variable: Corporate Performance | | | | | | | | | | | | |

Source: SPSS V. 26 Output, April 2025

Table 3 which assessed the influence of financial risk management—specifically operational and liquidity risks—on the corporate performance of selected small-scale firms in Nigeria. The multiple regression model examined how changes in these risk variables affect performance outcomes. The Adjusted R Square value of 0.168 indicates that approximately 16.8% of the variation in corporate performance among the selected small-scale firms can be explained by operational and liquidity risks combined. This suggests that while the model does not explain a very large portion of performance variation, it still provides a meaningful hint into the influence of financial risks on performance.

The ANOVA F-statistic has a p-value of 0.000, which is less than the conventional significance level of 0.05. This confirms that the overall regression model is statistically valid and significant. In other words, operational and liquidity risks jointly have a statistically significant influence on corporate performance.

The coefficient for Operational Risks is -0.272 with a p-value of 0.002. This implies that for every one-unit increase in operational risks, the corporate performance of small-scale firms decreases by 0.272 units, assuming all other variables remain constant. The negative sign reflects a negative marginal effect, suggesting that higher operational risks tend to reduce corporate performance. Since the p-value (0.002) is less than 0.05, this effect is statistically significant, meaning that operational risks have a significant and adverse effect on performance at the 5% level of significance. Thus, operational risks have a negative and significant influence on corporate performance of selected small-scale firms in Nigeria (β = -0.272, p = 0.002).

The coefficient for Liquidity Risks is -0.225 with a p-value of 0.026. This means that for every one-unit increase in liquidity risks, corporate performance is expected to decline by 0.225 units, holding other variables constant. This marginal effect also shows a negative direction, indicating that rising liquidity constraints are associated with reduced performance. The p-value (0.026) is also less than 0.05, which confirms that the effect of liquidity risks on corporate performance is statistically significant at the 5% level. Thus, liquidity risks have a negative and significant influence on corporate performance of selected small-scale firms in Nigeria (β = -0.225, p = 0.026).

# 4.3 Discussion of Findings

Operational risks were found to significantly and negatively influence the corporate performance of the small-scale firms studied. This is not surprising, given that operational risk—which includes internal process failures, human error, technology disruptions, and poor internal control—poses a direct threat to the efficiency and sustainability of small businesses. Small-scale firms often operate with limited managerial expertise, insufficient process documentation, and informal organizational structures. These weaknesses increase the frequency and impact of operational failures, which can result in stockouts, customer dissatisfaction, reputational damage, and even legal issues. Furthermore, due to resource constraints, small businesses are less likely to invest in formalized risk control systems or advanced technology to monitor and manage these risks. Consequently, operational risk undermines internal productivity, restricts competitiveness, and reduces overall profitability. The negative relationship between operational risk and performance observed in this study finds support in several empirical works. For example, Newstyle, Isele, and Tekerebo (2024) demonstrated that operational risk management significantly affects the financial performance of listed banks in Nigeria, affirming that unmanaged operational disruptions can hinder performance. Apaloo and Bright (2022) also noted that low educational levels and poor operational risk practices hinder SME growth, showing that many business owners fail to implement systematic responses to operational issues. Similarly, Odukomaiya (2023) found that while SMEs are aware of operational threats, they often rely on informal and inconsistent strategies, leading to performance fluctuations. However, Borokini (2024) presented a slightly different perspective, reporting a positive but statistically insignificant relationship between operational risks and the return on assets among banks, suggesting that effects may vary by sector.

Liquidity risks also showed a significant negative impact on the corporate performance of selected small-scale firms. Liquidity risk—the inability of a firm to meet its short-term obligations due to cash flow constraints—is especially critical for small-scale enterprises that often lack diversified revenue streams or access to credit. For these businesses, any delay in receivables or unforeseen expenditures can lead to cash crunches, inability to purchase inventory, late payments to suppliers, and missed opportunities for investment. This lack of liquidity, in turn, limits growth and can even lead to insolvency. Small firms in Nigeria frequently operate without adequate financial planning or buffers, and often rely heavily on inconsistent customer payments. In such volatile environments, poor liquidity management is a critical performance limiter, reducing not just day-to-day operational effectiveness, but also long-term financial stability. Several prior studies echo the finding that liquidity risk significantly undermines firm performance. Borokini (2024) reported that liquidity risk had a statistically significant negative impact on return on assets among Nigerian banks, emphasizing the universal threat liquidity shortages pose to firm performance. Similarly, Rabiu (2023) established that liquidity strength significantly influences both return on assets and equity for microfinance banks, highlighting how a sound liquidity position enhances financial stability and outcomes. In the SME context, Aduloju and Akindipe (2022) stressed the value of financial risk control techniques, including those aimed at liquidity risks, noting their positive correlation with SME performance in Lagos. Additionally, Isamade, Udeh, and Odo (2022) identified a significant positive relationship between liquidity risk management and annual profit in selected manufacturing firms, showing that firms that effectively manage liquidity risks tend to report better financial outcomes. While Newstyle, Isele, and Tekerebo (2024) found no significant influence of liquidity risk management on performance in banks, this may reflect sectoral differences in risk sensitivity, underscoring the greater vulnerability of small firms to liquidity disruptions.

