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An Assessment of Risk Management Practices in Smes in Zimbabwe: A Review and Synthesis

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Abstract: *This study used exploratory and descriptive survey research design to assess the level of risk management by SMEs in Zimbabwe with particular emphasis on the knowledge possessed by SMEs Owners/managers and the insurance cover undertaken by their business with a view to reducing their risk. The study used a sample of 380 SMEs operating in different lines of business. Both open ended and closed questionnaires were distributed to owners of the SMEs selected for the study and the data collected were analysed using descriptive statistics .The findings reveal that 90% of SMEs have a poor knowledge of the concept of risk and consequently do not have insurance cover .The majority of SMEs did not have risk management strategies in place to address risk management issues.*
Keywords*: risk management, small to medium enterprises, capacity building, economic growth, support initiatives.*

I. Introduction

Small to Medium Enterprises have become increasingly important to Zimbabwe's economic growth. The decline in employment levels within the formal sector since year 2000 due to closures and retrenchments attributed to low capacity utilization has resulted in the SMEs sector assuming a greater prominence in providing a source of livelihood to many .There is, therefore, need to support and nature the growth of SMEs so as to contribute meaningfully to the national cause.SMEs in Zimbabwe contribute more than **50%** of the GDP and are responsible for the livelihood of **80%** of the population. Lack of capital is one of the major constraints of SMEs in Zimbabwe. The phenomenal growth of the SMEs sector in the past six years provided employment to millions of people, as the country is passing through a challenging phase. The Reserve Bank of Zimbabwe has supported SMEs through a number of schemes.

The Credit Guarantee Company was established in 1977 following the realization that small business persons, in particular the indigenous population, had difficulties in accessing credit from the formal banking system due to lack of adequate security. The Central Bank together with the four commercial banks in the country at that time formed the Finance Trust for the Emergent Businessmen (FEBCO), whose aim was to facilitate the granting of credit to small business entrepreneurs. The commercial banks provided loans at concessional rates to viable emergent businesses, whilst the Reserve Bank provided guarantees of **50%** on the outstanding amount in the event of default by the borrower.

FEBCO was later transformed to the **Credit Guarantee Company (CGC),** through an Act of Parliament, to provide guarantees on business loans advanced by commercial and merchant banks to SMEs with insufficient or no collateral security. The following facilities were administered through the company: Canadian International Development Agency (CIDA) Scheme; Small Business Sector Facility (SBSF) Scheme; and indigenous Business Women Organization (IBWO) Scheme.

The World Bank Enterprise Development Project was launched in 1997, with the objective of stimulating economic growth by broadening participation in the economy by Small to Medium Enterprises. The high demand for SME funding necessitated the Reserve Bank to put in place a Small to Medium Enterprises (SMEs) Revolving Fund following the announcement of the Mid-Term Monetary Policy Statement in July 2006 and their implementation of the facility. Despite the Government commitment to provide the required funding to SMEs, the ventures do not seem to graduate from one level to the other in terms of growth. The SMEs life cycle approach given by Kazanjian(1993),presents five stages through which SMEs should pass. These stages, include,1)conception and development,2)commercialization,3)growth,and4)stability. Studies by Henschel (2008) have confirmed that SMEs in developing countries have difficulties in graduating from conception and development to stability. Therefore this study suggests that SMEs be capacitated in risk assessment and management as a way of building capabilities to grow from one level to the other.

The majority of SMEs cannot hire risk management directors to address the issue of business risks due to exorbitant costs involved in terms of remuneration packages. Human management practices are not clearly defined and SMEs owners do the work of human resources directors. The ability to identify and manage business risks in SMEs is a big challenge and yet very little attention is given to this challenge. Therefore this study is committed to assessing the knowledge possessed by SMEs in Zimbabwe about risks affecting their ventures and to subsequently build capacity for SMEs in the area of risk identification and risk management.

Objectives Of The Study

The study intends to achieve the following objectives:

1. To identify the level of knowledge on risk management that is possessed by the SMEs managers.
2. Examines the risk management practices in SMEs.
3. To identify the attitudes to risk, the business culture with respect to risks.
4. To establish the effectiveness of the risk control systems in the organisation.

