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Financial Risk Management and Financial Performance of Construction Companies in Greater Kampala Metropolitan Area

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Abstract: The financial performance of construction companies depends significantly on their ability to manage financial risks. This study examined the effect of financial risk management on the financial performance of construction companies focusing on three dimensions: risk identification, risk assessment and evaluation, and risk management strategy. Guided by Modern Portfolio Theory, the study adopted a cross-sectional survey design and collected data from 191 construction companies selected through proportionate sampling. Structured questionnaires were used for data collection and the validity and reliability of the instruments were confirmed through expert review and Cronbach's Alpha. Data were analyzed using descriptive statistics, correlation analysis, and hierarchical regression. Findings revealed that all three financial risk management components were positively associated with financial performance. Risk identification showed a significant but modest relationship with financial performance ($r = .300$, $p < .01$), while risk assessment and evaluation exhibited the strongest association ($r = .591$, $p < .01$). Risk management strategy also demonstrated a significant positive relationship ($r = .428$, $p < .01$). Hierarchical regression results further indicated that risk assessment and evaluation contributed the largest increase in explained variance (24.9 percent), followed by risk management strategy (7.1 percent), whereas the influence of risk identification diminished after additional predictors were introduced. Overall, the models explained 42.7 percent of the variation in financial performance. The study concludes that financial risk management significantly improves financial performance, particularly when firms invest in thorough assessment and evaluation of risks and implement structured mitigation strategies. It recommends that construction firms adopt comprehensive risk management frameworks, strengthen analytical capacities and integrate proactive financial planning tools to enhance profitability, reduce exposure to uncertainty and improve long-term sustainability.

Keywords: *Financial risk management, financial performance, construction companies, Greater Kampala metropolitan area*

1. Background to the Study

Financial risk management and financial performance are two fundamental variables that determine the growth, sustainability, and competitiveness of construction companies. Financial performance reflects how efficiently a firm utilizes its resources to generate profits, maintain liquidity, and achieve operational stability, which are essential for long-term survival in the construction sector (Alaloul et al., 2022; Hwang, Shan, & Looi, 2023). Financial risk management involves the systematic process of identifying, assessing, mitigating, and monitoring financial risks such as currency volatility, credit risk, liquidity challenges, and cost fluctuations that may hinder firm performance (Shibani et al., 2024; Taroun, 2022). In the construction industry, these risks are particularly prominent due to the dynamic and unpredictable nature of construction projects, where cost escalations, financing difficulties, and delays frequently arise (Ogunnusi et al., 2022). Firms that develop strong risk management capabilities, including early identification of risks, rigorous evaluation, and the formulation of effective mitigation strategies, often achieve better financial outcomes, improved credit access, and overall financial stability (Adu-Gyamfi et al., 2024; Alaloul et al., 2022). In this study, financial risk management is examined through three dimensions, namely risk identification, risk assessment and evaluation, and risk management strategy, all of which influence how resources are allocated and how decisions are made within construction firms (Shibani et al., 2024).

Globally, the construction industry remains one of the largest and most influential sectors, valued at approximately 11.4 trillion US dollars in 2024 and projected to reach nearly 17 trillion US dollars by 2030 (Deloitte, 2024; GlobalData, 2023). The industry contributes significantly to global GDP and employs millions of people worldwide, yet it continues to face persistent financial risks driven by fluctuating material prices, unstable exchange rates, financing constraints, and inflationary pressures (International Labour Organization,

2023; Ogunnusi et al., 2022). The COVID-19 pandemic exposed the vulnerability of firms with weak risk management systems while highlighting the resilience of those that had robust frameworks in place (Ogunnusi et al., 2022). Evidence from developed countries such as China, the United States, and the United Kingdom demonstrates that financial sustainability within the construction sector is closely linked to formalized risk management practices, long-term planning, and strategic financial controls (Alaloul et al., 2022; Hwang et al., 2023). As global markets continue to evolve, effective financial risk management remains central to cost stabilization, access to financing, return on investment, and overall financial performance (Shibani et al., 2024).