# 5.0 Conclusion and Recommendation

The influence of financial risk management on the corporate performance of small-scale firms in Nigeria is a subject of growing interest due to the fragile nature of SMEs in developing economies. In such settings, operational and liquidity risks are often underestimated or poorly managed, leading to severe consequences for business continuity, growth, and profitability. The findings of this study reveal that both operational and liquidity risks have a significant negative influence on the corporate performance of selected small-scale firms in Nigeria. These outcomes emphasize the importance of structured, proactive financial risk management practices in helping small businesses withstand economic pressures and uncertain market dynamics.

The findings that both operational and liquidity risks have a significant negative influence on the corporate performance of selected small-scale firms in Nigeria carry important implications for the sustainability and competitiveness of these enterprises. They highlight the fragile nature of small-scale firms, particularly in emerging economies, where limited access to resources, infrastructure, and formal risk management practices expose businesses to heightened vulnerabilities. These results suggest that financial risk, when left unmitigated, can undermine the core functional and financial structures of small enterprises, leading to inefficiencies, reduced profitability, and in severe cases, business failure. The study therefore recommends the following:

1. Small-scale firm owners and managers invest in enhancing their internal risk management frameworks, including the adoption of regular operational audits and process optimization strategies to identify and mitigate operational inefficiencies.

2. The financial managers of small-scale firms prioritize better cash flow management strategies, such as maintaining adequate working capital reserves and improving receivables collection practices, to ensure their businesses can maintain financial stability during periods of economic uncertainty.

# 5.1 Limitations of the Study and Suggestion for Further Studies

This study has certain constraints that should be acknowledged. First, the sample comprised only 210 managers from selected small-scale enterprises, identified through the snowball sampling approach. As a result, the findings may not adequately reflect the broader population of small-scale businesses operating across Nigeria. Furthermore, the study was limited in scope to just two categories of financial risk—namely operational and liquidity risks—while excluding other critical forms such as credit risk, interest rate risk, and market risk. This limitation potentially narrows the comprehensiveness of the hints into the influence of financial risk on corporate performance. Moreover, given that the data collection relied solely on self-reported questionnaires, the accuracy of the responses may have been influenced by individual biases or subjective interpretations by the respondents.

Subsequent research can broaden the scope by investigating additional financial risk variables, including credit risk, interest rate risk, and market risk, to obtain a more holistic understanding of financial risk management. Expanding the sample size and applying more representative sampling techniques—such as stratified or random sampling—could enhance the generalizability of the findings. Researchers may also consider narrowing their focus to particular industries or geographic regions, which would provide more information into sector-specific or location-based financial risk management practices among small-scale firms.

# References

Aduloju, S. A., & Akindipe, O. E. (2022). The Effect of Risk Control Techniques on Organisational Performance of Selected SMES in Lagos State. *Acta Universitatis Danubius: Oeconomica*, *18*(1).

Akowe, A. (2023). Risk Management and Financial Performance of Firms in Nigeria: Firm Size as a Moderator. *Journal of Public Administration, Policy and Governance Research*, *1*(4), 62-84.

Apaloo, S., & Bright, D. (2022). The effect of risk management practices on performance of small and medium scale enterprises. *Enterprise risk management*, *7*(1), 1-16.

Barney, J. B., & Clark, D. N. (2007). *Resource-based theory: Creating and sustaining competitive advantage*. Oup Oxford.

Borokini, O. J. (2024). Effect of Financial Risk Management On Financial Performance By Listed Deposit Money Banks In Nigeria. *ANUK College of Private Sector Accounting Journal*, *1*(1), 27-37.

Combs, J. G., Russell Crook, T., & Shook, C. L. (2005). The dimensionality of organizational performance and its implications for strategic management research. In *Research methodology in strategy and management* (pp. 259-286). Emerald Group Publishing Limited.

Drehmann, M., & Nikolaou, K. (2013). Funding liquidity risk: definition and measurement. *Journal of Banking & Finance*, *37*(7), 2173-2182.

El Fallahi, F., Ibenrissoul, A., & El Amri, A. (2023). Defining and Measuring Overall Performance in Emerging Countries: A Comprehensive Financial Perspective Review. *Financial Markets, Institutions and Risks*, *7*(3), 81-93.