II. Review Of Literature

According to OECD (2005), small or medium enterprises are the non-subsidiary and self-governing firms which employ less than a given number of employees. Jordan *et al* (1998) further defines small or medium sized firms by elaborating on the number of employees and turnover and he states that SMEs are firms with less than 100 employees and a turnover which is less than EUR 15 million. On the other hand the European Commission (1996) adopted the definition for SMEs as firms with less than: 250 employees, EUR 40 million turnovers and EUR 27 million in assets (Abor and Adjasi, 2007). A number of researchers tend to define SME's as having 0-250 employees and in Africa this number is set around the 200 mark (Ayyagari et al 2005). However, in the United States, SMEs comprise of firms with fewer than 500 employees (OECD, 2005).

However most definitions are based on size and these use primary bases such as number of employees, financial position or annual turnover (Zindiye et al., 2008). Basing on a different fundamental, the International Accounting Standards Committee Foundation (IASCF) (2007), states that, an SME does not have public accountability and do not publish general purpose financial statements for external users such as banks and insurance entities. It establishes SMEs as entities which do not have the onerous requirement of filing their financial statements with any regulatory body for the purpose of issuing financial instruments. These entities do not hold assets in any fiduciary capacity for a group of outside investors but the owners, who usually are also managers.

In a Zimbabwean perspective, an MSME Policy and Strategy Framework has defined small and medium enterprises as those who are 'registered in terms of their legal status' and 'employing anywhere between 6 to 100 workers' (Zimbabwe, 2008: 20). On the other hand the Ministry of SMEs (2000) defines a small enterprise as one that employs not more than 50 people and acting as a registered entity. Medium enterprises are firms employing up to 75 and 100 people. The Small Enterprises Development Corporation (SEDCO) (2010) does not differentiate small and medium but defines a small and medium enterprise as a firm that has not more than 100 employees with maximum annual sales of up to US$830 000 (Maseko and Manyani, 2011) .

The role of SMEs in an economy

Small and medium-sized entities (SMEs) play important roles in the economic growth and sustainable development of every nation, (Moore et al., 2008). SMEs play a critical role in the social and economic development of Zimbabwe. This sector is the largest upon which the majority of Zimbabweans depend on as a source of their living taking into account that 25% of the people are formally employed. SMEs provide a solution to the employment problems facing Zimbabwe since the majority of the people are employed in this sector, (RBZ, 2009)

According to CBN (2011), SMEs are critical to the development of any economy as they possess great potentials for employment generation, improvement of local technology, output diversification, development of indigenous entrepreneurship and forward integration with large-scale industries. The potential benefits of SMEs to any economy include contribution to the economy in terms of output of goods and services, creation of jobs at relatively low capital cost, provision of a vehicle for reducing income disparities, development of a pool of skilled and semiskilled workers as a basis for future industrial expansion (Azende, 2012)

However, regardless of the importance of SMEs to many economies, reviewed literature states that SMEs continually face a number of challenges and risks which affect their growth and usually lead to death of a number of SMEs. According to Longenecker, *et al.,(* 2006), starting and operating a small business includes a possibility of success as well as failure and because of the small size of SMEs, a simple management mistake is likely to lead to sure death of a small enterprise hence no opportunity to learn from its past mistakes. Lack of planning, improper financing and poor management have been posited as the main causes of failure of small enterprises. Unavailability of credit has also been identified as one of the most serious constraints facing SMEs and hindering their development (Oketch, 2000; Tomecko & Dondo, 1992; Kiiru, 1991).

Defining risk

Risk has been highlighted as an unavoidable challenge that faces many SMEs and if it is not properly managed, it might lead to business failure or collapse of small enterprises. The Portfolio Committee on Small and Medium Cooperative Development (2010) stated that risk is the probability that the outcome of an action or event could bring up adverse impacts on the business. It is mainly concerned with uncertain future events which could influence the achievement of the organization's strategic, operational and financial objectives' (International Federation of Accountants, 1999). Therefore, Risk can be broadly defined as any issue that can impact the objectives of a business entity and the potentiality that both expected and unexpected events may have an adverse impact on the capital and earnings. Gary et al (2002) noted that risk must not only be measured, but efficiently communicated and managed right across the firm.