Within Africa, the construction sector has expanded rapidly, reaching a market value of approximately 219.66 billion US dollars in 2024 and projected to rise further in 2025 (Next Move Strategy Consulting, 2025). Despite this growth, construction firms across the continent operate under challenging macroeconomic conditions characterized by currency instability, inflation, limited financing options, and inconsistent regulatory environments (African Development Bank, 2023). These conditions have made financial risk management an essential component of firm survival and growth. Studies in countries such as Nigeria, Kenya, and South Africa show that construction companies that adopt structured financial risk management systems achieve better financial performance, operational efficiency, and project success than those that do not (Aghimien et al., 2023; Sanni-Anibire et al., 2022). African firms are increasingly shifting from reactive responses to proactive identification and mitigation of financial risks, supported by institutional reforms and strategic policy interventions (African Development Bank, 2023). This shift has strengthened the ability of firms to maintain stability even in environments marked by uncertainty, thereby enhancing sustainability and investor confidence in the construction sector.

In Uganda, the construction industry is a cornerstone of economic transformation and development, contributing significantly to national GDP and supporting infrastructure development, employment, and urban growth (World Bank, 2023; Tutesigensi et al., 2021). Recent increases in sector output, rising from approximately 2816.14 billion Ugandan shillings in early 2025 to 2959.99 billion in the second quarter, reflect the sector's resilience and continued expansion (Trading Economics, 2026). Nonetheless, construction firms in Uganda experience a variety of financial risks, including cost overruns, delayed payments, currency depreciation, and difficulties in accessing affordable financing (Aguome et al., 2024; Alinaitwe, Apolot, & Tindiwensi, 2013). Although some firms have adopted project control systems, value management practices, and cost estimation models, many continue to operate without well-formalized financial risk management frameworks (Adu-Gyamfi et al., 2024). International contractors, particularly from China, have also introduced advanced financial management techniques, increasing competitive pressure on local firms that lack equivalent risk management capabilities (Mutikanga, Muheirwe, & Tindiwensi, 2023). Strengthening financial risk identification, assessment, and mitigation strategies is therefore essential for improving financial performance and ensuring long-term competitiveness in Uganda's construction industry (Mwelu et al., 2021).

Despite several financial risk management initiatives implemented by construction firms in Uganda, including hedging against currency fluctuations, strict cost controls, and securing favorable project financing, the financial performance of many firms remains weak. Profit margins are estimated at only 3 to 7 percent (Mutikanga et al., 2023), while low returns on equity and high debt ratios place firms in a financially vulnerable position (Bagenda and Ndevu, 2024). The consequences of these weaknesses include liquidity challenges, project delays, poor project quality, and reduced investor confidence, all of which threaten the stability of the sector. Past literature attributes these challenges to financial risk management deficiencies, including ineffective hedging, unstable material costs, and poor debt management practices (Ogwang and Vanclay, 2021; Seninde, 2020). These persistent concerns underscore the need to investigate how financial risk management influences the financial performance of construction companies in Uganda. Such an investigation will provide evidence to support sustainable growth, improve project delivery, and reduce financial vulnerability within the construction industry.

2. Literature Review

Theoretical Review

The theoretical basis for this study is derived from Modern Portfolio Theory (MPT), introduced by Harry Markowitz in 1952, which describes the relationship between financial risk management and financial