Esteve-Pérez, S., & Mañez-Castillejo, J. A. (2008). The resource-based theory of the firm and firm survival. *Small business economics*, *30*, 231-249.

Ibitomi, T., Dada, D. A., Ayedogbon, J. O., Micah, E. E., & Aderotimi, B. (2024). Small and medium scale enterprises and economic growth in Nigeria. *Journal of Social Sciences and Management Studies*, *3*(2), 26-43.

Isamade, B. A., Udeh, S. N., & ODO, J. O. (2022). Effect of Financial Risk on Performance of Selected Manufacturing Firms in Nigeria. *European Journal of Finance and Management Sciences*, *6*(5), 86-99.

Kaur, Y., & Singh, S. (2018). Risk Mitigation Planning, Implementation, and Progress Monitoring: Risk Mitigation. In *Analyzing the Role of Risk Mitigation and Monitoring in Software Development* (pp. 1-20). IGI Global.

Koralun-Bereźnicka, J. (2013). *Corporate performance*. Contributions to Management Science. Heidelberg: Springer International Publishing.

Mmadubuobi, L. C., Nworie, G. O. & Aziekwe, O. P. (2024). Industry 4.0 and Corporate Technological Responsibility of Manufacturing Firms in Nigeria. *Central Asian Journal of Innovations on Tourism Management and Finance*, 5(4), 67-80. Available at: <https://cajitmf.centralasianstudies.org/index.php/CAJITMF/article/view/711>

Newstyle, D., Isele, L. E., & Tekerebo, I. J. (2024). Financial Risk Management And Financial Performance Of Listed Deposit Money Banks In Nigeria. *BW Academic Journal*. <https://www.bwjournal.org/index.php/bsjournal/article/view/1904>

Nikolaou, K. (2009). *Liquidity (risk) concepts: definitions and interactions* (No. 1008). ECB working paper.

Nwafor, V. O., & Nworie, G. O. (2025). Risk management in Nigerian listed commercial banks: The significance of board composition (2013–2023). *International Journal of Financial, Accounting, and Management, 6*(4), 525–543.

Nwagbala, S. C., Harrieta, A. U., Obijiaku, C. P., & Ejiogu, S. A. (2024). Investigating Small Business Entrepreneurship and Sustainable Development in Onitsha, Anambra State, Nigeria. *Sch J Econ Bus Manag*, *10*, 329-336.

Nworie, G. O., & Nwoye, U. J. (2023). Drivers of Operating Profit: A Focus on Selected Firms’ Costs. *CECCAR Business Review*, *4*(2), 62-72.

Nworie, G. O., Odah, U., & Nworie, F. N. (2024). Managing the challenges of digitisation and a contemporary business issue at Coca-Cola. *International Journal of Academic Accounting, Finance & Management Research (IJAAFMR)*, 8(11), 129-133. Retrieved from <http://ijeais.org/wp-content/uploads/2024/11/IJAAFMR241112.pdf>

Obi, G. U., & Nworie, G. O. (2024). Stock market performance of Nigerian consumer goods firms: Does leverage level matter? *World Journal of Finance and Investment Research*, *8*(3), 20-34. <https://www.iiardjournals.org/get/WJFIR/Vol%208.%20No.%203%202024/Stock%20market%20performance%2020-34.pdf>

Odukomaiya, A. O. (2023). *Risk management practices among SMEs in Nigeria: contribution to business success* (Doctoral dissertation, Heriot-Watt University).

Ojubanire, O. A., & Dawodu, S. (2021). Risk management practices and financial performance nexus: Evidence from MSMEs in Osun State, Nigeria. *Journal of Management Info*, *8*(1), 44-55.

Onoh, U., Adonye, E., Enang, E. R., & Efanga, U. O. (2025). Risk assessment and the performance of manufacturing companies in North-Central Nigeria. *International Journal of Social Sciences and Management Research*, 11(1), 255-268. <https://doi.org/10.56201/ijssmr.vol.11no1.2025.pg.255.268>

Ployhart, R. E. (2021). Resources for what? Understanding performance in the resource-based view and strategic human capital resource literatures. *Journal of Management*, *47*(7), 1771-1786.

Rabiu, S. A. (2023). *Financial Risk Management and Financial Performance of Microfinance Banks in Nigeria* (Master's thesis, Kwara State University (Nigeria)).

Sawalha, I. H. S. (2013). Organisational performance and business continuity management: a theoretical perspective and a case study. *Journal of business continuity & emergency planning*, *6*(4), 360-373.

Tchankova, L. (2002). Risk identification–basic stage in risk management. *Environmental management and health*, *13*(3), 290-297.