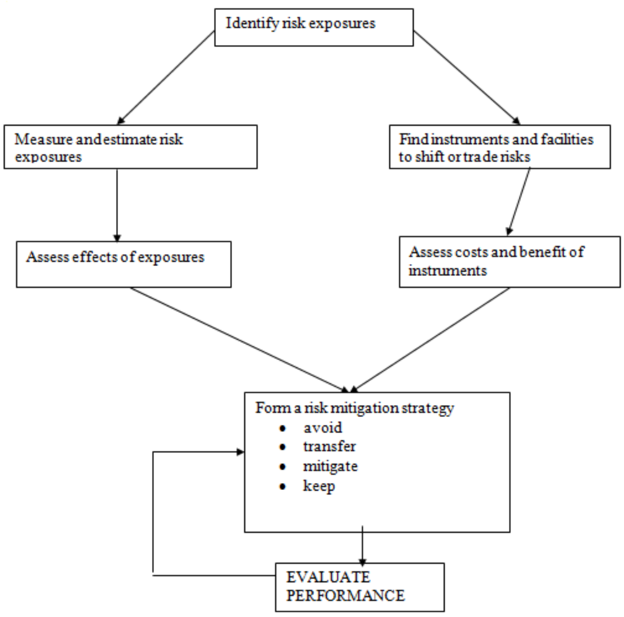
The existing literature show that business organization whether Small, medium and large are faced with risk in their operations globally (Azende, 2012; Arewa, 2004). Being ready to take a risk is necessary if business development and expansion is to occur, but what is also necessary to succeed is the ability to avoid as much misfortune as probable, through well organized 'risk management'.

Risk management

Risk and risk management is a major concern for all companies, especially small and medium sized enterprises which are particularly sensitive to business risk and competition (Alquier and Lagasse, 2006). Implied in SME, risk management is the core principle that entrepreneurial or management focus should be focused at recognising future uncertainty, deliberating risks, possible manifestations and effects, and formulating plans to address these risks and reduce or eliminate its impact on the enterprise (Ntlhane, 1995).

Literature reveals that risk management is still in an early phase of development and that no standard for SMEs has yet become established which would describe how a comprehensive risk management should appear (Troßmann and Baumeister, 2004, p. 80). Risk management is a formal discipline whose sequence rarely runs smoothly in practice; sometimes simply identifying a risk is the critical problem, while at the other times arranging an efficient economic transfer of risk is the skill that makes one risk manager stand out from another. **(C**roughy et al 2009). On a similar note they, defined risk management as how firms actively select the type and level of risk that is appropriate for them to assume. Most business decisions are about sacrificing current resources for future uncertain returns. ISO 31000 noted that risk management creates and protect value. It further states that risk management contributes to the demonstrable achievement of objectives and improvement of performance in, for example, human health and safety, security and regulatory compliance, public acceptance, environment protection, product quality, project management ,efficiency in operations, governance and reputation. It is the responsibility of management and an integral part of all organisational process, including strategic planning and all project and change management process. Triantis (2000) states that a company needs to understand the sources of risk it is exposed to in order to manage them well. These phases are presented in detail in the following section

Risk management process



SOURCE: (CROUGHY, GALAY, MARK, 2009)

From reviewing various works of other authorities, the researcher found out that the importance of a positive risk management approach in SMEs is huge and quite significant. A structured risk management approach enables an enterprise to pursue its strategies assertively and economically as management can predict the risk exposure of each activity engaged in, thus ultimately achieving more satisfactory results at a reduced cost (Ntlhane, 1995)

Strategic risk management allows SME owner-managers to objectively assess their actions. One of the problems encountered in risk management is that most risk evaluations are linked to a specific discipline which is not necessarily known by owner-managers. Moreover, owner-managers may be able to recognize the obvious risk, but their depth of risk knowledge may hinder identification of indirect risks or cognisance of the inter connections of risks (Watt, 2007).

Watt (2007) went on to conclude that the size and managerial structure of SMEs enables the process of creating and using a strategic risk management function comparatively simple because of the close relationship between owners, managers and operators of the enterprise. In a study conducted by Friedrich (2004) on South African SMEs, it is emphasised that personal initiative consisting of the owner's characteristics such as being a self-starter, having a proactive approach, specifically regarding risk management, and persistent actions, is a vital key to enterprise success. In addition to a proactive business approach, innovation and learning, goal setting and achievement orientation was linked to enterprise success. The study also concluded that organisational trust is established if SME owner managers become actively involved in joint discussion of risk with SME employees, which include an effective feedback process and a risk valuation process.