performance in construction companies. MPT postulates that firms can realize maximum returns with a minimum of financial risks by diversifying investments and managing exposure to volatile financial elements such as credit risk, liquidity risk, and interest rate fluctuations, among others, coupled with market uncertainties. Several studies based on MPT, such as the one conducted by Berk and Tutarlı (2021), indicate that organizations that have their risk estimated and analyzed systematically are able to take more effective financial decisions for enhancing stability and profitability. Lindquist et al. (2022) emphasized that the very concept of the trade-off between risk and return lies at the heart of portfolio selection, a principle that construction companies can apply in managing project costs and financing uncertainties. Al Janabi (2021) explained how MPT can be applied under illiquid market conditions for the optimization of portfolio outcomes. It was evident that structured assessment and hedging of risks improve resilience against market shocks. Lukomnik and Hawley (2021) reported that diversification and active management of risks, through the guidance of MPT, enable an enterprise to operate in a more efficient manner and protect its financial performance. El Ghmari and Ed-Dahhani (2024) mentioned how MPT works in a practical framework, indicating that continuous monitoring and adjustment of risk exposures are crucial for the firm to maintain its performance despite fluctuations in the cost of projects or macroeconomic conditions. Overall, MPT positions financial risk as a manageable variable and provides tools for systematic evaluation, monitoring, and mitigation, thus supporting profitability and long-term growth in construction firms directly.

Empirical Literature Review

Risk identification and financial performance

Risk identification has been widely recognized as the cornerstone of effective financial risk management in construction projects, directly influencing financial performance outcomes. The process involves the systematic detection of potential threats that could impede project objectives, which usually include cost overruns, delays, credit risks, and operational uncertainties. Shibani et al. (2024) identified that firms adopting structured risk identification frameworks are more capable of proper resource allocation, anticipating financially constraining factors, and sustaining liquidity, hence contributing to improved profitability. According to Yousri et al. (2023), early identification of project-specific risks allows firms to develop mitigation strategies before problems escalate, reducing the possibility of budgetary deviation and schedule disruption. In large-scale construction projects, Nabawy et al. (2021) stressed that risk identification frameworks not only capture individual threats but also map their interconnections, providing a holistic understanding of how one risk can amplify others, thus protecting financial performance. Further, Bahamid and Doh (2017) emphasized that risk identification remains important in developing countries, where construction firms operate in volatile economic environments characterized by fluctuations in material costs and financing terms. Okiye et al. (2022) showed that early identification models improve cost control and schedule performance, thereby directly enhancing financial outcomes. However, limited empirical studies have examined how risk identification practices influence financial performance among construction firms in Uganda.

The adoption of technology-driven approaches in risk identification further enhances financial performance and permits firms to react dynamically to emerging threats. Machine learning and real-time analytics have increasingly been applied to proactively monitor project progress and detect anomalies that may lead to financial losses. Hovhannisyan et al. (2023) showed that data-driven forecasting models can predict schedule risks in mega-projects, enabling managers to take preventive action and maintain cash flow stability. Similarly, Martínez-Aires et al. (2024) found that integrating automated risk assessment tools within operational frameworks significantly reduces incidents that can cause unforeseen financial burdens. Studies from African contexts, including Kenya, demonstrate that early detection of supply chain and construction risks helps avert material shortages, labour disruptions, and contractual penalties, thereby improving financial outcomes (Ji et al., 2022). Li et al. (2024) further showed that industrialized and prefabricated construction benefits from formalized risk assessment systems that enhance both operational reliability and economic efficiency. Collectively, these studies underline that comprehensive identification of risks supports the overall financial performance of construction firms, with proactive identification acting as a key driver of financial stability and profitability. Nevertheless, empirical evidence on technology-driven risk identification and its financial implications remains limited in Sub-Saharan African construction contexts.

Artificial intelligence has become a pivotal tool in risk identification due to its capacity to enhance prediction accuracy and support decision-making processes (Wang, 2024). Salamai et al. (2021) proposed dynamic voting

classifiers in supply chain environments for real-time identification of risks, demonstrating that AI improves detection speed and reduces human error, leading to more reliable financial outcomes. Bahamid et al. (2022) also showed that AI-driven systems integrate historical data, market trends, and operational variables to continuously update risk conditions, enabling managers to readjust resources and project plans to avoid losses. El-Sayegh et al. (2021) identified that combining traditional risk identification approaches with AI analytics strengthens the early detection of threats and improves response effectiveness. Yousri et al. (2023) further highlighted that firms utilizing AI in risk identification outperform competitors in budget control, project completion time, and profitability. These findings demonstrate that risk identification through conventional and AI-enhanced systems remains a key mechanism through which construction companies protect financial performance, reduce exposure to uncertainties, and ensure project sustainability. However, little is known about the adoption and effectiveness of AI-enabled risk identification systems in improving financial performance among construction companies in Uganda.

Risk assessment, evaluation and financial performance

Risk assessment and evaluation are one of the important stages in financial risk management, directly influencing the financial performance of construction firms since identified risks are valued according to their potential impact and likelihood. This stage involves quantitative assessment, prioritization, and evaluation to provide managers with sufficient information for mitigation strategies, resource allocation, and contingency planning (Albasyouni et al., 2025). Chen et al. (2022) showed that technological integrations in construction, such as Building Information Modelling (BIM) and digital project management systems, significantly improve risk assessment accuracy, enabling firms to foresee financial complications and improve budgeting decisions. Antoniou (2021) demonstrated through road project case studies that systematic delay risk assessment helps firms reduce cost overruns and maintain profitability by identifying scheduling bottlenecks early. Similarly, Koulinas et al. (2023) indicated that multi-criteria risk assessment frameworks allow construction companies to weigh operational risks against financial consequences, supporting better investment decisions and enhancing financial performance. Risk assessment is particularly essential in large infrastructure projects such as bridges and highways; Li et al. (2022) and Wu and Lu (2022) found that intelligent algorithm-based safety risk assessment models reduce unforeseen expenses by identifying high-risk activities in advance. Yao et al. (2024) further demonstrated that combining variable-weight theory with cloud models allows firms to evaluate exposure to multiple risk factors simultaneously, improving strategic decision-making and protecting profitability. However, limited empirical evidence exists on how risk assessment and evaluation practices influence the financial performance of construction firms in Uganda.

The systematic assessment of risks also enhances financial performance through evidence-based budgeting, contingency planning, and resource optimization. Studies in Ghana show that firms applying structured risk evaluation frameworks achieve better cost control, timely project delivery, and improved profitability through proactive management of potential disruptions (Boateng, Ameyaw, & Mensah, 2022). In Uganda, research indicates that improved risk assessment in cost estimation enables firms to minimize budget variances and maintain operational liquidity (Draleti et al., 2024). Similarly, studies in Kenya reveal that risk assessment practices significantly influence project performance and financial outcomes by providing managers with accurate information about the probability and severity of project risks (Cherono & Nyang'au, 2024). Evidence from Ethiopia suggests that foreign contractors using systematic cost and schedule risk evaluations are better able to avoid financial losses and optimize resource allocation (Tessema et al., 2022). Oyekunle (2024) further emphasized that Nigerian construction firms employing structured risk assessment frameworks tend to achieve stronger financial performance. Nevertheless, most studies are concentrated in specific national contexts, leaving limited comparative evidence on risk assessment practices and financial performance within construction firms operating in the Greater Kampala Metropolitan Area.

Advanced methodologies and analytical techniques are increasingly being applied to risk assessment to improve predictive accuracy and financial performance. Hassan et al. (2023) demonstrated that risk assessment linked to circular economy practices helps identify financial vulnerabilities associated with resource inefficiencies and sustainability risks. Albasyouni et al. (2025) highlighted how probabilistic models and simulation techniques enhance the quantification of financial exposure. Chen et al. (2022) emphasized the role of integrated digital technologies in enabling real-time risk monitoring and scenario analysis. Antoniou (2021) and Koulinas et al. (2023) applied multi-criteria decision-making tools to balance operational risks and

cost implications, helping projects stay within budget. Evidence from Li et al. (2022), Wu and Lu (2022), and Yao et al. (2024) shows that intelligent algorithms and cloud-based models enable firms to evaluate multiple risk variables concurrently and reduce unexpected costs. Similarly, Boateng et al. (2022) and Draleti et al. (2024) confirmed that integrating structured risk assessment at the planning stage allows firms to align financial performance with operational stability. Overall, these studies show that systematic risk assessment serves not only as a preventive tool but also as a strategic driver that strengthens financial performance by reducing uncertainty and improving resource allocation. However, there is limited empirical evidence on the adoption and financial impact of advanced risk assessment technologies among construction firms in Uganda, which this study seeks to address.