In conclusion the researchers noted from various reviewed literature that risk management facilitates an effectual risk approach by prioritising risks, thereby reducing surprises, and directing the focus on important risks. This has the effect of reducing the possible over-management of insignificant risks.

Risk management and SMES

According to Matthews and Scott (1995), many SMEs have no explicit picture of business risk and their risk management is often not well structured nor systematic or standardized. Henschel (2008) states that lacking of expertise and knowledge in SMEs can make a huge business risk for SMEs. According to O'Hara et al (2005), SMEs identify two barriers to risk assessment such as time pressure and access to suitable guidance. He noted that given access and appropriate guidance and help SMEs can improve risk assessment efficiently.

Ntlhane (1995) proclaimed that few SME owners and managers are risk aware and they usually focus their risk actions on "loss control" programmes in areas of fire, safety, security, health, and quality assurance. These "loss control" programmes are overseen either by the entrepreneur or other management along with their other duties therefore, increasing the chance of mismanagement as adequate time is not spent on the risk function. As no structured risk identification is undertaken by SMEs, SMEs assume unaware or unplanned risk exposure to their limited financial resources.

Ntlhane (1995), went on to say that in most SMEs, risks are left unmanaged until they surface and only then can SMEs spur into action to address them. Thus control measures implemented to counter risk are ineffective they are reactive and non-automated. The study identified that entrepreneurial actions are centred on avoiding risk, rather than devising risk control methods. Avoiding risk has the effect of impeding economic progress in a business as every business can flourish and expand if it is able to seize business opportunities which often present greater risks (Ntlhane, 1995).

In support Janney and Dess (2006) noted that SMEs are away from adopting a positive approach towards risk management due to limitations such as inadequate infrastructure, limited managerial and technical expertise, lack of financial and intellectual resources to generate substantial technological developments and change, weak information networks to locate and recognize information and knowledge that is especially relevant to them, and low investment in research and development. Similarly, a study of Turpin (2002) states that most of SMEs have no official risk strategy which is due to problems of communication with of delegating risk management competencies to employees. His study further notes that increasing competition, low of competencies to competitors, changing customer demands, wrong strategies due to lack of market data and personal absences rate are frequently and most importantly risk for SMEs.

From previous studies it was noted that the attitude of SMEs towards risks and their risk assessment differs significantly from that of large enterprises. Risk management practices in small firms relate to the beliefs and attitudes of owner/managers. SMEs do not tend to use special techniques to optimize single risks. They make decisions in terms of their business as an entity rather than in terms of managing specific risks. Despite having performed some form of risk identification and evaluation, small business owners may simply ignore a particular risk (Sparrow, 1999).

However in large enterprises, largely the board of directors and secondly a special risk manager (probably leading a separate risk management function) are reported to be responsible for risk management. Moreover, in more than half of the large firms, internal audit is responsible for supervising and reviewing risk management. Concerning risk identification and evaluation, large enterprises usually name designated employees of business units and then management and risk managers follow (PwC, 2000). KPMG (2000) found out that 77 per cent of all large enterprises have established a direct integration of risk management into their business planning. The majority of large enterprises come to investments for their risk management system of 50.000 Euro to 250.000 Euro (Fischer; 1999).

Benefits of risk management

The major benefits are summarized below

a) It helps decision makers to make informed choices, prioritise actions and distinguish among alternative courses of action.
b) It explicitly takes account of uncertainty, the nature of uncertainty and enables determination of how it can be addressed.
c) A systematic, timely and structured approach to risk management contributes to efficiency and to consistent, comparable and reliable results.
d) It recognises the capabilities, perceptions and intentions of external and internal people that can facilitate or hinder achievements of the organisation's objectives.

III. Materials And Methodology

This study is designed to look at risk management strategies available to SMEs in Zimbabwe and to identify the one that is most explored and why. The study also wishes to further establish that good risk management practices and insurance cover can lessen their risky nature and repackage them attractively for production. To achieve this purpose, the survey research design and an empirical method making use of Chi-square and correlation was used. Chi-square was used to test hypothesis concerning issue of good risk management practices and insurance cover. Correlation was used to substantiate whether there is similarity in the identified problems of each risk management strategy used by the SMEs. Mean scores using 5 point likert scale was used to present and analyze the collected data via questionnaire. Simple percentages were also used to put together the data concerning responses about the risk management strategies available on sampled SMEs. The questionnaire is used to obtain the views of the owners and managers of SMEs on risk management practices. A total of 3,839 SMEs who were in the data base for development training constituted the target population for this study. The population consisted of SMEs owners /directors and those holding decision making positions. The target population consisted of SMEs drawn from all sectors of the economy. The breakdowns per province were as follows: 479 from Harare Province, 289 from Bulawayo province, 394 from Matabeleland North, 124 Matabeleland South, Mashonaland East 190, Mashonaland West 660, Mashonaland Central 155, Manicaland 600, Midlands 413 and Masvingo 535.