Risk management strategy and financial performance

Risk management strategy is among the most important financial performance determinant factors in construction companies, given that it involves deliberate planning, policy formulation, and implementation of measures to minimize exposure to financial risks. A properly developed strategy empowers firms to anticipate financial threats, allocate resources efficiently, and maintain liquidity under unpredictable project conditions. Toufaili (2021) found that organisations adopting comprehensive risk management strategies achieved higher profitability by incorporating preventive, mitigative, and contingency measures into financial planning. Within the construction sector, Bahamid et al. (2022) emphasized that strategies such as project monitoring, contract evaluation, and financial hedging contribute to better cost control and overall project success. Similarly, studies on small and medium-sized construction enterprises demonstrate that proactive risk management strategies enhance operational efficiency and improve financial performance (Adu-Gyamfi et al., 2024). However, limited empirical research has examined how risk management strategy directly influences financial performance among construction firms in Uganda.

The adoption of advanced financial risk management tools further strengthens a firm's ability to respond to uncertainties and protect financial performance. Studies show that risk transfer mechanisms such as insurance, hedging, and contractual risk-sharing can reduce liquidity and credit risks in construction projects (Srinivasan et al., 2022; Duo et al., 2023). Akomea-Frimpong et al. (2021) observed that integrating risk management strategies within public–private partnership projects improves resource utilization and reduces potential financial losses. In addition, resilience-based strategies and flexible decision-making frameworks assist firms in adapting to changing market conditions, thereby supporting financial performance (Settembre-Blundo et al., 2021). Proactive supply chain risk strategies also help construction firms reduce vulnerabilities associated with material shortages, price fluctuations, and logistics disruptions (Can Saglam et al., 2021; Hohenstein, 2022). Nevertheless, most studies on advanced risk management tools focus on large-scale international projects, leaving a limited understanding of their application and financial benefits for construction firms operating in developing-country contexts such as Uganda.

Emerging technologies and data-driven approaches are increasingly influencing risk management strategies, providing construction companies with competitive advantages through improved financial performance. Medavaka (2024) indicated that the adoption of risk avoidance measures such as insurance coverage and strategic planning enhances the financial stability of firms. Vääräniemi (2021) highlighted that decision-making frameworks based on risk analytics enable firms to maximize returns under uncertain conditions. Evidence from other sectors further demonstrates that structured risk mitigation strategies, including diversification, hedging, and contingency planning, provide protection against economic shocks and improve performance outcomes (Birthal et al., 2021; da Costa, 2024; Anyango, 2022). The literature suggests that well-articulated and systematically implemented risk management strategies are essential for sustaining financial performance, enhancing profitability, and ensuring long-term growth in construction companies. However, there is limited empirical evidence on the adoption of technology-driven and analytics-based risk management strategies among construction firms in Uganda and their effect on financial performance.

3. Research methodology

The study employed a cross-sectional survey design to collect data on respondents' perceptions of financial risk management and financial performance among construction firms. This design was suitable because it allows exposures and outcomes to be assessed simultaneously within a defined period and provides a time-

efficient and cost-effective approach for hypothesis testing (Setia, 2016; Wang & Cheng, 2020). The area of study was the Kampala Metropolitan Region, which included a total population of 380 registered construction companies. Using Krejcie and Morgan's (1970) sample size determination table, a sample of 191 companies was selected, with managers and head accountants serving as respondents. Proportionate sampling was used to ensure fair representation of companies according to their distribution across the metropolitan region, consistent with guidance from Etikan and Bala (2017) and Taherdoost (2017).

Primary data were collected through structured, self-administered questionnaires designed separately for finance managers and field employees to ensure relevance and clarity (Dillman, Smyth, & Christian, 2014). To ensure methodological rigor, the study assessed both the validity and reliability of the instruments. Content validity was evaluated by experts and quantified using the Content Validity Index as recommended by De Vet, Mokkink, Mosmuller, and Terwee (2017), while reliability was measured using Cronbach's Alpha following Mugenda and Mugenda (2003). Data analysis involved quantitative techniques, beginning with coding and cleaning, followed by descriptive statistics such as means, frequencies, and standard deviations. Inferential methods, including correlation and regression analysis were applied to determine relationships between financial risk management practices and financial performance, with statistical software such as SPSS or R ensuring robustness and accuracy in the analytical process (Field, 2018).

4. Study Findings and Analysis

Table 1: Correlation Results

Variables	RI	RAE	RMS	NPM	ROE	FP
Risk Identification (RI)	1					
Risk assessment and evaluation (RAE)	.520**	1				
Risk management strategy (RMS)	.159**	.311**	1			
Net Profit Margin (NPM)	.091	.387**	.344**	1		
Return on Equity (ROE)	.117*	.114*	.210**	.412**	1	
Financial performance (FP)	.300**	.591**	.428**	.797**	.726**	1

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

*. Correlation is significant at the 0.05 level (2-tailed).

Risk Identification (RI) and Financial Performance (FP)

The correlation results show a positive and statistically significant relationship between risk identification and financial performance ($r = .300$, $p < .01$). This implies that any positive change in risk identification practices is associated with a corresponding positive change in financial performance, suggesting that strengthening early detection mechanisms contributes to enhanced profitability and overall financial success.

Risk Assessment and Evaluation (RAE) and Financial Performance (FP)

The correlation results show a strong and statistically significant relationship between risk assessment and evaluation and financial performance ($r = .591$, $p < .01$). This implies that any positive change in risk assessment and evaluation practices is associated with a corresponding positive change in financial performance, suggesting that firms that thoroughly analyze the likelihood, severity, and potential impact of risks are more likely to achieve higher profitability and improved financial outcomes.

Risk Management Strategy (RMS) and Financial Performance (FP)

The correlation results show a positive and statistically significant relationship between risk management strategy and financial performance ($r = .428$, $p < .01$). This implies that any positive change in risk management strategy is associated with a corresponding positive change in financial performance, suggesting that implementing effective mitigation measures, contingency plans, and strategic responses to risks enhances profitability, strengthens financial stability, and supports better overall firm performance.

Table 2: Hierarchical Regression

Variable	Model 1			Model 2			Model 3			Model 4		
	B	SE	β	B	SE	β	B	SE	β	B	SE	β
Constant	3.23	0.09		2.06	0.23		1.54	0.2		0.82	0.22	
Type of Commercial Construction Project	0.09	0.04	.117*	0.09	0.04	.112*	0.05	0.04	0.07	0.06	0.03	0.07
Number of Commercial Projects Participated In	0.02	0.03	0.04	0.04	0.03	0.07	0.03	0.03	0.06	0.05	0.03	0.08
Risk Identification				0.31	0.06	.305**	0	0.06	0	0	0.05	0
Risk Assessment and Evaluation							0.49	0.05	.587**	0.41	0.04	.498**
Risk Management Strategy										0.27	0.04	.281**
R		0.12			0.33			0.6			0.65	
R^2		0.02			0.11			0.36			0.43	
Adjusted R^2		0.01			0.1			0.35			0.42	
R^2 Change		0.02			0.09			0.25			0.07	
F Change		2.36			31.2			117			37	
Sig. F Change		0.1			.000			.000			.000	

Results of Model 1 indicate that the control variables (type of commercial construction project and number of commercial projects participated in) explain 1.5% of the variation in financial performance. Of the two variables, only the type of commercial construction project was found to be a significant predictor of financial performance ($\beta = .117$, $p < .05$), suggesting that firms involved in certain commercial project types tend to experience better financial outcomes than others.