IV. Results And Discussion

Three hundred and eighty questionnaires were sent out and two hundred and forty six were returned resulting in sixty five percent response rate. The response rate was large enough for authentification of results.

Profiles of SMES

Of the SMEs which participated in the study, 35% are registered to operate as private companies, 25% are partnership, whilst 40% are unregistered sole traders.
Line of Business

Number of employees

Research findings indicate that 56, 2% of SMES surveyed employ between zero and nine (9) people. This is authenticated by the fact that most SMES are self employed and may not employ other people. Furthermore, 24, 2% of the SMEs operators between 10 (ten) to twenty (20) employees while 19, 1% employed above 25 people which is in line with the definition.

Period of operation

The results indicate that 53.1% of the surveyed entities had operated for a period between 4 – 10 years, 20.5% above 10 years, 20.9% had operated for a period up to 3 years while only 5.4% had operated for less than a year. The results indicate that these SMEs had acquired enough experience to be able to understand risk management. On the contrary, observations give indications that SMEs strive for survival rather than growth. This is substantiated by the fact that most SMEs have been in business for several years, but they still remain small. The increased years of operations has not been commensurate with the quality of products they produce, the inventories within their premises as well as the physical working environment which is not conducive for business. Key informants suggest that SMEs were failing to grow due to multitude of challenges which have not been addressed and these ranged from limited capital, due to failure to invest profits and poor record keeping resulting in collapse of SMEs.

Understanding of risk and risk management

The majority of SMEs operator expressed ignorance on the understanding of risks as well as the concept of risk management. When asked to define risks in their own words, very few 10% did manage to articulate their understanding of the concept and its implication to business.

Availability of formal strategy for risk management

When asked on existence of formal business strategy 72.7% indicated that no formal business strategy was in place while only 27.3% had the strategy in place. Despite having made new investments in the year, no formal risk assessment had been done irrespective of the fact that it is the best practice that assists in anticipating outcomes which shows that SMEs lack strategic planning.

Dealing with risk/risk management practices

On a similar note, when whether they consider they consider inherent risk in strategy, 84.8% indicated that they were not very conversant and did not consider the inherent risk while 15.2% did not consider. This means that the majority of these SMEs were prone to risk. Results further indicate that 72% had no formal procedure in place for identifying the risk with only 28% of the surveyed SMEs indicating that forma procedures were in place. However of those who had formal procedures in place 76.7% were unable to measure the impact of risk while 22.6% indicated that they are able to quantify the impact. The results are in line with Turpin (2002) who states that most of the SMEs have no official risk strategy due to problems of communication and lack of competences by employees to accept delegation. Similarly results also agree with Alquier and Tignol (2006) who noted that lack of initiatives and subsequent capability to develop risk management knowledge and implement strategies, restrict the sustainable development of SMEs. When asked on the ability to mitigate effects of risk 72.6% highlighted that they were unable to mitigate impact of risk while only 26.2% indicated capability to mitigate effects of risk. On monitoring 74.3% indicated that they were unable to monitor risk and only 25.4% are able to monitor thereby leaving the majority of SMEs prone to risk. Reporting of impact of risk is very low as only 25.8% indicated ability to report on the impact of risk while the majority 74.2% is not able to report back the impact of risk. The results indicate that as the business grows the need for formal processes of accountability and monitoring process increase.

Frequency of occurrence of the various risks

Findings from the survey when put on a five point scale, with one representing least likely would of occurrence, two and half- average and five occurring frequently, the average mean tilted in favour of regular occurrence. The results are summarized in Table 1, see insert

Results indicate that risks occur on a regular basis with ranking putting Credit risk at the far top and Reputational risk at the lowest level. This indicates that credit risk affects SMEs seriously due to poor record keeping that the need for precaution is necessary.

Impact on business of the various risks

The results were based on five point scale converted into numerical scales with five indicating the highest impact and one least. The mean scores were used to rank the risks. The results were shown in Table 2, see insert.

The results indicate that credit risk, market risks and country or political risk, had a greater impact to SMEs and these impacted negatively, while other had a low impact, with poor management being cited as having a low impact compared to all other factors. The results further indicate that the position is worsened by lack of protective measures as only 31.2% had insurance cover in place while 68.8% had no cover. For those who had insurance policy only 40% indicated that they were comprehensively covered while 60% were partially covered.

Attitude to risk management

Findings indicate that risk management is owner /manager centered as majority 51.3% rarely discuss risks while 48.7% did discuss with employees risk issues. For those who discuss 27.2% do on monthly basis, 6% on quarterly basis, 9.5% half yearly, 1.7% annually and the rest bi-annually. The results agree with Ntlane (1995) who noted that entrepreneurial actions are centered on avoiding risk, rather than devising risk control methods and hence risks are left unmanaged until they surface only then can SMEs spur into action to address them. The results further agree with Sparrow (1999) who noted that risk management practices in small firms relate to the beliefs and attitudes of owners/managers.

Hypothesis

A chi-squared test was carried out to test on three risk management variables to find out whether they affect performance. These variables are: amount spent on risk management, board discussion levels and availability of insurance cover. A correlation analysis of these variables was also made and evaluated. These variables were tested using the following hypothesis;

H_0: There is no relationship between amount spent on risk management and performance
H_1: There is a relationship between amount spent on risk management and performance

H_0: There is no relationship between amount spent on insurance cover and performance
H_1: There is a relationship between amount spent on insurance cover and performance

H_0: There is no relationship between board discussion on risk management and performance
H_1: There is a relationship between board discussion on risk management and performance

Test results

The responses from the questionnaire administered in respect of risk management strategies available to SMEs in Zimbabwe are presented and analyzed below. 22 cells (62.9%) have expected count less than 5. The minimum expected count is 12.the overall position is that $P < 5$ therefore we reject H_0 and conclude that there exists a relationship between board discussion levels on risk management and performance. Also there is a positive correlation of 0.116 as presented in the results.
The results also showed that 15 cells (50.0%) have expected count less than 5. The minimum expected count is 30 on amount spent on risk management increment. This therefore shows that there is a 50-50 percent chance of performance being enhanced through increasing amount allocated for risk management. The two variables also reflect a positive correlation of 0.061. We therefore reject H_0 and conclude the existence of a relationship between amount increased for risk management and performance though the correlation is small.
A chi-squared test on the availability of an insurance cover and performance proved otherwise. The P value of 3 cells (20.0%) has expected count less than 5. The minimum expected count is 1.52 was obtained. Since $P > 5$ we did not reject H_0 and concluded no relationship between the availability of insurance cover and performance though the correlation was 0.054 which is small and positive.

V. Conclusion

The above results seem to indicate that risk management in SMEs is still at lower levels due to lack of competent employees to identify and manage risks for them. In addition to this, SMEs lack the required resources to outsource services of audit so as to minimize the impact of risk. It can also be concluded that risk management in SMEs is mainly centered on owner /manager belief which seriously hamper sustainable entrepreneurial development.

Recommendations

This study recommends the following actions to address the concerns of SMEs:
i) Capacity building for SMEs in risk management.
ii) Creation of specialised departments in SMEs to deal with risk management.
iii) Monitoring of periodic workshops for SMEs, to address issues of risk management.
iv) The creation and distribution of training manuals for SMEs in risk management.
v) The formation of SMEs chambers which educate SMEs on risk management.

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INSERT

Table 1 mean frequency of occurrence of various risks

RISK	MEAN
Credit risk	**4.95**
Market risk	4..29
Operational risk	2.30
Legal and Compliance risk	**4.36**
Strategic risk	4.21
Reputational risk	3.74
Perception risk	3.78
Country and Political risk	**4.80**

Table 2 impact of risk if not mitigated

RISK	IMPACT IF NOT MITIGATED
Credit risk	**4.95**
Market risk	**4.88**
Operational risk	2.71
Legal and Compliance risk	**4.80**
Strategic risk	2.34
Reputational risk	4.21
Perception risk	2.15
Country and Political risk	4.36
Poor Management	2.07