Model 2 shows that the addition of risk identification accounts for an extra 9.2% of the variance explained by the model (R^2 change = .092; $F\Delta = 31.203$; $p < .001$). The findings further confirm a positive and significant relationship between risk identification and financial performance ($\beta = .305$; $p < .001$). This suggests that firms that improve their ability to detect risks early tend to perform better financially. However, it is important to note that the predictive power of risk identification does not remain strong once further risk management components are introduced.

The inclusion of risk assessment and evaluation in Model 3 reveals an additional 24.9% increase in the variability explained in financial performance (R^2 change = .249; $F\Delta = 116.612$; $p < .001$). The results also show a strong, positive, and significant relationship between risk assessment and evaluation and financial performance ($\beta = .587$; $p < .001$). This indicates that firms that thoroughly examine the likelihood, severity, and potential impact of risks experience substantially higher levels of financial performance. At this stage, risk identification becomes statistically non-significant, suggesting that its effect is absorbed by the stronger predictive influence of risk assessment and evaluation.

In Model 4, the addition of risk management strategy explains a further 7.1% of the variance in financial performance (R^2 change = .071; $F\Delta = 37.042$; $p < .001$). The findings confirm a positive and significant relationship between risk management strategy and financial performance ($\beta = .281$; $p < .001$). This implies that firms that implement effective mitigation and response strategies experience improved financial outcomes. Additionally, the beta coefficient for risk assessment and evaluation decreases slightly from $\beta = .587$ to $\beta = .498$, indicating partial mediation by risk management strategy.

Overall, the predictive power of the four models explains 42.7% ($R^2 = .427$) of the variation in financial performance. Out of this, the control variables contribute 1.5%, risk identification contributes 9.2%, risk assessment and evaluation contributes 24.9%, and risk management strategy contributes 7.1%. These findings

demonstrate that risk assessment and evaluation are the strongest predictors of financial performance, followed by risk management strategy, while the influence of risk identification diminishes once more advanced risk management practices are introduced.

5. Conclusion and Recommendations

The hierarchical regression results demonstrate that financial risk management significantly influences the financial performance of construction firms in the Kampala Metropolitan Region. Risk assessment and evaluation emerged as the strongest predictor of financial performance, accounting for the largest increase in explained variance when introduced into the model. This finding suggests that firms that thoroughly examine the likelihood, severity, and financial implications of risks are better positioned to achieve improved financial outcomes. Risk management strategy also exhibited a positive and significant effect on financial performance, indicating that proactive mitigation measures contribute meaningfully to profitability and stability. While risk identification initially showed significance, its effect diminished when other risk management components were added, implying that identifying risks alone is insufficient without systematic evaluation and strategic response. Overall, the combined predictors explained 42.7 percent of the variation in financial performance, highlighting the central role of financial risk management in enhancing the financial stability and competitiveness of construction firms.

Recommendations

Given the strong predictive power of financial risk management variables, construction firms should prioritize strengthening their internal risk management frameworks, particularly in the areas of risk assessment and evaluation. Firms are encouraged to invest in training, analytical tools, and financial modelling techniques that enable them to quantify risks accurately and forecast their potential impacts on project outcomes. Additionally, companies should institutionalize structured risk management strategies, including contingency planning, cost-control mechanisms, and diversification approaches, to mitigate the effects of financial shocks. Integrating these practices into organizational decision-making processes will enhance financial performance, reduce exposure to uncertainties, and improve overall project success. Policymakers, industry regulators, and professional bodies should also support construction firms through guidelines, capacity-building initiatives, and incentives that promote the adoption of systematic financial risk management practices across the sector.

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